Governance, Audit and Risk Management Committee

AGENDA

DATE: **Tuesday 24 September 2013**

TIME: **7.30 pm**

VENUE: **Committee Room 5, Harrow Civic Centre**

MEMBERSHIP **(Quorum 3)**

Chairman: **Councillor Richard Romain**

Councillors:

Amir Moshenson	Kareema Marikar	Mano Dharmarajah
Chris Mote	Varsha Parmar	
	Sachin Shah (VC)	

Reserve Members:

1. Tony Ferrari	1. Graham Henson	1. (Vacancy)
2. Kam Chana	2. Sue Anderson	
3. Anthony Seymour	3. Ajay Maru	

Contact: **Una Sullivan, Democratic & Electoral Services Officer**
Tel: 020 8424 1785 E-mail: una.sullivan@harrow.gov.uk

Harrow COUNCIL LONDON

AGENDA - PART I

1. APPOINTMENT OF MEMBER

To note the appointment of Councillor Kareema Marikar as a Member of the Governance, Audit and Risk Management Committee in place of Councillor Bill Phillips, and in accordance with Council Procedure Rule 1.5, following notification from the Labour Group.

2. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

(i) to take the place of an ordinary Member for whom they are a reserve;
(ii) where the ordinary Member will be absent for the whole of the meeting; and
(iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
(iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

3. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

(a) all Members of the Committee;
(b) all other Members present.

4. MINUTES (Pages 1 - 6)

That the minutes of the meeting held on 22 July 2013 be taken as read and signed as a correct record.

5. PUBLIC QUESTIONS

To receive questions (if any) from local residents/organisations under the provisions of Committee Procedure Rule 17 (Part 4B of the Constitution).

6. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

7. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

8. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS

To receive references from Council and any other Committees or Panels (if any).

9. STATEMENT OF ACCOUNTS (Pages 7 - 296)

Report of the Director of Finance and Assurance

10. ANNUAL GOVERNANCE STATEMENT (Pages 297 - 316)

Report of the Director of Finance and Assurance

11. GARMC TERMS OF REFERENCE AND LEAD MEMBERS (Pages 317 - 324)

Report of the Director of Finance and Assurance

12. TREASURY MANAGEMENT SELF ASSESSMENT TRAINING ACTION PLAN (Pages 325 - 336)

Report of the Director of Finance and Assurance

13. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

14. EXCLUSION OF PRESS AND PUBLIC

To resolve that the press and public be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

Agenda Item No	Title	Description of Exempt Information
14.	Risk Register	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information).

AGENDA - PART II

15. CORPORATE RISK REGISTER (Pages 337 - 360)

Report of the Director of Finance and Assurance

This page is intentionally left blank

GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE

MINUTES

22 JULY 2013

Chairman:	* Councillor Richard Romain	
Councillors:	* Sue Anderson (2)	* Graham Henson (1)
	Mano Dharmarajah	* Amir Moshenson
	* Tony Ferrari (1)	* Sachin Shah

* Denotes Member present
(1) and (2) Denote category of Reserve Members

233. Attendance by Reserve Members

RESOLVED: To note the attendance of the following duly constituted Reserve Members:

Ordinary Member	Reserve Member
Councillor Chris Mote	Councillor Tony Ferrari
Councillor Varsha Parmar	Councillor Graham Henson
Councillor Bill Phillips	Councillor Sue Anderson

234. Declarations of Interest

RESOLVED: To note that the following non-pecuniary interest was declared:

Agenda Item 17 – Appendix B - Internal Audit Year-End Report
Councillor Graham Henson declared a non-pecuniary interest in that he was a member of the Communication Workers Union.

235. Appointment of Vice-Chairman

RESOLVED: That Councillor Sachin Shah be appointed as Vice-Chairman of the Governance, Audit and Risk Management Committee for the 2013-2014 Municipal Year.

236. Minutes

RESOLVED: That the minutes of the meeting held on 4 April 2013, be taken as read and signed as a correct record.

237. Public Questions, Petitions and Deputations

RESOLVED: To note that no petitions were received, questions put or deputations received.

RESOLVED ITEMS

238. Cabinet Reference to Governance, Audit and Risk Management Committee - Treasury Out-turn Report

The Committee received a Reference from Cabinet on the Treasury Out-turn Report with a request to review and comment on the report.

Members considered and discussed the following aspects of Treasury Management:

- strategy;
- opportunities for investment;
- maintaining balances versus spending;
- cash balances versus capital programme;
- maturity of debt matched to longevity of assets;
- security of banks versus returns.

RESOLVED: That the report be noted.

239. Statement of Accounts

The Committee received the report of the Director of Finance and Assurance including the draft Statement of Accounts.

Members considered and discussed the figures contained within the statement and asked for clarification on a number of points, including:

- provision for outstanding liabilities
- underspend of provision for redundancy
- challenges to achieving savings identified in the Medium Term Financial Strategy.

A Member noted that a number of initiatives intending to provide savings had stalled, and queried if members could be confident that the stated outlook figures were accurate. The Chair asked that these comments and a response should be covered in the final Statement of Accounts.

RESOLVED: That

(1) the draft Statement of Accounts be noted;

(2) the additional information requested in respect of the future outlook be included in the final Statement.

240. Internal Audit Year-end Report 2012/13

The Committee received the report of the Director of Finance and Assurance which set out the audit opinion on the control environment and described progress against the 2012-13 Internal Audit Plan.

RESOLVED: That the report be noted.

241. Internal Audit Plan 2013/14

The Committee received the report of the Director of Finance and Assurance which set out the Audit Plan for the municipal year 2013-14.

An officer informed the Committee that there would be an increased number of audit days in the year, largely as a result of a successful recruitment campaign.

The Committee queried the current staffing situation in the Audit team, and were reassured that resources were adequate for service delivery, and broadly in line with other local authorities.

RESOLVED: That

(1) the report be noted;

(2) the Audit Plan for 2013-14 be approved.

242. Draft Annual Governance Statement 2012/13

The Committee received the report of the Director of Finance and Assurance which set out the Council's draft Annual Governance Statement for 2012-13, produced in order to comply with the requirements of the Accounts and Audit Regulations 2011.

In response to a query from the Chair, an officer confirmed that the figures for key controls operating, which amounted to 94% of those listed, qualified as 'good'. She went on to explain that a perceived discrepancy between results in the Audit Report and the Governance Statement, in respect of Contract Procedure Rules, was caused by a difference in the focus and purpose of the documents concerned.

RESOLVED: That

(1) the report be noted;

(2) an update report be brought back to the November meeting of the Committee.

243. Corporate Anti-Fraud Team Annual Review 2012/13

The Committee received the report of the Director of Finance and assurance which set out progress against the 2012-13 Fraud Service Plan, and issues arising from the work undertaken.

An officer updated the Committee on one change since publication of the report, namely that the implementation of the corporate fraud e-learning tool was underway.

In response to the Chair's query about staffing, the officer confirmed that there was a budget for recruitment, but that in considering the best strategy for staffing and recruitment, the primary concern was to deliver justice and ensure criminals didn't profit, rather than to generate income.

The officer confirmed that changes to the law relating to the enforcement of blue badge usage were in place, which gave local authorities the right to authorise inspection of blue badges by officers in plain clothes. It was therefore no longer a requirement for officers to be accompanied by uniformed police officers when carrying out this duty, although there would still be occasions when it would be advisable, as assaults on officers had occurred, and the health and safety aspect could not be ignored.

RESOLVED: That the report be noted.

244. Annual Health and Safety Report

The Committee received the report of the Assistant Chief Executive which summarised the Council's health and safety performance from April 2012 to March 2013.

Members discussed staffing issues within the team and the options for future management of health and safety service delivery.

The Chair commented that it was unhelpful to combine statistics for accidents with assaults. An officer explained that figures were reported in line with HSE guidance, and that many incidents reported as assaults were experienced by staff working with children or adults with challenging behaviour, who received knocks and scratches while dealing with their client groups.

A Member expressed concern that there were considerably fewer health and safety courses being provided, particularly in areas with the most problems. The officer stated that these were not provided by the team, but that this could be looked at and reviewed.

The Chair enquired if there were any identified risks not currently listed in the risk register, and whether the Committee could support the team in reducing risks from amber to green. The officer stated that in his view the team was making progress and had robust and forward-looking systems in place.

RESOLVED: That the report be noted.

245. Any Other Urgent Business

The Chair informed the Committee he had a number of items to raise under Any Other Urgent Business.

Risk Register
The Chair requested that officers bring a report on the Risk register to the next meeting.

Terms of Reference
The Chair requested that the Terms of Reference for Governance, Audit and Risk Management Committee (GARMC) be brought to the next meeting.

Lead Members
The Chair stated that in the past, the Committee had nominated 'Lead Members' from among the Committee membership, including Reserve members, who would undertake to monitor and review a specific area of interest and report on issues to the Committee. Members were broadly in agreement with this approach, and the Chair asked that officers draw up a list of 6 or 7 discrete areas of work for Members to consider.

September Meetings
The Chair informed the Committee that officers were of the view that it would not be necessary to hold two meetings in September, and asked Members for their views on whether it would be possible to agree on one date and use the other scheduled date for training. Members were happy to agree to this, with the later date being preferable for the meeting. However, as neither the Chair nor the vice-Chair would be available on the 24 September, officers were asked to investigate an alternative date for the meeting, at which the Statement of Accounts would be signed off.

Finally, it was agreed that the Chair and Members of GARMC would visit those teams reporting to the Committee and meet the officers concerned.

RESOLVED: That

(1) reports on the Risk register and Terms of Reference for GARMC be brought to the next meeting;

(2) a list of specialist areas be prepared in order to appoint 'Lead Members' to monitor and oversee relevant areas of interest;

(3) the scheduled meeting on 2 September 2013 be used for training;

(4) an alternative date be sought for the meeting scheduled for 24 September 2013.

246. Exclusion of the Press and Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item for the reasons set out below:

Item	Title	Reason
10.	Internal Audit Year-End Report 2012-13 – Appendix B	Information under paragraphs 1 (contains information relating to any individual) and 7 (contains information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime).

247. Internal Audit Year-End Report - Appendix B

The Committee considered the confidential appendix to the Internal Audit Year-End Report 2012-13 and discussed briefly governance issues in relation to the move to mobile and flexible working.

RESOLVED: That the confidential Appendix B to the Internal Audit Year-End report 2012-13 be noted.

(Note: The meeting, having commenced at 8.00 pm, closed at 9.30 pm).

(Signed) COUNCILLOR RICHARD DAVID ROMAIN
Chairman

REPORT FOR: **Governance, Audit and Risk Management Committee (GARM)**

Date: 24 September 2013

Subject: **Statement of Accounts 2012-13**

Responsible Officer: Simon George, Director of Finance & Assurance

Exempt: No

Enclosures: Appendix 1: Statement of Accounts 2012-13
Appendix 2: ISA260 report of the Auditor
Appendix 3: ISA260 report of the Auditor on Pension Fund
Appendix 4: Pension Fund Annual Report

Section 1 – Summary and Recommendations

This report sets out the audited Statement of Accounts for 2012-13.

Recommendations:

1. Consider the report of the External Auditor on matters arising from the audit of the 2012-13 accounts for both Harrow Council and the Pension Fund;
2. Approve the audited Statement of Accounts for 2012-13 and authorise the signing thereof by the Chair of the meeting
3. Approve the Annual Governance Statement for 2012-13;
4. Authorise the Director of Finance and Assurance following consultation with the Chair to make any final amendments to the Accounts arising from the external audit prior to the signing of the accounts by the auditor;
5. Authorise the Chairman to agree the Annual Audit Letter for publication and submission once all audit matters have been completed; and
6. Note the Pension Fund Annual Report of 2012-13.

Reason:
The Statement of Accounts represents an important formal corporate statutory document. This is reflected in the requirements of the Account and Audit Regulations 2003 and requires the accounts to be signed and dated as approved by the Chairman of the approving Committee.

Section 2 – Report

1. The reporting of the Statement of Accounts is a major part of the strategic principle of providing proper management and stewardship of all the Council's Resources. . The accounts provide details of the overall financial position in the Balance Sheet, details of the revenue activities for the General Fund, the Housing Revenue Account, the Collection Fund, the Annual Governance Statement (AGS) and the Pension Fund.

2. The draft Statement of Accounts was signed on 28th June 2013 by the Director of Finance and Assurance and presented to the Committee on 22 July 2013.

3. In accordance with International Standard on Auditing (ISA) 260, the external auditor (Deloitte LLP) is required to issue detailed reports on matters arising from the audit of the council's accounts and pension fund accounts. This report has to be considered by "those charged with governance" before the external auditor can sign the accounts, which legally has to be done by 30 September 2013.

4. Deloitte LLP were presented with the draft financial statements and accompanying working papers on 1st July 2013.

5. The ISA 260 report contains matters raised by the auditor, their recommendations on the issues, and the management response. Any further update on these items will be given verbally at the meeting. To assist Members in reviewing the external auditor's comments the audited Statement of Accounts.

Section 3 - Financial Implications

8. The Statement of Accounts shows the financial position of the Council as at 31 March 2013.

Section 4 - Equalities Implications

9. There are no equalities implications.

Section 5 - Corporate Priorities

10. The Statement of Accounts provides assurance that the Council has managed and delivered its finances in accordance with its approved plans and budget and are an integral part of corporate governance.

Section 3 – Statutory clearance

Name: Simon George	√	Chief Financial Officer
Date: 5th September 2013		

Section 4 - Contact Details and Background Papers

Contact: Hasina Shah, Head of Technical Finance and Accountancy (Tel: 02084241573 – internal 2573)

Background Papers: Draft Statement of Accounts http://www.harrow.gov.uk/info/200110/council_budgets_and_spending/698/statement_of_accounts/2

This page is intentionally left blank

Harrow Council

Statement of Accounts

2012 - 2013

THIS PAGE IS LEFT BLANK INTENTIONALLY

London Borough of Harrow
Statement of Accounts
2012 - 2013

THIS PAGE IS LEFT BLANK INTENTIONALLY

1 Explanatory Foreword

This foreword provides a guide to the Council's accounts for the year ended 31 March 2013. The Accounts and Audit Regulations 2011 require the Statement of Accounts to be approved by 30 September 2013.

The Statements are prepared on a going concern basis, that is, the accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

The Statements have been prepared in accordance with proper accounting practices and all relevant statutory requirements. Proper accounting practices represent compliance with the following:

- All relevant International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) – a constituent board of the IFRS Foundation;
- The Code of Practice on Local Authority Accounting in the United Kingdom (UK) 2012/13; and
- The Service Reporting Code of Practice 2012/13 (SERCOP) issued by CIPFA that establishes proper practice for consistent financial reporting below the Statement of Accounts level and has statutory recognition.

The Statement of Accounts:

Movement in Reserves Statement: This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that 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 authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

Comprehensive Income and Expenditure Statement (CIES): This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

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

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

Housing Revenue Account (HRA): This statement reflects a statutory obligation to account separately for the Council's housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. The HRA Income and Expenditure Statement shows the economic cost in the year of providing 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 increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

The Collection Fund: It is a 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 council tax. It illustrates the way in which these have been distributed to finance services provided by the Council and the Greater London Authority (GLA).

The Pension Fund Account: The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the fund. It shows contributions to the Council's Pension Fund for employees during 2012-13, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund as at 31 March 2013. The accounts do not include any liabilities relating to payment of pensions and benefits in future years.The Pension Fund and its financial position are certified in section 9.

Review of the year

The Council's vision is 'Working Together: Our Harrow, Our Community'. To support this vision the Council's corporate priorities are:

- Keeping Neighbourhoods Clean, Green and Safe;
- United and Involved Communities: A Council that Listens and Leads;
- Supporting and Protecting People who are Most in Need; and
- Supporting our Town Centre, Our Local Shopping Centres and Businesses.

The Council's budget for 2012-13 was set in the context of significant reductions to current and future public sector funding. Cost pressures from demographic growth, increased service demands, additional cost of residual waste disposal and considerable risk in relation to the impact of welfare benefit changes were also taken into account whilst setting a budget with a zero increase in Council Tax. This was the fourth consecutive year that Council Tax has not been increased.

While delivering services within this challenging environment the Council made a number of achievements that benefited both Harrow and the Community:

- Created and attracted £296m of strategic development and investment into the borough (since 2009) and permitted a further £1.1bn of development particularly with the granting of planning permission for the Kodak Site;
- Helped over 140 people back into work through our Xcite programmes and apprenticeship schemes;
- Facilitated a 7.7% rise in the number of active businesses in the borough through a package of support to businesses including markets, festivals and a 'How to set up a Business' Guide;
- We continue to have some of the best schools in the country. We are ranked 6th nationally by Ofsted as an area where pupils are most likely to attend a good or outstanding primary

school. The innovative Harrow Schools Improvement Partnership (HSIP) set up by the Council continues to support schools in their achievements, whilst making significant savings to the overall costs of school support;

- Nearly 64% of Harrow students achieved the national benchmark of 5 A*-C GCSEs including English and Maths, putting the borough 21st in the country. A number of local schools and academies have again achieved their best individual results;
- We have some of the highest numbers of young people in education, employment or training nationally;
- Our adoption service continues to be one of the best in the country;
- 97% of adult social care users felt personal budgets had improved their quality of life;
- Tenant and leaseholder satisfaction with repairs and major works projects has been maintained;
- Despite the economic conditions we have one of the lowest homeless rates in London;
- Recycling rates remain at around 50%;
- We organised the Queen's visit to the borough to celebrate her Diamond Jubilee;
- We welcomed the Olympic and Paralympic torch relays to the borough;
- There has been a 20% increase in people using the leisure centre since we introduced new management in 2011;
- We won awards for our innovative online banking style MyHarrow account which now has just under 30,000 subscribers;
- 90% of calls to the Council's contact centre are answered in 30 seconds and 90% are resolved at first point of contact;
- We achieved the Customer Service Excellence standard for the third year in a row;
- In September 2012, we set up a joint legal practice with Barnet, enabling us to reduce costs whilst maintaining service levels;
- Levels of serious youth violence and residential burglaries are now falling;
- We have modernised and simplified the terms and conditions for Council employees that also delivers the London Living Wage for the lowest paid Council staff;
- The Equality and Human Rights Commission praised Harrow Council for our transparency and ease of access to equalities data and assessments; and
- We have achieved significant procurement savings from our print, highways and repairs contracts amongst others.

General Fund Revenue Account (GF)

The Council has delivered an overall under spend of £0.996m in a difficult year. This has enabled the Council to make contribution of £0.996m to the general fund reserves, taking the balance to £8.646m.

This is a very significant achievement as the Council has not only been able to deliver services within the approved budget but has also contained the pressures arising from the challenging financial environment and the risks around service demands. In November a spending protocol was implemented to deliver significant under spend to fund the cost of change and delivery of future year savings. This enabled the Council to contribute £6.540m towards setting up specific reserves for the Medium Term Financial Strategy (MTFS) implementation cost and business risks.

	2012-13			
	Budget £m	**Outturn £m**	Outturn Variation £m	Outturn Variation %
Departmental Costs	192.660	**187.098**	-5.562	-2.9
Carry forw ard for future commitments and pressures		**3.268**	3.268	
Net Directorate outturn position	192.660	190.366	-2.294	-1.2
Non Departmental Costs	-19.547	**-24.789**	-5.242	-26.8
Contribution to				
MTFS Implementation cost		**4.849**	4.849	
Business Risk Reserve		**1.691**	1.691	
Net Expenditure	**173.113**	**172.117**	**-0.996**	**-0.6**

Departmental Costs

The outturn for the Directorates shows a favourable variance of £2.294m or 1.2% of the revised budget of £192.660m. The £3.268m element of this variance relates to slippages on projects which will now be completed in 2013-14. Slippages were mostly in relation to IT and support service projects with no adverse impact on frontline services.

The main areas of significant under spends are summarised below:

- Environment and Enterprise directorate generated improved parking enforcement income and additional income within property and infrastructure resulting in a net under spend of £3.056m;
- Community, Health and Wellbeing under spent by £0.168m mainly due to savings on Personalisation and Reablement budgets;
- Children & Families' under spent by £0.246m mainly due to lower than expected expenditure on the Troubled Families budget; and
- Resources Directorate under spent by £2.092m mainly due to slippage on one off projects, vacancy management and service credits on the Capita contract. Savings were partly offset by an additional contribution of £0.900m to the insurance provision for the Municipal Mutual Insurance liability.

Non Departmental Costs

The outturn is a favourable variance of £5.242m for the Non Departmental Costs which represents 26.8% against a net budget of £19.547m. This represents unused energy inflation, unused contingency, increase in investment returns and under spend on Minimum Revenue Provision due to slippage in delivery of the 2011-12 capital programme.

Capital

Actual capital spend in the year ending 31 March 2013 was £31.842m, compared with a revised programme of £64.577m. The variance of £32.735m comprised of requests to defer and carry forward capital expenditure to 2013-14 totalling £30.360m (General Fund projects £29.603m; HRA projects £0.757m). In addition capital expenditure on some projects was lower than expected by £2.375m mainly in relation to the Disabled Facilities Grant. Deferral and carry forward requests relate to the schools expansion and development programme and IT projects.

Major projects included in the programme were:

- Continued investment in new technology to improve Council Services;
- Highways infrastructure and Harrow Town Centre improvements;
- Disabled Facilities Grants;
- Improvements to the Council's housing stock; and
- Schools expansion programme, amalgamation and catering in schools.

Expenditure during the year was funded from Grants (£7.389m, 23.20%), Capital Receipts (£5.157m, 16.20%), Revenue Contribution (£8.068m, 25.34%) and Borrowings (£11.228m, 35.26%).

Housing Revenue Account

The Council provides rented accommodation of 4,951 units. In 2012-13, average rents were £102.14 per week, an increase of 6.87% from 2011-12. The HRA achieved a surplus of £0.384m in 2012-13 which increased HRA reserves to £3.175m.

The value of council dwellings in the balance sheet is 25% less than their 2012-13 open market valuation. This adjustment has been applied to reflect the impact on their use as social housing.

This was the first year in which the national Housing Subsidy system was replaced by the new Self Financing system. The new system requires the Council to formulate and maintain its own HRA business plan, using rental and other income to maintain and manage the housing stock and to fund future investment. The change to Self Financing is part of the Government's Localism agenda.

Collection Fund

The outturn surplus on the Collection Fund at year end is £1.124m compared to the budgeted figure of £1.319m resulting is a small adverse variance of £0.195m mainly due to fewer new properties than originally estimated. The Council's share of the surplus is £0.892m and the Greater London Authority's (GLA) share is £0.232m.

The in-year Council Tax collection rate for 2012-13 was 97.7% which is 0.7% above target and a tremendous achievement in the current economic climate. Business rate collection was 95.46% which was below the target of 96.5%, however this was expected as the Council's predominant rate payers are Small Medium Enterprise and these businesses are most affected by the current economic climate.

Treasury Management

The main focus for Treasury Management was to reduce the Counter Party and Interest Rate risks within the investment portfolio and to minimise borrowing costs.

The investment portfolio achieved an average return of 1.83% in the year, which compares favourably with the prior year (1.65%) and three month LIBID (0.56%). This resulted in interest earned of £1.820m compared to the budgeted figure of £0.822m generating a favourable variance of £0.998m. The budget was based on a rate of 1.46%. The average investment balance also exceeded the forecast by £32m (£117 million v £85 million) mainly due to slippage in the Capital Programme.

Gross borrowing costs were in line with the budget. There was a small adverse variance of £0.087m. The average interest rate on debt remained at the same level as last year at 4.30%. The approach to funding capital expenditure as set out in the 2012-13 Treasury Strategy was to use internal funds in recognition of the unfavourable gap between investment returns and borrowing costs.

The Minimum Revenue Provision (MRP) showed a favourable variance of £0.900m resulting from project under spend, and slippage on completion timetables.

Pensions Reserve

The financial statements include the relevant pension costs and provisions required to reflect the pension accounting arrangements under the International Accounting Standards (IAS19). The reserve holds the accumulated pension liability for the Council. The balance at 31 March 2013 was negative £323.131m (negative £270.287m at 31 March 2012). The increase in the balance is mainly due to actuarial losses of £45.752m. Details available in note 5.40 including details of the key assumptions used in calculating the balance.

Outlook for 2013-14

The Government's 2010 austerity measures resulted in the most challenging funding settlement for Local Government in decades. The settlement required the Council to cut 28% or £62m from its controllable costs over the 4 years to 2014-15. This figure has since increased by a further £13m to £75m due to reductions in grant funding and the impact of welfare reform. These cuts are on top of £45m in savings made by the Council prior to 2010-11. This means that by 2015 the Council will have been required to make savings of over £10m a year for the previous nine years.

The Council has by and large demonstrated a successful track record in delivering these savings by identifying efficiencies, and by adopting a more commercial approach to major contracts and procurement to secure better value for money. The Council has also taken advantage of new technologies in libraries and refuse vehicles and introduced new and innovative ways of delivering services such as children's centres, reablement and customer service.

The Medium Term Financial Strategy (MTFS) 2013-14 to 2016-17 has identified total cost savings of £67m over the coming four years. The budget for 2013-14 includes a 2% increase in Council Tax, savings of £22m and investment in services of £10m. Achieving the identified savings will be challenging. Projects to achieve the necessary efficiencies are complex and it may take time before changes are fully embedded and target savings achieved. In addition the Council is experiencing continued cost pressures from demographic growth and welfare reform. These cost pressures are being monitored closely and where necessary action will be taken to contain them the 2013-14 budget.

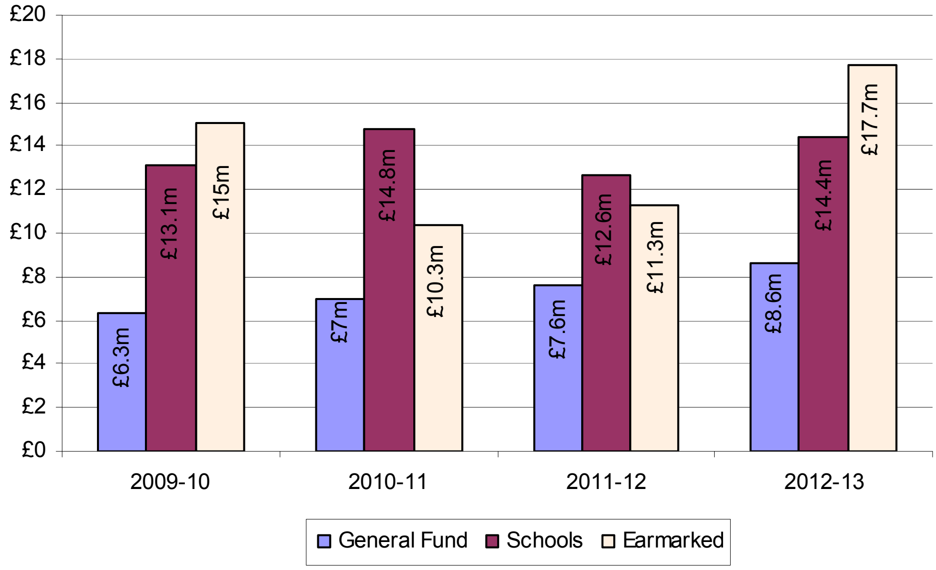
The contribution made during 2012-13 to the Provisions, General and Other reserves mentioned above will increase the Council's capacity to deliver services in a very challenging climate. The Council faces an uncertain and volatile financial situation with a significant number of events, beyond its control, adversely impacting on the funding position and increasing demand for services. These events include demographic pressures, the economy, welfare reforms and further pressures on formula grant funding.

From 1 April 2013 responsibility for providing the public health function transferred from the NHS to local government. The Council has set up a joint service with Barnet Council to ensure that the new services are provided as efficiently as possible. An additional £9.5m will be added to the Council's expenditure in 2013-14 however this will be substantially funded by a grant from the Department of Health and will therefore have a minimal impact on the overall level of net expenditure.

Financial Data

The following tables and charts analyse Council Revenue Balances, Council Tax at Band D, Income and Expenditure of the Council services provided and a summary of Capital Expenditure:

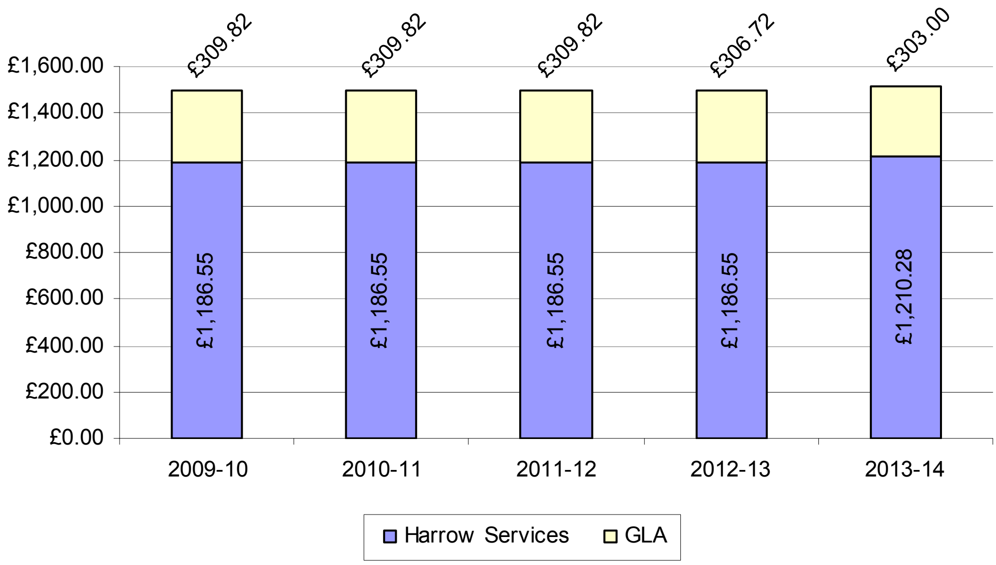
Council Revenue Balances



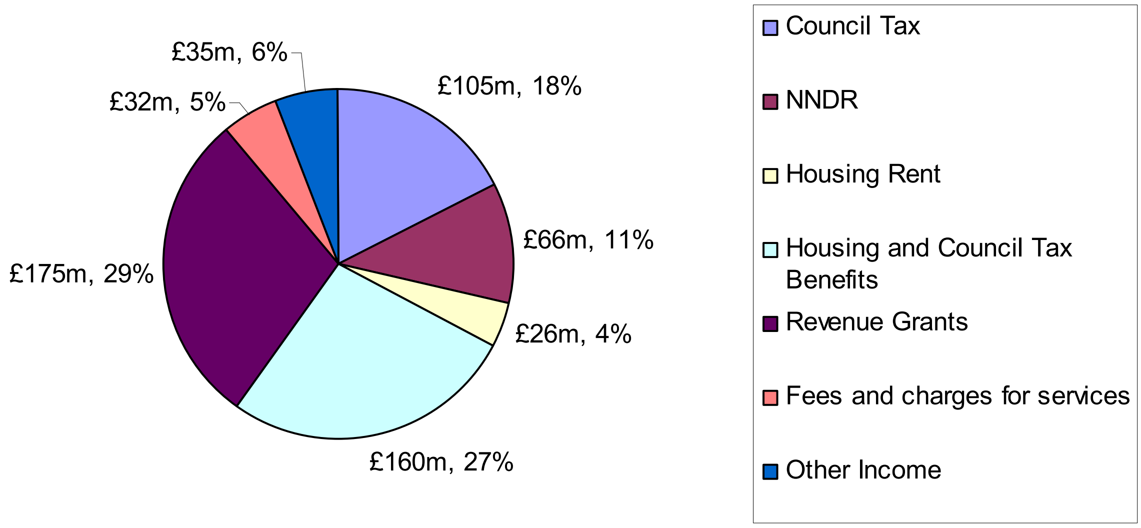
Note: the above balances, excluding General Fund, are ring fenced.

Council Tax Band D

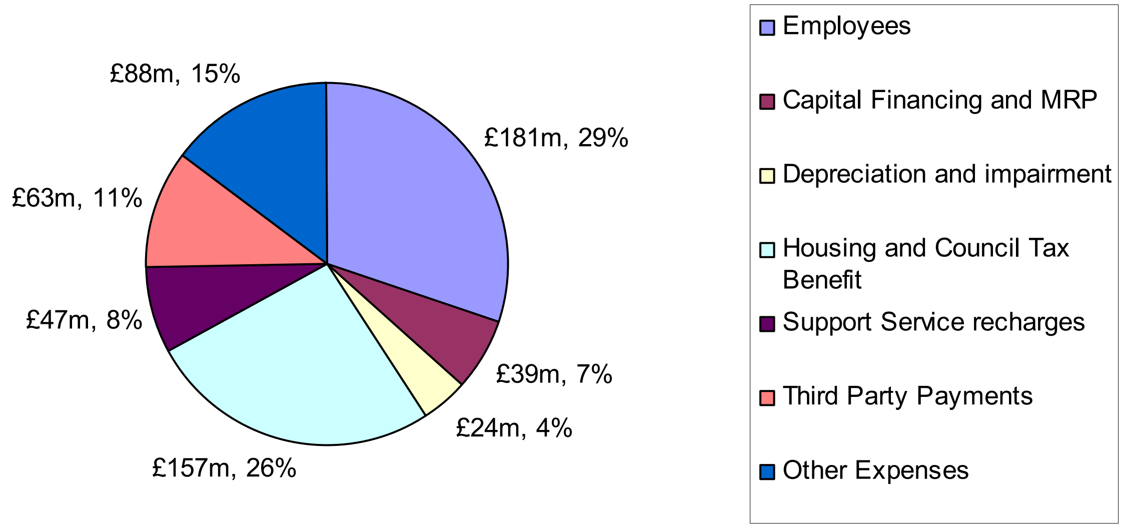
Council tax helps to pay for the services provided by Harrow Council and the Greater London Authority (GLA). The total Council Tax for Band D was £1,493.27 (£1,496.37 in 2011-12).



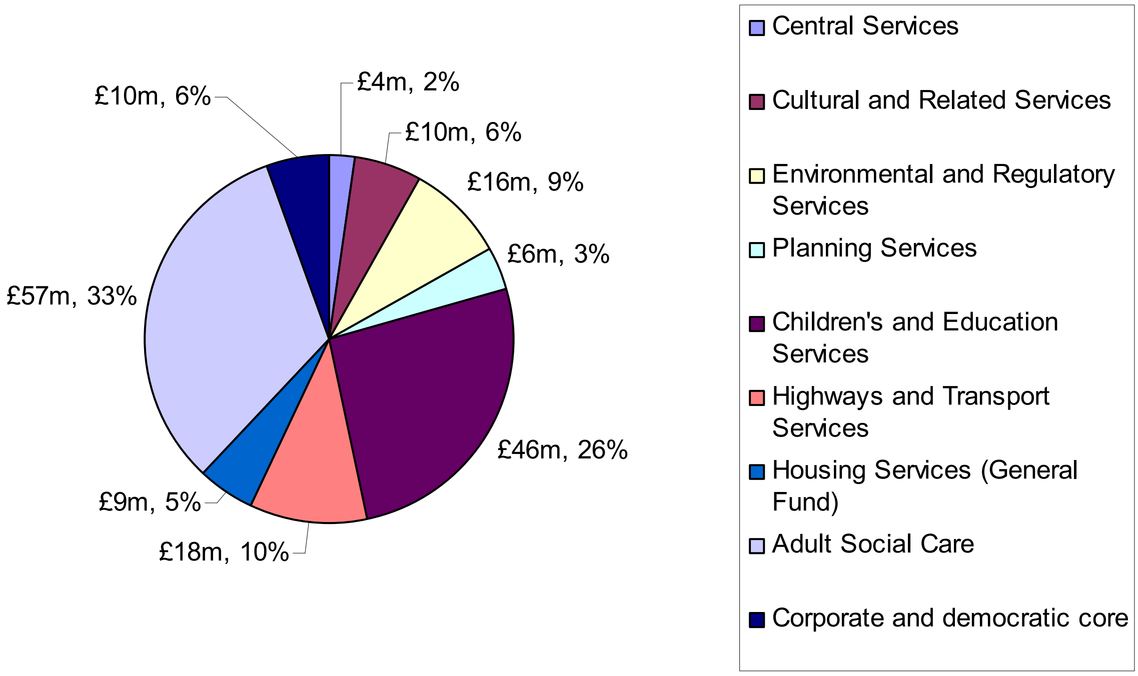
Analysis of Revenue Income



Analysis of Revenue Expenditure



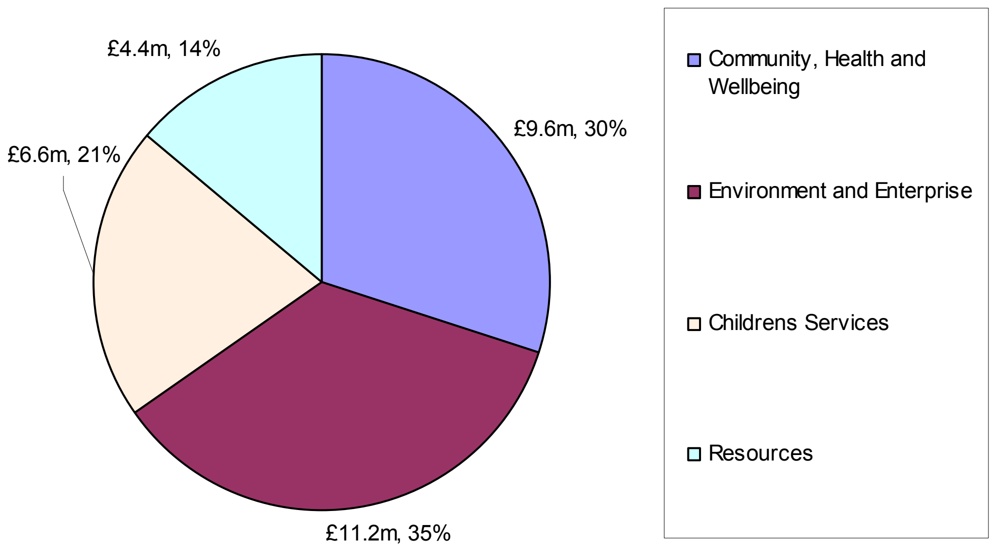
The Services Provided – analysis of expenditure



* Housing Services includes only the General Fund line from the CIES and omits HRA net income.
* Corporate and democratic core also includes the Non distributed costs line from the CIES.

Capital Expenditure

Capital expenditure represents money spent by the Council on purchasing, upgrading and improving assets that will be of benefit to the community over many years.



Further information about the accounts is available from:

Corporate Finance, Civic 6, Civic Centre, Station Road, Harrow, Middx, HA1 2UJ

Under the Audit Commission Act 1998, sections 15-16, and the Accounts and Audit Regulations 2003 regulations 13, 14 & 16, members of the public have a statutory right to inspect the Accounts before the audit is completed. The period of availability of the Accounts for inspection is advertised in the local press and anyone wishing to do so may make objection to any item of the account to the Council's auditor using the prescribed format which can be found on the Audit Commission website.

www.audit-commission.gov.uk

2 Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Director of Finance and Assurance;
- To manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets; and
- To approve the statement of accounts (delegated to the Governance, Audit & Risk Management Committee (GARM Committee)).

The Director of Finance and Assurance's Responsibilities

The Director of Finance and Assurance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (The Code).

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

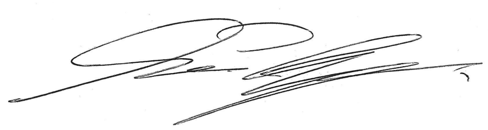
- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Local Authority Code.

The Director of Finance and Assurance has also:

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

Certification by the Director of Finance and Assurance:

I certify that the Statement of Accounts as set out in this document presents a true and fair view of the financial position of the Council as at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.



Simon George

Director of Finance and Assurance

27 September 2013

Governance, Audit and Risk Management Committee Certificate for the Approval of Accounts

I can confirm that these accounts were considered and approved by the Governance, Audit and Risk Management Committee (GARMC) at the meeting held on 24 September 2013.

Signed on behalf of London Borough of Harrow Council

Richard Romain

Chairman (GARMC)

27 September 2013

3 Audit Opinion & Certificate

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF HARROW

Opinion on the Authority accounting statements

We have audited the accounting statements of the London Borough of Harrow for the year ended 31 March 2013 under the Audit Commission Act 1998. The accounting statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in the General Fund Balance, the Movement in Reserves Statement, the Cash Flow Statement and the related notes 5.1 to 5.45, the Housing Revenue Account Comprehensive Income and Expenditure Statement, the Movement on the Housing Revenue Account Balance and related notes 6.1 to 6.2.11 and Collection Fund and the related notes 7.1.1 to 7.1.3. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the London Borough of Harrow in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' 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 Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Director of Finance and Assurance, the Director of Finance and Assurance is responsible for the preparation of the Statement of Accounts, which includes the accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Harrow as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and other information included in the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects

Opinion on the pension fund accounting statements

We have audited the pension fund accounting statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes 9.1 to 9.5. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the London Borough of Harrow in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Director of Finance and Assurance, the Director of Finance and Assurance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund accounting statements

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

Opinion on pension fund's accounting statements

In our opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013*,* other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

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

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

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, the London Borough of Harrow has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

[Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.]

Paul Schofield (Engagement lead)
For and on behalf of Deloitte LLP
Appointed Auditor, St Albans, UK
27 September 2013

THIS PAGE IS LEFT BLANK INTENTIONALLY

4 Presentation of Financial Statements

4.1 Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Locally Managed Schools Reserve £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2011 (Restated)	-7,000	-10,334	-14,799	-3,780	-6,248	0	-846	-43,007	-375,394	-418,401
Movement in reserves during 2011-12										
Deficit on the provision of services	120,282	0	0	90,854	0	0	0	**211,136**	**0**	**211,136**
Other Comprehensive Expenditure and Income (Note 5.5)	63,160	0	0	0	0	0	0	**63,160**	**0**	**63,160**
Total Comprehensive Expenditure and Income (Note 4.2)	183,442	0	0	90,854	0	0	0	**274,296**	**0**	**274,296**
Adjustments between accounting basis & funding basis under regulations (Note 5.5)	-182,846	0	0	-89,865	-61	-4,148	-1,003	**-277,923**	**277,923**	**0**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	596	0	0	989	-61	-4,148	-1,003	**-3,627**	**277,923**	**274,296**
Transfers to/from Earmarked Reserves (Note 5.6)	-1,246	-921	2,167	0	0	0	0	**0**	**0**	**0**
(Increase)/Decrease in 2011-12	-650	-921	2,167	989	-61	-4,148	-1,003	**-3,627**	**277,923**	**274,296**
Balance at 31 March 2012 carried forward (Note 4.3) (restated)	-7,650	-11,255	-12,632	-2,791	-6,309	-4,148	-1,849	**-46,634**	**-97,471**	**-144,105**
Balance at 31 March 2012 carried forward (Note 4.3) (restated)	-7,650	-11,255	-12,632	-2,791	-6,309	-4,148	-1,849	-46,634	-97,471	-144,105
Movement in reserves during 2012-13										
(Surplus) on the provision of services	-9,786	0	0	-12,434	0	0	0	**-22,220**	**0**	**-22,220**
Other Comprehensive Expenditure and Income (Note 5.5)	43,752	0	0	0	0	0	0	**43,752**	**0**	**43,752**
Total Comprehensive Expenditure and (Income) (Note 4.2)	33,966	0	0	-12,434	0	0	0	**21,532**	**0**	**21,532**
Adjustments between accounting basis & funding basis under regulations (Note 5.5)	-43,191	0	0	12,050	-585	764	-9,833	**-40,795**	**40,795**	**0**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	-9,225	0	0	-384	-585	764	-9,833	**-19,263**	**40,795**	**21,532**
Other Adjustments (Notes 5.24.1 and 5.24.2)	0	0	0	0	3,583	0	-3,583	**0**	**0**	**0**
Transfers to/from Earmarked Reserves (Note 5.6)	8,229	-6,454	-1,775	0	0	0	0	**0**	**0**	**0**
(Increase)/Decrease in 2012-13	**-996**	**-6,454**	**-1,775**	**-384**	**2,998**	**764**	**-13,416**	**-19,263**	**40,795**	**21,532**
Balance at 31 March 2013 carried forward (Note 4.3)	**-8,646**	**-17,709**	**-14,407**	**-3,175**	**-3,311**	**-3,384**	**-15,265**	**-65,897**	**-56,676**	**-122,573**

4.2 Comprehensive Income and Expenditure Statement (CIES)

2011-12 Gross Expenditure £000	2011-12 Gross Income £000	2011-12 Net Expenditure /(Income) £000		Notes	2012-13 Gross Expenditure £000	2012-13 Gross Income £000	2012-13 Net Expenditure /(Income) £000
25,351	-24,122	1,229	Central Services		28,224	-24,674	**3,550**
14,701	-2,440	12,261	Cultural and Related Services		12,705	-2,318	**10,387**
19,502	-2,635	16,867	Environmental and Regulatory Services		19,313	-3,361	**15,952**
9,032	-3,332	5,700	Planning Services		8,963	-3,279	**5,684**
212,843	-174,300	38,543	Children's and Education Services		193,018	-146,784	**46,234**
29,561	-10,765	18,796	Highw ays and Transport Services		31,914	-14,395	**17,519**
145,567	-133,766	11,801	Housing Services (General Fund)		150,936	-141,531	**9,405**
26,090	-27,635	-1,545	Housing Services (HRA)	6.1	10,844	-29,155	**-18,311**
1,503	0	1,503	Local Authority Housing - Revaluation Losses Loss on Dw ellings		0	0	**0**
88,461	0	88,461	Local Authority Housing Settlement Payment to Government for HRA Self Financing		0	0	**0**
77,502	-19,211	58,291	Adult Social Care		74,900	-18,324	**56,576**
12,975	-2,361	10,614	Corporate and democratic core		10,203	-915	**9,288**
7,386	-9,923	-2,537	Non distributed costs - other		1,587	-636	**951**
670,474	-410,490	259,984	**Cost Of Services (Section 10.3)**		542,607	-385,372	**157,235**
124,663	-644	124,019	Other Operating Expenditure	5.7	8,390	-5,116	**3,274**
19,327	-2,935	16,392	Financing and Investment Income and Expenditure	5.8	26,498	-6,298	**20,200**
0	-189,260	-189,260	Taxation and Non-Specific Grant Income	5.9	0	-202,929	**-202,929**
		211,135	**Deficit (Surplus) on Provision of Services**				**-22,220**
		281	Deficit/(surplus) on revaluation of non current assets	5.25.1			**-2,000**
		62,879	Actuarial losses on net pension liabilitiy				**45,752**
		63,160	**Other Comprehensive Income and Expenditure**				**43,752**
		274,295	**Total Comprehensive Income and Expenditure**				**21,532**

The previous year comparative figures have been altered to move the £117,591k loss on transfer of academy schools from Children's and Education Services to Other Operating Expenditure. Please refer to note 5.11.2.1 for more information.

4.3 Balance Sheet

01-Apr-11 £000 (restated)	31-Mar-12 £000 (restated)		Notes	31-Mar-13 £000
872,914	747,057	Property Plant and Equipment	5.10	**753,693**
23,681	24,389	Investment Property	5.13	**27,820**
18,000	18,000	Long Term Investments	5.14	**25,000**
3,604	3,394	Long Term Debtors	5.15	**3,237**
918,199	**792,840**	**Long Term Assets**		**809,750**
65,557	58,701	Short Term Investments	5.16	**61,314**
21,420	20,709	Short Term Debtors	5.17	**21,291**
25,497	10,786	Cash and Cash Equivalents	5.18	**17,618**
112,474	**90,196**	**Current Assets**		**100,223**
-33,658	-11,177	Short Term Borrowing	5.19	**-21,065**
-66,159	-64,488	Short Term Creditors	5.20	**-68,212**
-3,632	-6,905	Provisions	5.21	**-5,613**
-103,449	**-82,570**	**Current Liabilities**		**-94,890**
-3,929	-4,558	Provisions	5.21	**-4,823**
-261,963	-350,359	Long Term Borrowing	5.22	**-340,294**
-236,820	-293,911	Other Long Term Liabilities	5.23	**-345,009**
-6,113	-7,535	Capital Grants Receipts in Advance	5.36.3	**-2,384**
-508,825	**-656,363**	**Long Term Liabilities**		**-692,510**
418,399	144,103	**Net Assets**		**122,573**
-43,007	-46,634	Usable Reserves	5.24	**-65,897**
-375,392	-97,469	Unusable Reserves	5.25	**-56,676**
-418,399	**-144,103**	**Total Reserves**		**-122,573**

Previous year balances have been restated. This prior period adjustment is explained in note 5.45.

4.4 Cash Flow Statement

2011-12 £000		Notes	2012-13 £000
-211,135	Net (deficit)/surplus on the provision of services	4.2	**22,220**
159,281	Adjustments to net deficit on the provision of services for non cash movements	5.26	**41,005**
-11,121	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	5.26	**-15,542**
-62,975	Net cash flow from Operating Activities		**47,683**
-15,713	Investing Activities	5.27	**-38,811**
63,977	Financing Activities	5.28	**-2,040**
-14,711	Net increase/(decrease) in cash and cash equivalents		**6,832**
25,497	Cash and cash equivalents at the beginning of the reporting period	5.18	**10,786**
10,786	Cash and cash equivalents at the end of the reporting period	5.18	**17,618**

5 Notes to the Financial Statements

5.1 Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2012-13 financial year and its position as at 31 March 2013. The Council is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit (England) Regulations 2011, which require preparation in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13 supported by International Financial Reporting Standards (IFRS).

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

The accounts have been prepared in accordance with three fundamental concepts:

- Going Concern;
- Primacy of Legislative Requirements; and
- Accruals of Income and Expenditure.

Going Concern

The Statement of Accounts should be prepared on a going concern basis, that is, the accounts should be prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

Primacy of Legislative Requirements

Local authorities derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. To the extent that treatments are prescribed by law the accounting concepts outlined above may not apply in all cases. It is a fundamental principle of the Council's accounting that, where specific legislative requirements and accounting principles conflict, legislative requirements shall take precedence.

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:

- 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;
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction 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;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Material Items of Income and Expense

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 Council's financial performance.

Prior Period Adjustments, Changes in Accounting Policies, 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 Council'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.

Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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 fixed assets during the year:

- depreciation attributable to the assets used by the relevant service; and
- 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.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make Minimum Revenue Provision (MRP) from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

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 and are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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 Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of two separate pension schemes:

- The Teachers’ Pension Scheme, administered by Teachers’ Pensions on behalf of the Department for Education (DfE); and
- The Local Government Pensions Scheme, administered by the Council.

Both schemes provide defined benefits to members earned as employees who worked for the Council.

However, the arrangements for the teachers’ scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children’s and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer’s contributions payable to Teachers’ Pensions in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

The liabilities of Harrow Council Pension Scheme 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 retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate determined by the Actuary (based on the indicative rate of return on high quality corporate bonds).

The assets of Harrow Council 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; and
- property – current bid price.

The change in the net pensions liability is analysed into seven components:

- Current Service Cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- Interest Cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve; and
- Contributions paid to the Councils' 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 appropriations 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 Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge 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.

Financial Assets

The Council's Financial Assets are classified as Loans and Receivables. The Council does not hold any other type of financial instrument. Loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Intangible Assets

The Council does not hold material intangible assets.

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions 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 acquired using 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.

If recovery of the grant is only possible indirectly by, for example, legal action for breach of contract or withholding of other monies due separately to the Council without a right to have done so, then this amounts to a restriction rather than a condition. Restrictions attached to grants do not include a requirement that they should be returned to the grantor if the grant is not deployed as specified.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors.

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. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the

Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet after the commencement of the lease at its fair 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 Council 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).

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 council at the end of the lease period).

The Council 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 benefiting 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 Council as Lessor

Finance Leases

Where the council 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 Council'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 non current assets 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 Council 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 the Other Operating Expenditure line 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.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012-13 (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation; and
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Heritage Assets

A heritage asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Heritage Assets should generally be recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below:

- Scheduled ancient monuments and war memorials are excluded from the balance sheet as there is either no information available on cost, or it is not practicable to obtain a valuation at reasonable cost. Scheduled ancient monuments held have been disclosed in the notes to the accounts; and
- Civic insignia are de minimis for inclusion in the balance sheet. Civic regalia held have been disclosed in the notes to the accounts.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or 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

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

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; and
- the borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie, it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure assets, community assets and assets under construction – depreciated historical cost;
- dwellings – fair value, determined using the basis of existing use value for social housing (Existing Use Value - Social Housing (EUV-SH)); and
- all other assets – fair 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 fair value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.

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

There is a rolling programme of valuations intended to embrace the whole of the property asset portfolio of the Council over a period of five years. A review is also undertaken of the values at which each category of fixed assets is included in the Council's balance sheet at each year-end. Where there is sufficient reason to believe that values may have changed materially since the last valuation, and that change is likely to be other than temporary, the relevant categories of assets are re-valued accordingly. Assets under Construction are valued in year coming into use. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, 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 gains); and
- 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.

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for in the same way as revaluation decreases.

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.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). Newly acquired or completed assets are depreciated in the year following acquisition or completion.

In prior years the Council used the Major Repairs Allowance (MRA) as a proxy for depreciation on Council Dwellings. From 2012-13 the estimation basis used has changed. The Council now depreciates Council Dwellings on a straight line basis over their useful life. Material components are now identified and depreciated separately as set out in the 'componentisation' section below. The Council's accounting policy is now fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Depreciation is calculated on the following basis:

- Council dwellings – straight-line allocation over the useful life of the property as estimated by the valuer: generally 50 years, with the exception of material components: 15–20 years;
- Other buildings – straight-line allocation over the useful life of the property as estimated by the valuer: 20-80 years;
- Vehicles, plant, furniture and equipment: 5 years;
- Infrastructure assets – straight-line allocation: 10-80 years;
- Freehold land - not depreciated;
- Community assets are held at nominal value and therefore are not depreciated; and
- Newly acquired or completed assets are depreciated in the year following acquisition or completion.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Whenever assets are subjected to revaluation the existing balance of accumulated depreciation for those assets is reversed to zero against their Cost or Valuation balance.

Componentisation

Material components of Council Dwellings and Property, Plant and Equipment are separately identified, valued at depreciated replacement cost, and depreciated where necessary to properly reflect the consumption of the economic benefits of those assets.

The Council has changed its method of estimating depreciation on Council Dwellings and now identifies and depreciates material components separately. The Council identified the following material components of HRA dwelling stock:

Component	Valuation basis	Useful economic life when new
Central heating	1% of building net book value	15 years
Double glazing	1.5% of building net book value	15 years
Flat roof	Ranges £2,550 to £6,300	20 years
Kitchen	£5,000	15 years
Bathroom	£3,000	15 years

The Council applies the following de-minimis criteria to General Fund properties to identify material components to be depreciated:

	Criteria	De-minimis threshold
1	Main building value	The value of the building must be greater than £4m.
2	Main asset Useful Economic Life	The main asset life must be 20 years or more.
3	Component value	The value of the component must be 20% or more of the value of the main asset.
4	Component Useful Economic Life	The life of the component must be 75% or more of the life of the main asset.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet 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. Receipts from disposals (if any) are 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). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

Accounting for Schools

Community schools and voluntary aided schools are funded through Dedicated Schools Grant.

Community schools are recognised on the balance sheet as Property, Plant and Equipment. Expenditure, income, asset and liability balances for community schools are fully consolidated in the Statement of Accounts. Unspent funds belonging to the schools are included within the balance of Earmarked Reserves.

The Council does not have control over voluntary aided schools. Their asset, liability, income and expenditure balances are not therefore included in the Council's accounts. Unspent funds belonging to the schools are included within the balance of Earmarked Reserves.

The Council does not have control over academy schools. Their asset, liability, income and expenditure balances are not therefore included in the Council's accounts. Community schools that achieve academy status are derecognised in the balance sheet.

Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;

- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- lifecycle replacement costs – recognised as additions to Property, Plant and Equipment when the relevant works are carried out.

Provisions and Contingent Liabilities

Provisions

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

Provisions are charged as an expense to the appropriate service line in Comprehensive Income and Expenditure in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of 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. Estimated settlements are reviewed at the end of each financial year and where it becomes less probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

The provision for redundancies is estimated in line with our standard terms and conditions of employment. The provision includes estimated end dates for some employees. Any estimated end date is based on management of change documents communicated to employees. Where formal plans exist to reduce staff numbers at certain dates, but specific members of staff have not yet been identified, we have used average redundancy costs for the groups of staff affected.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement 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, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

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.

Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). The key features relevant to accounting for Council Tax in the core financial statements are:

In its capacity as a billing council the Council acts as agent; it collects and distributes Council Tax income on behalf of the major preceptors and itself;

While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing council, or paid out of the Collection Fund to major preceptors.

Since the collection of Council Tax and NNDR Income is in substance an agency arrangement:

- Cash collected by the billing council from Council Tax debtors belongs proportionately to the billing council and the major preceptors. There will be therefore a debtor/creditor position between the billing council and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from Council Taxpayers; and
- Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the Government for Business Rates and to the Greater London Authority for Crossrail therefore a debtor/creditor position is recognised in the balance sheet.

5.2 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 5.1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

There is a high degree of uncertainty about future levels of funding for Local Government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

5.3 Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the Council's Balance Sheet as at 31 March 2013 for which there is significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependant on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets. Asset values are estimated on the basis of the Valuer's understanding of current property market conditions.	If the useful lives of assets are reduced, depreciation expense increases and the carrying amounts of the assets fall. Any reduction in asset values will result in a reduction in a reduction in the Council's overall net asset position.
Provisions	Provisions are estimated on the basis of current knowledge of the amount that will eventually be paid. It is possible that the amounts eventually paid may be more than expected.	If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's general fund.
Arrears	Provisions have been made for debt owed to the Council for which payment is doubtful. In the current economic climate it is not certain that the amount provided will be adequate.	Any deterioration in collection rates may lead to a larger number of debtors not being able to pay the Council than has been provided for. Additional provision amounts would have to be met from the Council's general fund.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The assumptions used are reviewed triannually. Changes in assumptions may increase the net liability and future pension costs.

5.4 Accounting Standards that have been issued but have not yet been adopted

The following accounting policy changes are not yet reflected in the 2012-13 IFRS Code:

- IAS 1 Presentation of Financial Statements (other comprehensive income, June 2011 amendments);

- IFRS 7 Financial Instruments: Disclosures (offsetting financial assets and liabilities December 2011 amendments);
- IAS 12 *Income Taxes* (deferred tax: recovery of underlying assets, December 2010 amendments); and
- IAS 19 Employee Benefits (June 2011 amendments).

The only changes that impact the accounts are the amendments to IAS19 Employee Benefits. The changes impact the presentation of items in the Consolidated Income and Expenditure Statement and are not expected to be material.

5.5 Adjustment between accounting basis and funding basis under regulations

2012-13	Usable Reserves General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the CIES:						
Depreciation	-25,314	-6,655	0	0	0	-31,969
Impairment	-2,737	11,213	0	0	0	8,476
Movements in the market value of Investment Properties	3,453	0	0	0	0	3,453
Capital grants and contributions - Applied	3,002	60	0	0	4,658	7,720
Capital grants and contributions - Unapplied credited to CIES	14,085	406	0	0	-14,491	0
Revenue expenditure funded from capital under statute	-2,693	0	0	0	0	-2,693
Non Current assets written out on disposal	-177	-666	0	0	0	-843
Sums directed by the Secretary of State to be credited to the HRA that are not expenditure in accordance with the Code: Local authority housing settlement payment to Government for HRA self - financing	0	0	0	0	0	0
Insertion of items not debited or credited to the CIES:						0
Minimum Revenue Provision	13,460	27	0	0	0	13,487
Capital expenditure charged against the General Fund and HRA balances	679	0	0	0	0	679
Adjustments involving the Capital Receipts Reserve:						0
Transfer of sale proceeds credited to the CIES	4,450	1,631	-6,096	0	0	-15
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	4,827	0	0	4,827
Less Administrative Cost of disposals	-122	0	122	0	0	0
Less payments to the Capital Receipt Pool	0	-562	562	0	0	0
Adjustment involving the Major Repairs Reserve						
Reversal of Major Repairs Allowance credited to the HRA	0	6,629	0	-6,629	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	7,393	0	7,393
Adjustments involving the Financial Instruments Adjustment Account:						
Premiums and Discounts on Debt Restructure	-250	-33	0	0	0	-283
Adjustments involving the Pensions Reserve:						
Charges made for retirement benefits in accordance with IAS19	-24,716	-456	0	0	0	-25,172
Employer's pensions contributions payable in the year	17,624	456	0	0	0	18,080
Adjustments involving the Collection Fund Adjustment Account:	-479	0	0	0	0	-479
Adjustment involving the Accumulating Compensated Absences Account	296	0	0	0	0	296
Total Adjustments	**561**	**12,050**	**-585**	**764**	**-9,833**	**2,957**

2011-12	General Fund Balance	Housing Revenue Account	Usable Reserves Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the CIES:						
Depreciation	-26,491	-4,200	0	0	0	-30,691
Impairment	-4,693	-1,476	0	0	0	-6,169
Movements in the market value of Investment Properties	708	0	0	0	0	708
Capital grants and contributions - Applied	9,873	32	0	0	1,088	10,993
Capital grants and contributions - Unapplied credited to CIES	2,091	0	0	0	-2,091	0
Revenue expenditure funded from capital under statute	-3,409	0	0	0	0	-3,409
Non Current assets w ritten out on disposal	-121,692	0	0	0	0	-121,692
Sums directed by the Secretary of State to be credited to the HRA that are not expenditure in accordance w ith the Code: Local authority housing settlement payment to Government for HRA self - financing	0	-88,461	0	0	0	-88,461
Insertion of items not debited or credited to the CIES:						
Minimum Revenue Provision	12,645	25	0	0	0	12,670
Capital expenditure charged against the General Fund and HRA balances	499	0	0	0	0	499
Adjustments involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited to the CIES	5,169	0	-5,196	0	0	-27
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	4,988	0	0	4,988
Less Administrative Cost of disposals	-132	0	132	0	0	0
Less payments to the Capital Receipt Pool	-15	0	15	0	0	0
Adjustment involving the Major Repairs Reserve						
Reversal of Major Repairs Allow ance credited to the HRA	0	4,148	0	-4,148	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	0	0	0
Adjustments involving the Financial Instruments Adjustment Account:						
Premiums and Discounts on Debt Restructure	-249	38	0	0	0	-211
Adjustments involving the Pensions Reserve:						
Charges made for retirement benefits in accordance w ith IAS19	-12,894	-388	0	0	0	-13,282
Employer's pensions contributions payable in the year	17,975	405	0	0	0	18,380
Adjustments involving the Collection Fund Adjustment Account:	-830	0	0	0	0	-830
Adjustment involving the Accumulating Compensated Absences Account	1,759	12	0	0	0	1,771
Total Adjustments	**-119,686**	**-89,865**	**-61**	**-4,148**	**-1,003**	**-214,763**

5.6 Transfers to/from Earmarked Reserves

	Balance at 31-Mar-11	Transfers Out 2011-12	Transfers In 2011-12	**Balance at 31-Mar-12**	Transfers Out 2012-13	Transfers In 2012-13	**Balance at 31-Mar-13**
	£000	£000	£000	**£000**	£000	£000	**£000**
General Fund:							
Compensatory Added Years	-1,007	59	0	**-948**	79	-7	**-876**
Transformation and Priority Initiatives Fund	-430	2,101	-2,855	**-1,184**	67	0	**-1,117**
PFI Schools	-3,736	527	-319	**-3,528**	477	-410	**-3,461**
PFI Neighbourhood Resource Centre	-501	0	-195	**-696**	0	-170	**-866**
Projects in progress	-2,212	1,384	-2,375	**-3,203**	1,973	-2,116	**-3,346**
Insurance reserve	-500	0	0	**-500**	0	0	**-500**
Litigation and employment related Reserve	-555	555	0	**0**	0	0	**0**
Local Housing Allowance	-300	300	0	**0**	0	0	**0**
Revenue Grant Reserve	-49	49	-354	**-354**	300	-531	**-585**
Revenue Contribution for Capital from Schools	-818	499	-39	**-358**	295	0	**-63**
Business Risk	0	0	0	**0**	0	-1,691	**-1,691**
MTFS Implementation cost	0	0	0	**0**	0	-4,849	**-4,849**
Other earmarked reserves	-226	12	-270	-484	235	-106	-355
Subtotal General Fund Reserves	-10,334	5,486	-6,407	**-11,255**	3,426	-9,880	**-17,709**
Balances held by schools under a scheme of delegation	-14,799	2,167	0	**-12,632**	0	-1,775	**-14,407**
Total	-25,133	7,653	-6,407	**-23,887**	3,426	-11,655	**-32,116**

Compensatory Added Years: This reserve was established to provide a source of funding for added years awarded to the employees.

Transformation and Priority Initiative Fund: This reserve relates to resources set aside for initiatives which will deliver ongoing revenue savings.

PFI Schools and Neighbourhood Resource Centre: Both the reserves operate to even out the flow of income and payments over the life of the Council's PFI contracts.

Projects in progress: These resources are set aside to finance expenditure that had been committed but not yet incurred as at balance sheet date.

Insurance: Funds set aside for any unforeseen liability on the insurance claims that requires self-funding.

Revenue Contribution for Capital from Schools: Funds set aside to finance capital expenditure that had been committed by schools but not yet incurred as at balance sheet date.

Business Risk: Established to cover potential risks around social care pressure, waste related costs and other business risks.

MTFS Implementation cost: Covers one off implementation and redundancy costs related to delivering the savings identified in the Medium Term Financial Strategy.

Balances held by Schools: These are unspent balances which schools can carry forward. These balances are committed to be spent by the schools and are not available to the Council for general use.

5.7 Other Operating Expenditure

2011-12 £000		2012-13 £000
	Levies	
411	London Boroughs Grants Committee	**338**
298	London Pension Fund Authority	**298**
5,918	West London Waste Authority (WLWA)	**6,768**
258	Lee Valley Regional Park Authority	**252**
172	Environment Agency	**172**
7,057	Sub Total Levies	**7,828**
15	Payments to the Government Housing Capital Receipts Pool	**562**
116,947	Losses/(gains) on the disposal of non current assets	**-5,116**
124,019	**Total**	**3,274**

The previous year comparative figures have been altered to include w ithin 'Losses on the disposal of non current assets' the £117,591k loss on transfer of academy schools w hich w as previously included as part of Children's and Education Services expenditure in the CIES. The restatement brings the disclosure more in line w ith the CIPFA Code of Practice.

5.8 Financing and investment income and expenditure

2011-12 £000		2012-13 £000
13,980	Interest payable and similar charges	**17,016**
5,347	Pensions interest cost and expected return on pensions assets (Note 5.40.2)	**9,482**
-1,409	Interest receivable and similar income	**-1,921**
-1,526	Income in relation to investment properties and changes in their fair value	**-4,377**
16,392	**Total**	**20,200**

The way that finance and investment income and expenditure has been shown in the CIES has been changed this year. Last year the pension interest cost and expected return on pension assets figure was split into its income and expenditure elements. This year the net balance of £9,482k has been added to the expenditure column in the CIES.

5.9 Taxation and non specific grant incomes

2011-12 £000		2012-13 £000
-104,553	Council tax income	**-105,438**
-53,568	Non domestic rates	**-65,918**
0	Early Intervention Grant	**-8,550**
-16,558	Revenue Support Grant	**-1,278**
0	New Home Bonus Grant	**-1,581**
-2,585	Council Tax Freeze Grant	**-2,636**
-11,996	Capital grants and contributions (Note 5.36.2)	**-17,528**
-189,260	**Total**	**-202,929**

5.10 Property, Plant and Equipment

2012-13	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant, IT and Equipment	PFI Assets Included in Property, Plant, IT and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2012	279,594	342,374	109,773	178,767	886	8,995	920,389	24,105
Reversal of accumulated depreciation on revaluation	-4,148	-1,922	0	0	0	0	-6,070	-143
Additions	7,493	4,472	4,064	6,837	21	7,217	30,104	206
Revaluation increases recognised in the Revaluation Reserve	376	1,527	0	0	0	0	1,903	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	11,213	-3,202	0	0	-21	0	7,990	-216
Derecognition - Disposals	-725	-570	0	0	0	0	-1,295	0
Derecognition - Other	0	-263	0	0	0	0	-263	0
Assets reclassified from Asset Under Construction	14	694	3,208	2,576	0	-6,492	0	0
other movements in cost or valuation	0	88	0	0	0	0	88	0
At 31 March 2013	**293,817**	**343,198**	**117,045**	**188,180**	**886**	**9,720**	**952,846**	**23,952**
Accumulated Depreciation								
At 1 April 2012 (Restated - note 5.45)	-4,148	-7,412	-74,715	-86,172	-885	0	**-173,332**	-847
Reversal of accumulated depreciation on revaluation	4,148	1,922	0	0	0	0	6,070	143
Depreciation charges for 2012-13	-6,607	-4,473	-12,129	-8,761	0	0	**-31,970**	-301
Derecognition - Depreciation on Disposal	59	20	0	0	0	0	79	0
other movements in depreciation and impairment	0	0	0	0	0	0	0	0
At 31 March 2013	**-6,548**	**-9,943**	**-86,844**	**-94,933**	**-885**	**0**	**-199,153**	**-1,005**
Net Book Value								
At 31 March 2013	**287,269**	**333,255**	**30,201**	**93,247**	**1**	**9,720**	**753,693**	**22,947**
At 31 March 2012 (Restated)	275,446	334,962	35,058	92,595	1	8,995	747,057	23,258

2011-12	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant, IT and Equipment	PFI Assets Included in Property, Plant, IT and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2011	317,068	457,565	100,585	171,641	567	13,576	1,061,002	25,118
Reversal of accumulated depreciation on revaluation	-42,267	-740	0	0	0	0	-43,007	0
Additions	6,080	6,553	8,067	6,078	319	6,160	33,257	177
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	634	0	0	0	0	634	9
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-1,472	-5,386	0	0	-319	0	-7,177	-1,199
Derecognition - Disposals of Academies	0	-125,122	-3,913	0	0	0	-129,035	0
Derecognition - Disposals	0	-4,479	0	0	0	0	-4,479	0
Derecognition - Other	0	8,875	0	0	0	0	8,875	0
Assets reclassified from Asset Under Construction	185	4,474	5,034	1,048	0	-10,741	0	0
other movements in cost or valuation	0	0	0	0	0	0	0	0
At 31 March 2012	**279,594**	**342,374**	**109,773**	**178,767**	**567**	**8,995**	**920,070**	**24,105**
Accumulated Depreciation								
At 1 April 2011 (restated)	-42,267	-6,056	-61,417	-77,782	-566	0	**-188,088**	-520
Reversal of accumulated depreciation on revaluation	42,267	740	0	0	0	0	**43,007**	0
Depreciation charges for 2011-12	-4,148	-4,589	-13,455	-8,390	0	0	**-30,582**	-327
Depreciation written out to the Revaluation Reserve	0	-109	0	0	0	0	**-109**	0
Derecognition - Depreciation on Disposal - Academies	0	2,535	157	0	0	0	2,692	0
Derecognition - Depreciation on Disposal - Others	0	67	0	0	0	0	67	0
other movements in depreciation and impairment	0	0	0	0	0	0	0	0
At 31 March 2012	**-4,148**	**-7,412**	**-74,715**	**-86,172**	**-566**	**0**	**-173,013**	**-847**
Net Book Value								
At 31 March 2012 (Restated)	**275,446**	**334,962**	**35,058**	**92,595**	**1**	**8,995**	**747,057**	**23,258**
At 31 March 2011 (Restated)	274,801	451,509	39,168	93,859	1	13,576	872,914	24,598

The Cost or Valuation and Accumulated Depreciation balances for Council Dwellings and Other Land and Buildings have been amended to remove accumulated depreciation that should have b reversed against the Cost or Valuation balance when assets were revalued, and for impairment balances that should have been deducted from the Cost or Valuation balance rather than being to the Accumulated Depreciation balance.

Accumulated depreciation on infrastructure assets has been restated as explained in note 5.45.

Depreciation

Depreciation is calculated on the following bases:

- Council dwellings – straight-line allocation over the useful life of the property as estimated by the valuer: generally 50 years, with the exception of material components: 15–20 years;
- Other buildings – straight-line allocation over the useful life of the property as estimated by the valuer: 20-80 years;
- Vehicles, plant, furniture and equipment: 5 years;
- Infrastructure assets – straight-line allocation: 10-80 years;
- Freehold land - not depreciated;
- Community assets are held at nominal value and therefore are not depreciated; and
- Newly acquired or completed assets are depreciated in the year following acquisition or completion.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally as at 1 April 2012. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – estimate of fair value, determined using the basis of Existing Use Value for Social Housing (EUV-SH); and
- all other assets – estimate of fair 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 fair value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.

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

The HRA portfolio was valued in line with the 5 year rolling programme. The Land Registry index was used to calculate any material adjustments required to effect the movement in the property price index for operational HRA properties between 1 April 2012 and 31 March 2013. This together with the impairment review, has resulted in a upward revaluation during the year of £11.5m (2011-12 resulted in a £1.5m downward revaluation).

Rolling Revaluation

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Asset Under Construction £000	Total £000	Investment Property £000
Valued at historical cost	0	0	30,201	93,247	9,720	133,168	0
Valued at fair value:							
As at 31st March 2013	287,269	79,272	0	0	0	366,541	27,820
As at 1st April 2012	0	49,340	0	0	0	49,340	0
As at 1st April 2011	0	204,643	0	0	0	204,643	0
Total Cost or Valuation as at 31.03.13	**287,269**	**333,255**	**30,201**	**93,247**	**9,720**	**753,692**	**27,820**

Impairment losses

2011-12 General Fund £000	2011-12 HRA £000	2011-12 Total £000		2012-13 General Fund £000	2012-13 HRA £000	2012-13 Total £000
5,701	1,476	7,177	Total Impairment/(reversal)	3,239	-11,077	**-7,838**
-1,008	0	-1,008	Impairment reversal charged to Revaluation Reserve	-503	-136	**-639**
4,693	1,476	6,169	Impairment/(reversal) reversed out in CAA	**2,736**	**-11,213**	**-8,477**
			Impairment of HRA Other Land and Buildings	0	487	**487**
			Impairment/(reversal) charged to Services			**-7,990**

Capital Financing

2011-12 £000		2012-13 £000
306,668	Opening Capital Financing Requirement	**402,669**
	Capital Investment	
31,911	Property, Plant and Equipment	**29,148**
1,249	Vehicle, Plant and Equipment - Leased	**959**
3,409	Revenue Expenditure Funded from Capital under Statute	**2,693**
88,461	Settlement Determination 2012 - payments (HRA)	**0**
	Sources of finance	
-4,988	Capital receipts	**-4,827**
-10,872	Government grants and other contributions	**-7,721**
	Sums set aside from revenue:	
-499	· Direct revenue contributions	**-678**
-12,670	· Minimum Revenue Provision	**-13,487**
0	· Major Repairs Reserve	**-7,393**
402,669	*Closing Capital Financing Requirement*	401,363
	Explanation of movements in year	
18,961	Increase in unsupported borrowing	**11,222**
88,461	Settlement Determination 2012 - payments (HRA)	**0**
1,249	Assets acquired under finance leases	**959**
-12,670	Minimum Revenue provision	**-13,487**
96,001	*Increase in Capital Financing Requirement*	**-1,306**

Capital Commitments

At 31 March, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment as detailed below:

31-Mar-12 £000	Directorate	31-Mar-13 £000
4,743	Resources	**1,248**
1,824	Children's Services	**2,824**
3,109	Community, Health & Wellbeing	**1,917**
210	Environment & Enterprise	**3,160**
9,886		**9,149**

5.11 Leases

The council as Lessee

5.11.1.1 Finance Leases

The majority of the Council's finance leases relate to its fleet of vehicles. The remainder of assets acquired under finance leases are photocopiers and computer equipment, some of which are located at its schools.

Assets acquired under finance leases are included as part of Vehicles, Plant, Furniture and Equipment in the Property, Plant and Equipment balance in the Balance Sheet. The book value of these assets is £5.33m (£6.49m in 2011-12).

The Council is committed to making minimum payments under these leases, comprising settlement of the long-term liability for the interest in the assets acquired 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:

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31-Mar-13	31-Mar-12	**31-Mar-13**	31-Mar-12
	£000	£000	**£000**	£000
Not later than one year	**1,930**	1,740	**1,693**	1,467
Later than one year and not later than five years	**4,251**	5,021	**3,732**	4,662
Later than five years	**319**	742	**316**	741
	6,500	7,503	**5,741**	6,870
Finance costs payable in future years			**760**	633
			6,501	7,503

5.11.1.2 Operating Leases

The Council continues to enter into operating leases, principally in respect of properties and also for some of its vehicle fleet. Properties leased include Premier House, Wealdstone, with the local Primary Care Trust, as well as some libraries and car parks. Contract end dates vary, with some of the properties being long leases in excess of twenty years. Please also refer to Sancroft Hall disclosed under the PFI note.

The expenditure relating to minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to the operating leases was:

31-Mar-12 £000		31-Mar-13 £000
502	Not later than one year	**464**
1,228	Later than one year and not later than five years	**1,016**
3,152	Later than five years	**3,004**
4,882		**4,484**
768	Min. lease payments charged to revenue in 12-13	**502**

The Council as Lessor

5.11.1.3 Finance Leases

The Council has granted 125 year peppercorn leases in respect of 7 maintained schools which have transferred to Academy status with effect from 1 August 2011 under the provisions of the Academies Act 2010. 125 year leases have also been granted for 3 caretakers houses at Academy schools. The properties are not included in the Council's balance sheet although the Council retains the freehold. The lease of these properties is a finance lease.

Although the legal form of the arrangement is a lease, the transfer of properties to Academy status were treated as in substance a disposal in the Council's balance sheet with a loss of £117.591m recorded in the Income and Expenditure Account.

The Council does not lease any other assets under finance lease arrangements when acting as a lessor.

5.11.1.4 Operating Leases

The Council leases out property under operating leases for the provision of community services, such as sports facilities and community centres and for economic development purposes.

Operating leases have been classified as Investment Properties or Property, Plant and Equipment. Those classified as Investment Properties generated a rental stream of £0.932m in 2012-13 (£0.640m in 2011-12).

The future minimum lease payments receivable under non-cancellable leases in future years are:

31-Mar-12 £000	**Land and Buildings**	**31-Mar-13 £000**
1,347	Not later than one year	**1,323**
3,748	Later than one year and not later than five years	**3,736**
13,775	Later than five years	**13,913**
18,870		**18,972**

5.12 Private Finance Initiatives and Similar Contracts

The Council has entered into three PFI contracts.

Under these arrangements, the Council pays a unitary charge which is subject to payment deductions for service and availability failures, and increases each year for inflation based on RPI, or in the case of Sancroft Hall on the GDP deflator. The Council receives an annual Government Grant with the impact of the grant evened out over the contract period by use of a sinking fund.

The contracts for the schools and the NRC's both fall within the scope of service concession arrangements under IFRIC 12 as the use of the assets is controlled by the Council and the assets revert back to the Council on the expiration of the contracts.

At the end of the contracts the assets and all rights under the agreements revert to the Council at no additional cost. The providers are required to undertake regular benchmarking exercises for certain operational costs and market test these where necessary. In the event of default by the provider the Council has the option to either, re-tender the contract and pay the contractor the highest compliant tender price, or to take over the contract and pay the contractor the estimated fair value of the agreement. In the event of voluntary termination the provider is entitled to a termination sum based on the debt outstanding. The Council is entitled to receive a 50% share of any refinancing gain.

The assets under the Sancroft Hall contract do not revert back to the Council and therefore cannot be treated as a Service Concession Arrangement under IFRIC 12. The contract also does not meet the requirements of a finance lease, and has been treated as an operating lease during the year. The unitary payments are therefore treated as being expended during the year and the asset remains off the Council's balance sheet.

Special schools

The contract relates to two new schools for pupils with learning disabilities, and the refurbishment of a first and middle school. The contract is for the provision of the facilities on Council sites under licence to the provider. The works were phased in and the three schools were fully operational by February 2006.

The Council is committed to make the following payments to the contractor for the duration of the contract:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Principal Repayment	Contingent Rent	Total
	£000	£000	£000	£000	£000	£000
Schools						
Payable in 2013-14	786	146	1,123	279	54	2,388
Payable within 2 to 5 years	3,347	914	4,234	1,176	178	9,849
Payable within 6 to 10 years	4,677	1,112	4,579	2,280	376	13,024
Payable within 11 to 15 years	5,292	2,480	3,486	2,698	-44	13,912
Payable within 16 + years	6,739	1,446	1,925	5,799	825	16,734
Total	**20,841**	**6,098**	**15,347**	**12,232**	**1,389**	**55,907**

Neighbourhood Resource Centres (NRC)

Three Centres have been provided under the Local Improvement Finance Trust (LIFT) initiative on Council sites under licence to the provider. These became operational in May 2009 with the contract lasting for 25 years.

The Council is committed to make the following payments to the contractor for the duration of the contract:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Principal Repayment	Contingent Rent	Total
	£000	£000	£000	£000	£000	£000
NRC						
Payable in 2013-14	226	10	497	111	100	944
Payable within 2 to 5 years	760	190	1,876	604	591	4,021
Payable within 6 to 10 years	1,062	270	2,026	1,069	1,193	5,620
Payable within 11 to 15 years	1,201	542	1,509	1,441	1,665	6,358
Payable within 16 + years	1,948	621	873	2,763	2,903	9,108
Total	**5,197**	**1,633**	**6,781**	**5,988**	**6,452**	**26,051**

Sancroft Hall

This is a residential and day care facility. The contract is for both the provision of the facilities and the care of the residents, and day care attendees. The site was sold by the Council to the provider and the establishment became operational in November 1999.

The contract ends in October 2024 and at the end of the contract the provider retains the assets. The Council is entitled to step in rights in the event of default by the provider.

The Council is committed to make the following payments to the contractor for the duration of the contract:

Sancroft	Payment for Services	Minimum Lease Payments	Total
	£000	£000	£000
Payable in 2013-14	1,195	483	1,678
Payable within 2 to 5 years	4,939	1,996	6,935
Payable within 6 to 11 years	7,904	3,194	11,098
Total	**14,038**	**5,673**	**19,711**

5.13 Investment Properties

The following table summarises the movement in the fair value of investment properties over the year.

2011-12		2012-13
£000		£000
23,681	Balance at start of the year	**24,389**
0	Disposals	**-27**
708	Net gains from fair value adjustments	**3,458**
24,389	Balance at end of the year	**27,820**

5.14 Long Term Investments

31-Mar-12		31-Mar-13
£000		£000
12,000	Maturity date within 2 years	**13,000**
6,000	Maturity date within 2 - 3 years	**12,000**
18,000	Balance at end of the year	**25,000**

5.15 Long term debtors

31-Mar-12		31-Mar-13
£000		£000
141	Employees Car Loans	**99**
69	House Purchase Loans to Individuals	**55**
3,049	West London Waste Authority	**2,927**
135	Other Loans	**156**
3,394	**Total**	**3,237**

5.16 Short term investments

31-Mar-12		31-Mar-13
£000		£000
58,698	Temporary Investment - Managed in-house	**61,311**
3	Internal Investments	**3**
58,701	**Total**	**61,314**

5.17 Short term debtors

31-Mar-12 £000		31-Mar-13 £000
4,679	Central government bodies	**6,299**
2,100	Other local authorities	**2,874**
480	NHS bodies	**1,436**
3,234	Public corporations and trading funds	**359**
10,216	Other entities and individuals	**10,323**
20,709	**Total**	**21,291**

5.18 Cash and cash equivalents

31-Mar-12 £000		31-Mar-13 £000
147	Cash held by the Authority	**181**
-2,861	Bank current accounts	**-804**
13,500	Short-term deposits w ith Banks and Building Societies	**18,241**
10,786	**Total Cash and Cash Equivalents**	**17,618**

5.19 Short term borrowing

31-Mar-12 £000		31-Mar-13 £000
-1,632	Public Works Loan Board	**-1,621**
-1,192	Other Financial Institutions	**-11,189**
-7,710	West London Waste Authority	**-4,400**
-572	Pension Fund	**-3,778**
-71	Other Loans	**-77**
-11,177	**Total**	**-21,065**

5.20 Short Term Creditors

31-Mar-12 £000		31-Mar-13 £000
-7,459	Central government bodies	**-11,697**
-3,003	Other local authorities	**-5,606**
-421	NHS bodies	**-717**
-18,182	Public corporations and trading funds	**0**
-35,423	Other entities and individuals	**-50,192**
-64,488	**Total**	**-68,212**

5.21 Provisions

	Outstanding Legal Cases £000	Insurance £000	Employment £000	Other Provisions £000	**Total £000**
Short Term					
Balance at 1 April 2012	-1,121	-1,506	-3,761	-517	**-6,905**
Additional provisions made in 2012-13	-297	-2,399	0	-141	**-2,837**
Transferred to Long Term	0	265	0	0	**265**
Amounts used in 2012-13	538	1,877	1,070	79	**3,564**
Unused amounts reversed in 2012-13	0	0	273	27	**300**
Balance at 31 March 2013	-880	-1,763	-2,418	-552	**-5,613**
Long Term					
Balance at 1 April 2012	0	-4,558	0	0	**-4,558**
Transferred from Short Term	0	-265	0	0	**-265**
Balance at 31 March 2013	0	-4,823	0	0	**-4,823**

Outstanding Legal Cases: The estimated liability in respect of various outstanding legal, planning and other cases.

Insurance: This provision is the estimated liability for insurance claims that the Council self funds, including actual claims submitted, claims reported but not submitted and events for which the Council has not received a claim (incurred but not reported IBNR). The Council's insurance programme consists of a range of insurance covers in three broad classes; liability, property and motor. The Council's maximum potential liability is limited by a series of aggregate stop loss covers with the Council's insurers that are triggered off when the total of all claims under the cover exceeds that amount for the period of insurance. It is Council policy not to insure "pound swapping" items (e.g. theft and "all risks" on equipment), or terrorism risks on properties other than the Civic Centre complex. All IBNR amounts are calculated by the Council’s actuary. In 2012-13 additional provision of £2.0m has been made to cover the cost of payments to Municipal Mutual Insurance in respect of future claims.

Employment: The estimated liability to employees for redundancies resulting from the Council's current restructuring programme. In addition to the provision, an earmarked reserve has been created to fund further redundancies that will arise once additional formal restructuring plans are put in place.

Other Provisions: Includes the disrepair provision for claims made by Council tenants in respect of repairs to Council property, the provision for claims in relation to charges made in the past for accommodation under the Mental Health Act (s117), employment tribunal cases and part time pension claims.

5.22 Long term borrowing

31-Mar-12 £000		31-Mar-13 £000
	Source of Loan:	
-218,461	Public Works Loan Board	**-218,461**
-131,898	Other Financial Institutions	**-121,833**
-350,359	**Total**	**-340,294**
	Analysis of loans by maturity:	
-10,065	1-2 years (1.4.2014 - 31.3.2015)	**-6,033**
-6,033	2-5 years (1.4.2015 - 31.3.2019)	**-10,000**
-32,000	5-10 years (1.4.2019 - 31.3.2024)	**-27,000**
-302,261	More than 10 years (1.4.2024 onwards)	**-297,261**
-350,359	**Total**	**-340,294**

5.23 Other long term liabilities

31-Mar-12 £000		31-Mar-13 £000
-18,220	PFI Lease Liability (Note 5.12)	**-17,830**
-5,404	Vehicles, Plant, Furniture & Equipment Lease Liability	**-4,048**
-270,287	IAS19 Pension Liability (Note 5.40.5)	**-323,131**
-293,911	**Total**	**-345,009**

PFI Lease Liability	Special Schools £000	NRC £000	**Total £000**
Balance outstanding at start of year	**12,476**	**6,096**	**18,572**
Lease repayments during the year	**-1,389**	**-614**	**-2,003**
Finance Charge	**1,145**	**506**	**1,651**
Balance outstanding at year-end	**12,232**	**5,988**	**18,220**
Analysed as follows:			
Due within one year	**279**	**111**	**390**
Due after more than one year	**11,953**	**5,877**	**17,830**
	12,232	**5,988**	**18,220**
2011-12			
Analysed as follows:			
Due within one year	**244**	**108**	**352**
Due after more than one year	**12,232**	**5,988**	**18,220**
	12,476	**6,096**	**18,572**

5.24 Usable reserves

31-Mar-12 £000		Note	31-Mar-13 £000
-7,650	General Fund	4.1	**-8,646**
-11,255	Earmarked Reserves General Fund	5.6	**-17,709**
-12,632	Earmarked Reserves Locally Managed Schools	5.6	**-14,407**
-2,791	Housing Revenue Account	6.1	**-3,175**
-4,148	Major Repairs Reserve	6.2.6	**-3,384**
-6,309	Capital Receipts Reserve	5.24.1	**-3,311**
-1,849	Capital Grants and Contributions Unapplied	5.24.2	**-15,265**
-46,634	**Total Usable Reserves**		**-65,897**

Capital Receipts Reserve

The Capital Receipts Reserve accumulates proceeds from the disposals of land or other assets. Statute permits capital receipts to be used to fund new capital expenditure or to reduce Council indebtedness. The balance on the reserve shows the resources that have yet to be applied for these purposes at year end.

General Fund 2010-11 £000	HRA 2010-11 £000	Total 2010-11 £000		General Fund 2011-12 £000	HRA 2011-12 £000	Total 2011-12 £000
-1,465	-4,783	-6,248	Balance unapplied at 1 April	-1,465	-4,844	**-6,309**
0	0	0	Transfer to Capital Grants Unapplied	0	3,583	**3,583**
0	-59	-59	Interest on Affordable Housing	0	0	**0**
-5,014	-95	-5,109	Receipts in year - Others	-4,450	0	**-4,450**
0	-28	-28	Receipts in year - Right to Buy	-500	-1,646	**-2,146**
0	0	0	Right to Buy transfer frm HRA to GF	0	500	**500**
132	0	132	Disposal Costs	122	0	**122**
0	15	15	Pooling payment to the DCLG	0	562	**562**
4,882	93	4,975	Applied during the year - others	4,327	0	**4,327**
0	13	13	Applied during the year - Right to Buy	500	0	**500**
-1,465	-4,844	-6,309	**Balance unapplied at 31 March**	**-1,466**	**-1,845**	**-3,311**

Capital Grants and Contributions Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2011-12 £000		General Fund 2012-13 £000	HRA 2012-13 £000	Total 2012-13 £000
-846	Balance unapplied at 1 April	-1,849	0	**-1,849**
0	Transfer from Capital Receipt Reserve	0	-3,583	**-3,583**
-1,448	Transfer from Capital Grants Receipts in Advance	-5,260	0	**-5,260**
-643	Receipts in year	-8,825	-406	**-9,231**
1,088	Applied during the year	4,556	102	**4,658**
-1,849	**Balance unapplied at 31 March**	**-11,378**	**-3,887**	**-15,265**

5.25 Unusable reserves

31-Mar-12 (Restated) £000			31-Mar-13 £000
-12,597	Revaluation Reserve	5.25.1	**-13,782**
-69	Deferred Capital Receipts		**-55**
-363,536	Capital Adjustment Account	5.25.2	**-374,882**
4,656	Financial Instruments Adjustment Account	5.25.3	**4,939**
270,287	Pensions Reserve	5.25.4	**323,131**
-1,370	Collection Fund Adjustment Account	5.25.5	**-892**
5,160	Accumulating Compensated Absences Adjustment Account	5.25.6	**4,865**
-97,469	**Total Unusable Reserves**		**-56,676**

Previous year balances have been restated. This prior period adjustment is explained in note 5.45.

Revaluation reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

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

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

2011-12 General Fund £000	2011-12 HRA £000	2011-12 Total £000		2012-13 General Fund £000	2012-13 HRA £000	2012-13 Total £000
-12,939	-478	-13,417	**Balance at 1 April**	-12,093	-504	**-12,597**
-1,551	-54	-1,605	Upward revaluation of assets	-5,180	-11,589	**-16,769**
1,008	0	1,008	Impairment charged to the revaluation reserve	501	136	**637**
946	27	973	Reversal of prior year impairment charged to CIES	3,007	11,213	**14,220**
-94	0	-94	Recognition of assets not previously on Balance Sheet	-88	0	**-88**
-12,630	-505	-13,135	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**-13,853**	**-744**	**-14,597**
108	1	109	Difference between fair value depreciation and historical cost depreciation	39	349	**388**
429	0	429	Accumulated gains on assets sold or scrapped	400	27	**427**
537	1	538	Amount written off to the Capital Adjustment Account	**439**	**376**	**815**
-12,093	-504	-12,597	**Balance at 31 March**	**-13,414**	**-368**	**-13,782**

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 n 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 (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). 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.

In 2011-12 the account absorbed the financing of £88.461m payments made to the Secretary of State in respect of the Self Financing Settlement for the Council's Housing Revenue Account. This was required as part of the Government's reforms of the HRA resulting in the replacement of the National Subsidy framework in favour of a system of Self Financing.

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

2011-12 (Restated - note 5.45)				2012-13		
£000 General Fund	£000 HRA	£000 Total		**£000 General Fund**	**£000 HRA**	**£000 Total**
-348,844	-234,715	-583,559	**Balance at 1 April**	-222,793	-140,743	**-363,536**
			Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
24,847	4,173	29,020	Asset Depreciation	23,629	6,629	**30,258**
1,644	26	1,670	Leasing Depreciation	1,686	26	**1,712**
4,693	1,476	6,169	Asset Impairment	2,736	-11,213	**-8,477**
121,692	0	121,692	Non Current assets w ritten out on Disposal	177	666	**843**
3,409	0	3,409	Revenue expenditure funded from capital under statute	2,693	0	**2,693**
0	88,461	88,461	Sums directed by the Secretary of State to be credited to the HRA that are not expenditure in accordance w ith the Code	0	0	**0**
-429	0	-429	Revaluation reserve on disposal to the CI&E Statement	-400	-27	**-427**
155,856	94,136	249,992		**30,521**	**-3,919**	**26,602**
-108	-1	-109	Depreciation w ritten out of the Revaluation reserve	-39	-349	**-388**
155,748	94,135	249,883	Net w ritten out amount of the cost of non current assets consumed in the year	**30,482**	**-4,268**	**26,214**
			Capital financing applied in the year:			
-4,884	-106	-4,990	Use of the Capital Receipts Reserve	-4,827	0	**-4,827**
0	0	0	Use of the Major Repairs Reserve	0	-7,393	**-7,393**
-9,873	-32	-9,905	Capital grants contributions credited to the CI&E Statement	-3,002	-60	**-3,062**
-1,088	0	-1,088	Application of grants from the Capital Grants Unapplied Account	-4,556	-102	**-4,658**
-12,645	-25	-12,670	Minimum Revenue Provision	-13,462	-27	**-13,489**
-499	0	-499	Revenue Contribution to Capital Outlay	-678	0	**-678**
126,759	93,972	220,731		**3,957**	**-11,850**	**-7,893**
-708	0	-708	Movements in the market value of Investment Properties debited/credited to the CI&E Statement	-3,453	0	**-3,453**
-222,793	-140,743	-363,536	**Balance at 31 March**	**-222,289**	**-152,593**	**-374,882**

Financial instruments adjustment account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

2011-12 £000		**2012-13 £000**
4,445	**Balance at 1 April**	**4,656**
	Premiums and Discounts incurred in previous financial years to be charged against the Balance in accordance w ith statutory requirements	
249	General Fund	**250**
-38	HRA	**33**
4,656	**Balance at 31 March**	**4,939**

Pensions reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid, by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

2011-12 £000		2012-13 £000
212,506	**Balance at 1 April**	**270,287**
62,879	Actuarial (gains) or losses on pensions assets and liabilities	**45,752**
13,282	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	**25,172**
-18,380	Employer's pensions contributions and direct payments to pensioners payable in the year	**-18,080**
270,287	**Balance at 31 March**	**323,131**

Collection fund adjustment account

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

2011-12 £000		2012-13 £000
-2,200	**Balance at 1 April**	**-1,370**
830	Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year	**478**
-1,370	**Balance at 31 March**	**-892**

Accumulating compensated absences adjustment account

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

2011-12 £000		2012-13 £000
6,930	**Balance at 1 April**	**5,160**
-6,930	Settlement or cancellation of accrual made at the end of the preceding year	**-5,160**
5,160	Amounts accrued at the end of the current year	**4,865**
5,160	**Balance at 31 March**	**4,865**

5.26 Cash flow statement – operating activities

2011-12 £000		2012-13 £000
13,731	Interest payable & similar charges	17,016
-1,371	Interest and Investment income	-1,921
-1,526	Other investment income	-4,377
	Non-Cash Transactions	
-5,098	Adjustment for pension funding	9,482
3,904	Increase in Provision	-1,027
35,412	Impairment and Depreciation	23,981
-1,770	Accumulated Absence	-296
116,947	Gains/Loss (-) on disposal of non-current assets	-5,116
-1,148	Collection Fund	-479
865	Other adjustments	-284
	Items on an accrual basis	
849	(-)Increase/Decrease in Debtors	-591
-1,514	Increase/Decrease(-) in Creditors	4,617
159,281	**Adjustments for non cash movements**	41,005
1,825	Interest received	1,488
-13,763	Interest paid	-17,030
817	Other Investment income	0
-11,121	**Adjustments for investment and financing activities**	-15,542

5.27 Cash flow statement – investing activities

2011-12 £000		2012-13 £000
-30,267	Purchase of property, plant and equipment, investment property and intangible assets	-29,871
6,855	Purchase of short-term and long-term investments	-9,613
-10,993	Other payments for investing activities	-5,150
5,063	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,959
210	Proceeds from short-term and long-term investments	0
13,419	Other receipts from investing activities	-136
-15,713	**Net cash flows from investing activities**	-38,811

5.28 Cashflow Statement – financing activities

2011-12 £000		2012-13 £000
88,396	Cash receipts of short- and long-term borrow ing	0
0	Other receipts from financing activities	0
-1,938	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	-2,040
-22,481	Repayments of short- and long-term borrow ing	0
63,977	**Net cash flows from financing activities**	-2,040

5.29 Directorate income and expenditure segmental reporting

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

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year; and
- expenditure on some support services is budgeted for centrally and not charged to directorates.

Directorate income and expenditure

2012-13	Community, Health and Wellbeing	Children's and Families	Environment and Enterprise	Resources	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	-17,575	-11,361	-19,572	-4,803	**-53,312**
Government grants	-7,295	-134,800	-879	-160,172	**-303,146**
Total Income	-24,870	-146,162	-20,451	-164,975	**-356,458**
Employee expenses	23,417	114,896	19,984	21,374	**179,671**
Other service expenses	63,231	64,133	10,511	150,742	**288,615**
Support service recharges	10,827	10,701	9,273	12,352	**43,153**
Depreciation, amortisation and impairment	2,447	4,281	11,749	5,152	**23,629**
Precepts & Levies	0	0	7,192	636	**7,828**
Total Expenditure	**99,921**	**194,012**	**58,709**	**190,255**	**542,896**
Net Departmental Costs	**75,051**	**47,850**	**38,257**	**25,280**	**186,438**

2011-12 (restated *)	Community, Health and Wellbeing	Children's and Families	Environment and Enterprise	Resources	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	-14,159	-12,441	-22,058	-14,033	**-62,691**
Government grants	-6,150	-158,522	-1,842	-154,521	**-321,035**
Total Income	**-20,309**	**-170,963**	**-23,900**	**-168,554**	**-383,726**
Employee expenses	17,598	125,747	27,873	13,406	**184,624**
Other service expenses	61,335	73,985	40,212	164,593	**340,125**
Support service recharges	8,484	6,993	11,424	7,509	**34,410**
Total Expenditure	**87,417**	**206,725**	**79,509**	**185,508**	**559,159**
Net Departmental Costs	**67,108**	**35,762**	**55,609**	**16,954**	**175,433**

* The comparative figures for 2011-12 have been restated to reflect the new directorate structure.

The note has been expanded this year to split out depreciation, amortisation and impairment and precepts and levies from other service expenses.

Reconciliation of Directorate Income & Expenditure to cost of services in Comprehensive Income and Expenditure Statement (CIES)

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the CIES.

2011-12 £000		2012-13 £000
175,433	Net expenditure in the Directorate Analysis (note 5.29.1)	**186,438**
90,792	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	**-15,106**
-6,241	Amounts included in the Analysis not included in the CIES Cost of Services	**-14,096**
259,984	**Cost of Services in Comprehensive Income and Expenditure Statement**	**157,235**

Reconciliation to subjective analysis and comparative

The following reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2012-13	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Cost of services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-53,312	-28,913	0	**-82,225**	0	**-82,225**
Interest and investment income	0	0	0	**0**	-6,298	**-6,298**
Income from council tax	0	0	0	**0**	-105,438	**-105,438**
Government grants and contributions	-303,146	0	0	**-303,146**	-97,491	**-400,637**
Gain or Loss on Disposal of Fixed Assets	0	0	0	**0**	-5,116	**-5,116**
Total income	-356,458	-28,913	0	**-385,372**	-214,343	**-599,715**
Employee expenses	179,671	4,184	-2,390	**181,465**	0	**181,465**
Other service expenses	288,615	5,792	-3,878	**290,529**	0	**290,529**
Support Service recharges	43,153	3,478	0	**46,631**	0	**46,631**
Depreciation, amortisation and impairment	23,629	353	0	**23,982**	0	**23,982**
Interest Payments	0	0	0	**0**	26,498	**26,498**
Precepts & Levies	7,828	0	-7,828	**0**	7,828	**7,828**
Payments to Housing Capital Receipts Pool	0	0	0	**0**	562	**562**
Total expenditure	542,896	13,807	-14,096	**542,607**	34,888	**577,495**
Surplus or deficit on the provision of services	186,438	-15,106	-14,096	**157,235**	-179,455	**-22,220**

Amounts not reported to management for decision making relate mostly to the Housing Revenue Account. Housing Revenue Account outturn information is reported to management separately from the Directorate Analysis.

2011-12	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Cost of services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-62,691	-27,581	0	**-90,272**	0	**-90,272**
Interest and investment income	0	0	817	**817**	-2,935	**-2,118**
Income from council tax	0	0	0	**0**	-103,406	**-103,406**
Government grants and contributions	-321,035	0	0	**-321,035**	-85,855	**-406,890**
Total Income	-383,726	-27,581	817	**-410,490**	**-192,196**	**-602,686**
Employee expenses	184,624	4,804	0	**189,428**	0	**189,428**
Other service expenses	300,106	105,033	0	**405,139**	0	**405,139**
Support Service recharges	32,724	2,914	0	**35,638**	0	**35,638**
Depreciation, amortisation and impairment	34,647	5,622	0	**40,269**	0	**40,269**
Interest Payments	0	0	0	**0**	19,327	**19,327**
Precepts & Levies	7,058	0	-7,058	**0**	7,058	**7,058**
Gain or Loss on Disposal of Fixed Assets	0	0	0	**0**	116,947	**116,947**
Payments to Housing Capital Receipts Pool	0	0	0	**0**	15	**15**
Total expenditure	559,159	118,373	-7,058	**670,474**	143,347	**813,821**
Surplus or deficit on the provision of services	175,433	90,792	-6,241	**259,984**	-48,849	**211,135**

5.30 Road charging schemes under the Transport Act 2000

The London Borough of Harrow assumed responsibility for the enforcement of the on-street parking under the Road Traffic Act on 4 July 1994.

The Road Traffic Act 1984 stipulates that the authority must keep a separate account of any income or expenditure related to parking enforcement.

Section 55(4) of the 1984 Act controls the use of any surplus on the account. The surplus generated in 2012-13 is being re-invested in the development of on-street parking provision, road and highway improvements and public transport in the borough.

2011-12 £000		2012-13 £000
-5,584	Penalty Charge Notices	-6,935
-1,132	On street meters	-1,188
-295	Residents Permits	-357
-7,011	Total income	-8,480
1,379	Enforcement contract/costs	1,522
61	TCfL: Core levy and service charges	49
12	Meter repairs/maintenance	17
111	Notice posting and administration	89
1,248	Other overheads	981
2,811	Total expenditure	2,658
-4,200	Total (surplus) for the year ending 31 March 2011	-5,822
	Utilisation of Surplus	
4,200	Concessionary fares	5,822
4,200		5,822

5.31 Agency arrangements – pooled budgets

Section 75 of the NHS Act 2006 allows partnership arrangements between NHS bodies, local authorities, and other agencies in order to improve and co-ordinate services. Each partner makes a contribution to a pooled budget with the aim of focusing services and activities for a client group.

The Council, in association with Harrow Primary Care Trust, has established a pooled fund for the Integrated Community Equipment Service (ICES) for which Harrow Council is the lead body.

2011-12 £000		2012-13 £000
	Funding provided to the pooled budget:	
-455	• Harrow Contribution	-255
-25	• Schools Contribution	-25
-73	• Misc Income	-57
-674	• Harrow PCT	-664
-1,227		-1,001
	Expenditure met from the pooled budget:	
1,076	• Gross Expenditure	942
-151	Surplus for the year	-59

5.32 Members Allowances

Information on the Members' Allowance Scheme may be found in a leaflet available at Council libraries.

2011-12 £000		2012-13 £000
822	Allowances	824
822	Total	824

5.33 Remuneration

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

Remuneration bands

The number of employees in 2012-13 whose remuneration, excluding pension contributions was £50,000 or more are detailed below in bands of £5,000. The bandings only include the remuneration of senior employees that have not been disclosed separately in the 'Senior officer remuneration' note. The number of employees that exceeded the £50,000 threshold due to redundancy or voluntary severance payments is shown in a separate column.

Remuneration band	Number of Council Employes				Number of School Staff			
	Number in band	Due to Lump Sum	Number in band	Due to Lump Sum	Number in band	Due to Lump Sum	Number in band	Due to Lump Sum
	2012-13	**2012-13**	2011-12	2011-12	**2012-13**	**2012-13**	2011-12	2011-12
£50,000 - £54,999	**27**	**2**	36	0	**38**	**1**	33	0
£55,000 - £59,999	**52**	**0**	53	2	**23**	**1**	21	0
£60,000 - £64,999	**9**	**2**	19	1	**8**	**0**	12	0
£65,000 - £69,999	**10**	**0**	11	0	**15**	**0**	14	0
£70,000 - £74,999	**10**	**1**	7	2	**9**	**0**	9	0
£75,000 - £79,999	**2**	**0**	2	0	**4**	**0**	10	0
£80,000 - £84,999	**3**	**1**	2	0	**8**	**0**	7	0
£85,000 - £89,999	**4**	**1**	3	0	**5**	**0**	5	0
£90,000 - £94,999	**5**	**2**	6	0	**3**	**0**	3	0
£95,000 - £99,999	**1**	**0**	2	0	**3**	**0**	3	0
£100,000 - £104,999	**1**	**0**	2	0	**1**	**0**	0	0
£105,000 - £109,999	**0**	**1**	0	0	**0**	**0**	0	0
£110,000 - £114,999	**1**	**0**	2	0	**0**	**0**	1	0
£115,000 - £119,999	**2**	**0**	1	0	**1**	**0**	0	0
£120,000 - £124,999	**0**	**0**	0	0	**0**	**0**	0	0
£130,000 - £134,999	**0**	**0**	0	0	**0**	**0**	0	0
£140,000 - £144,999	**0**	**0**	0	0	**0**	**0**	0	0
£145,000 - £149,999	**0**	**0**	0	0	**0**	**0**	0	0
£180,000 - £184,999	**0**	**0**	0	0	**0**	**0**	0	0
£190,000 - £194,999	**0**	**0**	0	0	**0**	**0**	0	0
£210,000 - £214,999	**0**	**1**	0	0	**0**	**0**	0	0
	127	**11**	146	5	**118**	**2**	118	0

Senior officer remuneration

Position Held	Notes	Salary,(including Fees and Allowances)		Benefits in Kind		Total Remuneration excluding employers pension		Employers Pension Contribution		Exit Payments		Total Remuneration including employers pension contributions	
		£	£	£	£	£	£	£	£	£	£	£	£
		2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Michael Lockwood (Chief Executive)		189,550	190,709	1,084	1,239	190,634	191,948	35,589	35,326	0	0	226,223	227,274
		189,550	**190,709**	**1,084**	**1,239**	**190,634**	**191,948**	**35,589**	**35,326**	**0**	**0**	**226,223**	**227,274**

Remuneration disclosures for Senior Officers whose salary is less than £150,000 but more than £50,000

Position Held	Notes	Salary,(including Fees and Allowances)		Benefits in Kind		Total Remuneration excluding employers pension contributions		Employers Pension Contribution		Exit Payments		Total Remuneration including employers pension contributions	
		£	£	£	£	£	£	£	£	£	£	£	£
		2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Corporate Director - Resources	1	140,909	180,928	1,084	207	141,993	181,135	26,914	4,455	0	0	168,907	185,590
Corporate Director - Community and Environment	2	19,430	141,795	206	1,265	19,636	143,060	3,713	26,728	88,021	0	111,370	169,788
Corporate Director - Environment and Enterprise	3	65,992	0	0	0	65,992	0	12,604	0	0	0	78,596	0
Director of Legal & Governance Services		130,172	129,856	1,084	1,251	131,256	131,107	23,995	24,478	0	0	155,251	155,585
Corporate Director - Community, Health & Well Being	4	140,909	141,795	6,707	1,239	147,616	143,034	26,914	26,728	0	0	174,530	169,762
Corporate Director - Place Shaping	5	140,909	141,795	0	0	140,909	141,795	26,914	26,728	175,473	0	343,296	168,523
Corporate Director - Children's Services		140,909	137,667	0	0	140,909	137,667	26,914	25,950	0	0	167,823	163,617
Assistant Chief Executive	6	121,638	122,403	1,084	1,258	122,722	123,661	23,233	23,248	0	0	145,955	146,909
Director of Finance and Assurance	7	2,132	0	0	0	2,132	0	407	0	0	0	2,539	0
		903,000	**996,239**	**10,165**	**5,220**	**913,165**	**1,001,459**	**171,608**	**158,315**	**263,494**	**0**	**1,348,267**	**1,159,774**

Note 1 The Corporate Director – Resources left the position on 25 March 2013. The role was then taken on by the former Assistant Chief Executive. Please refer to note 6. The officer continued to work for the Council in a different role after 25 March 2013. This line discloses the officer's salary for the entire financial year. The reduction in salary of £40,019 compared with last year was due to the employee accepting a fixed term contract from 1 Feb 2012. Employer's Pension Contributions became payable under the new contract.

Note 2 The Corporate Director – Community and Environment left the Council on 20 May 2012. His position was replaced by the Corporate Director – Environment and Enterprise

Note 3 The postholder for the new position of Corporate Director – Environment and Enterprise started on 1 October 2012. Please refer to notes 2 and 5.

Note 4 The 'Benefits in Kind' balance for the Corporate Director – Community, Health & Wellbeing includes arrears payable in respect of previous years.

Note 5 The Corporate Director – Place Shaping was made redundant on 8 April 2013. His redundancy payment has been accrued as part of the Employment Provision balance. His position was replaced by the Corporate Director – Environment and Enterprise.

Note 6 The Assistant Chief Executive position was deleted on 25 March 2013. The officer then took on the role of Corporate Director – Resources.

Note 7 The Director of Finance and Assurance entered the post on 25 March 2013. The responsibility of Section 151 Officer was transferred to this position from the Corporate Director – Resources on 25 March 2013.

5.34 Audit fees

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditor:

2011-12 £000		**2012-13 £000**
	Fees Payable to external auditors in respect of:	
377	External audit services carried out by the appointed auditor for the year	**219**
110	Certification of grant claims and returns for the year	**43**
0	Other	**24**
487	Total	**286**

5.35 Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by Department for Education and known as the Dedicated Schools Grant (DSG). An element of DSG is recouped to by the Department to fund academy schools in the council's area. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget as defined in the School Finance (England) Regulations 2011, divided into a budget share for central expenditure and an Individual Schools Budget (ISB) for each maintained school.

Details of the deployment of DSG receivable for 2012-13 are as follows:

	Central Expenditure £000	ISB £000	**Total £000**
Final DSG for 2012-13			**-173,359**
Less			
Academy recoupment			**47,563**
Total DSG after Academy recoupment for 2012-13			-125,796
Surplus brought forward from 2011-12			-1,644
Carry forward to 2013-14 agreed in advance			793
Carry forward 2011-12 earmarked for pupil growth			**1,644**
Agreed budgeted distribution in 2012-13	-19,048	-105,955	**-125,003**
Less			
Actual central expenditure	18,570		18,570
Actual ISB deployed to schools		105,811	105,811
Surplus excluding agreed carry forward	**-478**	**-144**	**-622**
Surplus Carry forward to 2013-14			**-1,415**

5.36 Grants income

Revenue grants included within the cost of services

The following revenue grants have been included within the cost of services in the comprehensive income and expenditure account:

2011-12* £000	Grant	Awarding Body	**2012-13 £000**
-138,919	Dedicated schools grant	Department for Education	**-125,796**
-2,154	Standards fund	Department for Education	**0**
-7,816	Early Intervention Grant	Department for Education	**0**
-2,207	Pupil Premium	Department for Education	**-3,024**
-1,543	Private finance initiative	Department of Communities and Local Gov.	**-1,543**
-600	Homelessness Grant	Department of Communities and Local Gov.	**-597**
-269	NNDR cost of collection allowance	Department of Communities and Local Gov.	**-262**
-818	New Homes Bonus	Department of Communities and Local Gov.	**0**
0	Troubled Families Grant	Department of Communities and Local Gov.	**-475**
-1,202	Private finance initiative	Department of Health	**-966**
-4,293	Adults Personal Social Services	Department of Health	**-4,413**
-287	Section 31 grant	Department of Transport	**0**
-112,416	Rent Allowance	Department of Work and Pensions	**-117,360**
-2,307	Housing Benefit administration grant	Department of Work and Pensions	**-2,018**
-20,473	Council Tax Benefit	Department of Work and Pensions	**-20,394**
-1,185	Non-HRA Rent Rebate	Department of Work and Pensions	**0**
-16,673	HRA Rent Rebate	Department of Work and Pensions	**-20,026**
-485	Unaccompanied Asylum Seekers Grant	Home Office - UK Border Agency	**-577**
-686	Adults learning	Skills Funding Agency	**-229**
0	Community Learning Trust	Skills Funding Agency	**-322**
-3,885	EFA 6th Form Funding	Young People's Learning Agency	**-2,811**
-355	Youth Justice Board Grant	Youth Justice Board	**-307**
-219	Safer Stronger Communities	Greater London Authority	**0**
0	Transport for London schemes	Transport for London	**-339**
-2,243	Other		**-1,687**
-321,035			**-303,146**

* Amounts under £250k which were shown separately last year are now included within the 'other' category.

Capital grants included within taxation and non specific grant income

The following capital grants have been included within the cost of services in the comprehensive income and expenditure account:

2011-12 £000	Grant	Awarding Body	2012-13 £000
-497	Adult Social Care Single Capital Pot	Department of Health	-507
-147	Aiming High for Disability Capital Grant	Department for Education	0
-84	Cookery in Curriculum	Department for Education	0
-1,564	Devolved Formula Capital	Department for Education	-724
-1,604	LA Capital Maintenance and Basic Need Grant	Department for Education	-13,004
0	2 Year Old Entitlement	Department for Education	-438
-582	Disabled Facilities Grant	Department for Communities and Local Government	-645
-188	Empty Propert Grants	The Mayor's Targeted Funding Stream	-13
-32	Extensions Grant	The Mayor's Targeted Funding Stream	-60
-1,447	HIV Capital Grant	Department of Health	0
-3,745	Local Implementation Plan	Transport for London	-1,019
-253	Primary Capital	Department for Education	0
-323	Harrow and North Harrow OLF	The Mayor's Targeted Funding Stream	-434
-335	LWARB - Recycling Grant		0
-925	Targeted Capital Fund - Kitchens	Department for Education	0
-270	Misc.	Misc.	-304
0	Section 20 Income		-380
-11,996	Total Capital Grants included in Comprehensive Income and Expenditure Account		-17,528

Capital grants receipts in advance

2011-12 £000	Grant - Capital	Awarding Body	2012-13 £000
-1,375	Devolved Formula Grant	Department for Education	-1,047
-5,260	LA Capital Maintenance & Basic Need Grant	Department for Education	0
-207	Empty Property Grants	Greater London Authority	-328
-667	Section 106 Capital Receipts		-929
-26	Other Capital Grants		-80
-7,535			-2,384

5.37 Related parties

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

United Kingdom Government and other Local Authorities

In United Kingdom, central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received and payments to the levying bodies are disclosed in the notes to the accounts. Payments to precepting bodies are detailed in the Collection Fund and Comprehensive Income and Expenditure Statement.

Members

Members of the council have direct control over the council's financial and operating policies.

The Register of Interests for members of the council can be viewed on the Harrow Council website. The register shows that Members hold various positions on the governing bodies of a number of organisations including charities, associations, academy schools and companies. In no case does the Council control any of these organisations by virtue of Members holding positions on their governing bodies.

Members are however deemed to have significant influence over a number of organisations by virtue of the positions that they hold. These organisations have been listed below where transactions between them and the Council are considered material to either them or the Council. Contracts with these organisations were entered into in compliance with the Council's standing orders. Grants were made with proper consideration of declarations of interest.

Organisation	Members	Interest	Amount £000	Nature of transactions
Age Concern Harrow	Cllr Nana Asante Cllr Manji Kara Cllr Victor Silver	Trustee Trustee Trustee	178	Services provided under Service Level Agreement
Canons High School (Academy)	Cllr Zarina Khalid Cllr Stephen Wright	Governor Governor	130	Funding for Special Educational Needs
Harrow Association of Disabled People	Cllr Susan Hall Cllr Zarina Khalid Cllr William Stoodley	Trustee Trustee Trustee	343	Grant Services provided under Service Level Agreement
Harrow Equalities Centre	Cllr Susan Hall Cllr Asad Omar	Trustee Trustee	60	Grant
Harrow Heritage Trust	Cllr Marilyn Ashton Cllr Keith Ferry Cllr Janet Mote Cllr Navin Shah Cllr Simon Williams	Trustee Trustee Trustee Trustee Trustee	6	Materials
Welldon Activity Group	Cllr Sue Anderson Cllr John Nickolay	Trustee Trustee	46	Grant

West London Waste Authority

West London Waste Authority (WLWA) is responsible for disposing of the waste collected by the London Boroughs of Harrow, Brent, Ealing, Hillingdon, Hounslow and Richmond upon Thames. Each Council has one representative on the Board of WLWA. The representative for Harrow is Cllr Phillip O'Dell. In addition a senior officer (Divisional Director – Finance & Procurement) held the position of Treasurer at WLWA prior to leaving on 16/01/2013.

The Council makes payments to WLWA for waste disposal. The Council provides accounting services for WLWA in return for a management fee. The value of the fee received in 2012-13 was £182k (£142k in 2011-12).

2011-12 £000		2012-13 £000
5,918	Payments to WLWA	**6,768**
7,710	Cash Balances Invested With the Council as at 31 March 2013	**4,400**
3,049	Long Term Lending to WLWA	**2,927**

London Borough of Harrow Pension Fund

The Council is the Administering Authority for the Pension Fund.

2011-12 £000		2012-13 £000
15,563	Employers Pension Contributions to the Fund	**15,161**
-676	Administration expenses paid by the Fund	**-682**
572	Cash Due to the Fund	**3,778**

5.38 Trust Funds

The Council acts as a custodian for four trust funds and administers one trust fund.

The nature and amount of these funds has been summarised and included below. These funds do not represent funds of Harrow Council and are therefore not included in the Council's Balance Sheet.

2011-12 Income £000	2011-12 Expenditure £000	2011-12 Balance £000	**2012-13**	2012-13 Income £000	2012-13 Expenditure £000	2012-13 Balance £000
0	0	83	**Harrow Recreation Ground Trust** Harrow Recreation Ground provide building facilities and open space for sport and recreation for the benefit of General Public	1	0	84
1	5	52	**Middlesex Guildhall Collection Trust** The main objects of the trust is to preserve and display the Middlesex Collection in public locations as permitted by the deed.	1	5	48
0	0	25	**Pinner War Memorial Park Trust** The Pinner War Memorial Park was donated to the Council on trust in 1949 to hold as public open recreation space in memory of the fallen of two world wars.	0	0	25
0	0	19	**Harrow Weald Common Conservators** Harrow Weald Common Conservators was established by Act of Parliament in 1899 to conserve and maintain Harrow Weald Common	0	0	19
1	**5**	179	**Total**	**2**	**5**	176

2011-12 Capital Value of Fund £000	Other Third party Funds - Administrators	2012-13 Capital Value of Fund £000
7,566	**Edward Harvist Trust** The Edward Harvist Charity dates back to 1610.The Charities investment is held in a permanent endowed fund.The income from the Investment is distributed to five Boroughs who then make grants to appropriate organisations and individuals for the public benefit to improve the lives of the said inhabitants.	7,576
7,566	Total	7,576

5.39 Termination benefits

Exit Payments

The number of exit payments and the total cost per band and the total cost of the compulsory and other redundancies is set out in the table below:

Exit Payments cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of Exit Payments by cost band		Total cost of Exit Payments in each band	
	2012-13	2011-12	**2012-13**	2011-12	**2012-13**	2011-12	**2012-13**	2011-12
							£000	£000
£0 - £20,000	**2**	16	**0**	90	**2**	106	**16**	879
£20,001 - £40,000	**5**	6	**0**	27	**5**	33	**156**	938
£40,001 - £60,000	**8**	3	**0**	4	**8**	7	**371**	318
£60,001 - £80,000	**5**	2	**0**	3	**5**	5	**347**	365
£80,001 - £100,000	**4**	0	**0**	0	**4**	0	**358**	0
£100,001 - £150,000	**3**	0	**0**	0	**3**	0	**413**	0
Total	**27**	27	**0**	124	**27**	151	**1661**	2500

'Other departures agreed' in the above table are under the Council's Voluntary Severance Scheme (VSS).

The net value of termination benefits charged to the Cost of Services in the Comprehensive Income and Expenditure Statement is as follows:

	2012-13	2011-12
	£000	£000
Exit Payment liabilities		
Liability for designated posts	**1,661**	2,500
Less: exit payments provided for in previous years	**0**	-579
Liability w here posts not yet identified	**757**	1,840
Included in Cost of Services (note 5.21)	**2,418**	3,761

The charge includes a £757,000 provision for the estimated cost of redundancy where the number of posts to be abolished and the date on which they will be abolished is known but, for which a decision on the actual posts to be abolished has not yet been made. This cost is not included in the bands and therefore an additional line has been added to reconcile the note to the total cost of redundancy payments reported in the Comprehensive Income and Expenditure Account.

5.40 Defined benefit pension schemes

Participation in pension scheme

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

The Council participates in the Local Government Pension Scheme (LGPS). This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to ensure that sufficient funds are held to ensure that pension liabilities are paid when they are due.

There have been no changes in the scheme during the year.

Transactions relating to retirement benefits

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

Cumulative actuarial losses of £278.030m have been recognised in the Movement in Reserves Statement for 2012-13 (£232.278m in 2011-12). Expected employer contributions for 2013-14 are £15.317m, excluding any contributions in respect of unfunded benefits. The movement in reserves in respect of retirement benefits is summarised in note 5.25.4.

2011-12 £000		2012-13 £000
	Cost of Services:	
14,902	• current service cost	**15,300**
0	• past service costs	**127**
-6,967	• settlements and curtailments	**263**
	Financing and Investment Income and Expenditure	
34,872	• interest cost	**33,525**
-29,525	• expected return on scheme assets	**-24,043**
13,282	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**25,172**
	Other Post Employment Benefit Charged to the CIES	
-62,879	• actuarial losses(gains)	**45,752**
-49,597	Total Post Employment Benefit Charged to the CIES	**70,924**
18,380	Actual amount charged to the General Fund balance in the year	**18,080**

Reconciliation of present value of the scheme liabilities

2011-12 £000		2012-13 £000
644,631	Opening balance at 1 April	**702,045**
14,902	Current service cost	**15,300**
34,872	Interest cost	**33,525**
5,480	Contributions by scheme participants	**5,228**
39,920	Actuarial losses	**78,533**
-26,144	Benefits paid	**-28,197**
-12,199	Liabilities extinguished on settlement	**0**
0	Past service costs gains	**127**
583	Losses on curtailments	**263**
702,045	Closing balance at 31 March	**806,824**

Reconciliation of fair value of the scheme (plan) assets

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £56.824m (2011-12: £6.663m).

2011-12 £000		2012-13 £000
432,124	Opening balance at 1 April	**431,758**
29,525	Expected rate of return	**24,043**
-22,959	Actuarial losses/(gains)	**32,781**
-4,649	Assets distributed on settlement	**0**
18,380	Employer contributions	**18,080**
5,480	Contributions by scheme participants	**5,228**
-26,143	Benefits paid	**-28,197**
431,758	Closing balance at 31 March	**483,693**

Scheme history

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall deficit of scheme assets of £323.123m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy. The deficit on the local government scheme will be made good by a contribution of investment returns in excess of the assumed discount rate and by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

	2012-13	2011-12	2010-11	2009-10	2008-09
	£000	£000	£000	£000	£000
Present value of liabilities	**-806,824**	-702,045	-644,631	-775,538	-490,024
Fair value of assets	**483,693**	431,758	432,124	429,100	300,448
Net deficit in the scheme	**-323,131**	-270,287	-212,507	-346,438	-189,576

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Scheme liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The Government has announced agreement between unions and employers for a new benefit and contribution structure to be implemented from 1 April 2014. As accrued liabilities are protected, the values of liabilities and assets are unaffected.

The principal assumptions used by the actuary have been:

2011-12		**2012-13**
	Long-term expected rate of return on assets in the scheme:	
6.2%	Equity investments	**4.5%**
3.3%	Bonds	**4.5%**
4.4%	Property	**4.5%**
3.5%	Cash	**4.5%**
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
21.6	Men	**21.6**
23.6	Women	**23.6**
	Longevity at 65 for future pensioners:	
23.6	Men	**23.6**
25.9	Women	**25.9**
	Financial assumptions:	
4.3%	Rate of increase in salaries	**4.6%**
2.5%	Rate of increase in pensions (CPI)	**2.8%**
4.8%	Rate for discounting scheme liabilities	**4.5%**
	Take-up of option to convert annual pension into retirement lump sum:	
50.0%	- Pre April 2008 Service	**50.0%**
75.0%	- Post April 2008 Service	**75.0%**

Scheme Assets

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

31-Mar-12 %		31-Mar-13 %
74%	Equity investments	**75%**
13%	Bonds	**13%**
9%	Property	**8%**
4%	Other assets	**4%**
100%		**100%**

History of experience gains and losses

	2012-13 %	2011-12 %	2010-11 %	2009-10 %	2008-09 %
Differences between the expected and actual return on assets	**6.78**	-5.32	-5.61	24.72	-39.44
Experience gains and (losses) on liabilities	**0.03**	-1.41	4.03	-0.16	-0.34

5.41 Teachers' Pension

The Teachers' Pension Agency (TPA) provides retirement benefits for teachers on behalf of the Department for Education and Skills. Benefits are payable by the TPA on an unfunded basis and any liability is ultimately the responsibility of the Department for Education and Skills.

The assets and liabilities for the Teachers' Scheme cannot be identified at individual employer level and for the purposes of Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012-13 the Council paid £6.240m (£7.343m in 2011-12) to the Teachers' Pension Agency in respect of Employers Contributions on teachers pension costs. The current contribution rate remains unchanged at 14.10% which was effective from 1 January 2007.

In addition, the Council is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2012-13 these amounted to £0.725m (£0.710m in 2011-12) representing 1.68% of pensionable pay.

5.42 Post Balance Sheet Date Events

Joint Public Health Service

From 1 April 2013 responsibility for providing the public health function transferred from the NHS to local government. Harrow Council, in partnership with Barnet Council, will be providing a joint service which will be hosted by Harrow Council.

Harrow Council's share of income and expenditure relating to the joint service will be reported in the Consolidated Income and Expenditure Account from 2013-14 and onwards. Harrow Council's budgeted share of the service for 2013-14 is £9,526k. The Department of Health will fund £8,874k of this expenditure with a ring-fenced grant.

5.43 Financial instruments

The following categories of financial instrument are carried in the Balance Sheet at amortised costs:

	Long-term 31-Mar-13 £000	Long-term 31-Mar-12 £000	Current 31-Mar-13 £000	Current 31-Mar-12 £000
Investments				
Loans and receivables	**25,000**	18,000	**61,308**	58,701
Cash and cash equivalents		0	**18,422**	13,647
Total investments	**25,000**	18,000	**79,730**	72,348
Debtors				
Loans and receivables	**3,237**	3,394	**0**	0
Financial assets carried at contract amounts	**0**	0	**9,424**	13,644
Total Debtors	**3,237**	3,394	**9,424**	13,644
Borrowings				
Financial liabilities at amortised cost	**-340,294**	-350,359	**-21,869**	-14,038
Total borrowings	**-340,294**	-350,359	**-21,869**	-14,038
Other Long Term Liabilities				
PFI and finance lease liabilities	**-21,878**	-23,624	**-2,083**	-1,819
Total other long term liabilities	**-21,878**	-23,624	**-2,083**	-1,819
Creditors				
Financial liabilities carried at contract amount	**0**	0	**-42,098**	-42,097
Total creditors	**0**	0	**-42,098**	-42,097

The balances of debtors and creditors disclosed in the above note differ from the balance sheet because they include only balances that relate to contractual arrangements, excluding balances that relate to statutory functions. The balance of short term debtors excludes £10.69m (£6.90m in 2011-12). The creditors balance excludes £26.11m (£22.39m in 2011-12).

Income, Expense, Gains and Losses

Gains and losses on financial instruments balances during the year are as follows:

	31-Mar-13 £000	31-Mar-12 £000
Interest receivable on investments	**-1,921**	-1,409
Interest payable on borrowings	**14,903**	11,932
Interest payable on other long term liabilities	**2,113**	2,048
Impairment losses on debtors	**784**	1,776

Fair Value of Assets and Liabilities

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows. This provides an estimate of the current market value of the instrument. The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation, for a similar instrument with the same duration.

NPV calculations have been made using the following assumptions:

- For PWLB debt, the rate used is either the new borrowing rate or the premature repayment rate as the discount factor;
- Accrued interest has been included in the fair value calculations;
- For other market debt and investments the rate used was obtained from the market on 31st March using bid price where applicable;
- No early repayment or impairment is recognised; and
- The fair value of trade and other receivables is taken to be the carrying value or invoiced or billed amount.

The comparison of carrying value with fair value where there is material difference is given below:

	31-Mar-13		31-Mar-12	
	Carrying Amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities	**-350,261**	**-360,299**	-350,359	-344,187
Financial Assets	**103,230**	**105,592**	89,325	90,604

The above table includes both long and short term investments and borrowing.

Nature and extent of risks arising from financial instruments

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

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices. A Treasury Management and Investment Strategy for 2012-13 has been approved by the Council.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they are rated independently with a minimum score of AAA sovereign rating, AA- long term rating, F1+ short term rating, support rating level 2 and individual rating B, with limits set for each borrower based on the rating score. Investments are diversified across institutions to ensure an even spread of risk throughout the counterparty list. Information relating to the counterparties is constantly monitored and action taken should any institution fail to meet the minimum criteria.

The table below shows a summary of institutions with which the Council has deposits:

	Amount at 31-Mar-13	Historical experience of default	Historical experience adjusted for market conditions at 31-Mar-13	Estimated maximum exposure to default and uncollectability 31-Mar-13
	£000	%	%	£000
UK Banks	**98,070**	0.00	0.09	**89**
Overseas Banks	**146**	0.00	0.00	**0**
UK Building Societies	**5,000**	0.00	0.06	**3**
UK Money Market Funds	**14**	0.00	0.00	**0**
Customers	**6,691**	2.99%	33.18%	**2,209**
Total	**109,921**			**2,301**

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

The Council does not allow credit for customers. The financial instruments short term debtors balance is analysed by age as follows:

Amount at 31-Mar-12		Amount at 31-Mar-13
£000		£000
4,804	Less than three months	**3,240**
703	Three to six months	**586**
1,752	Six months to one year	**676**
3,903	More than one year	**2,189**
11,162	**Total Debtors**	**6,691**

Liquidity risk

As the Council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates.

Please refer to the 'Leases', 'Private Finance Initiatives and Similar Contracts' and 'Long term borrowing' notes for the maturity analysis of financial liabilities.

Market Risk – Interest Rate Risk

The Council is exposed to interest rate risk in two different ways; the first being the uncertainty of interest paid/received on variable rate instruments and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Council is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account;
- The fair value of fixed rate financial asset will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value; and
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk. The Council's policy is to borrow when rates are favourable and to keep a maximum of 50% of its borrowings in variable rate loans. However, at present the Council does not hold any variable rate loans. The fixed rate debt portfolio includes a total of £83.80m (£83.80m in 2011-12) held in the form of Lenders Option Borrowers Option (LOBOs) loans, at favourable rates (approximately 23% of the total debt portfolio). Following the initial fixed term, the lender has the option to reset interest rates and Harrow is then able to repay at no cost. These LOBO loan structures entail exposure to re finance at potentially high interest costs.

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

The Council had a weighted average balance of loans during 2012-13 of £350.3m (£262.5m on 2011-12). A movement of 1% in the rate payable would not have exposed the Council to any additional interest cost as the Council does not currently hold any variable rate loans.

The Council had an average balance of investments for 2012-13 of £117m (£117.4m in 2011-12). With the base rate currently fixed at 0.5%, the risk of exposure from a downwards move is minimised. A positive movement of 1% in rates received on average investment balances would generate additional investment income of £1.2m, although only two thirds of this would benefit the General Fund.

5.44 Heritage Assets

Heritage assets are defined as tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

The Council's heritage assets are not included on the balance sheet. For these assets it is either not practical to obtain a valuation, historical cost information is not available, or the value of the assets is insignificant.

Scheduled Ancient Monuments

Scheduled ancient monuments are those features or sites afforded statutory protection in law. These monuments are recognised as having national importance and are therefore safeguarded for their intrinsic value for the benefit of current and future generations. Any work that might affect a scheduled ancient monument requires consent, for which English Heritage is the administering authority. The most significant of the scheduled ancient monuments in Harrow Council's area is Headstone Manor site which contains a number of listed buildings. The scheduled ancient monuments are:

1. Headstone Manor Moated Site and Listed Buildings

The moat is complete and water filled, varying in width between 7m and 14m. It is believed to date from the 14th Century, constructed as a status symbol to reflect the status and wealth of Headstone Manor's owners. Headstone Manor was built circa 1310 and altered/added to in the 17th and 18th Centuries. It is the earliest surviving timber framed building in Middlesex. The Tithe Barn dates from 1506 and the Small Barn has 14th century foundations.

Building	Listing
Headstone Manor - Manor House	Grade I
Headstone Manor - The Tithe Barn, The Granary and The Small Barn	Grade II

2. Grim's Dyke Earthwork: a linear bank and ditch which had formed a continuous earthwork from the Harrow Weald Ridge, within the grounds of the Grim's Dyke Hotel, to Cuckoo Hill (and possibly beyond). There are three sections that are have scheduled ancient monument status and it is the sections in the Grim's Dyke hotel and the Montesole Recreation ground which are on Council Property.

3. Pinner Hill Ice House: believed to date from the mid 19th Century and formed one of the many estate buildings commissioned by Arthur William Tooke, owner of Pinner Hill House from 1844 to 1871. It represents one of only two well preserved surviving ice houses in the Greater London area.

4. Pear Wood Earthwork: This earthwork is a linear bank and ditch, similar to Grim's Dyke, located within Pear Wood at Stanmore.

5. Pinner Deer Park: In the 13th Century the area was in the Manor of Harrow, owned by the Archbishop of Canterbury. The boundary of the old deer park is largely reflected in the boundary of the farmland at Pinner Park Farm which exists today, and represents a rare survival of ancient landscape in Greater London.

Civic Insignia

The Council owns items of Civic Insignia. There is a formal policy for the safe keeping and security of these items. The items include the Mayor's Chain and Pendant, Mayoress Chain and Pendant, Deputy Mayor Pendant, Deputy Mayoress Pendant, Past Mayor's Pendant, 9ct gold pendant, Honorary Freeman Pendant, rose bowl, silver casket, silver spitfire model, mace, candelabra and bowl stand.

The items can be viewed by appointment through the Mayor's Office.

War Memorials

There are a number of war memorials situated within Harrow borough. The Imperial War Museum publishes a full list of all memorials on its website. The following memorials are the responsibility of Harrow Council:

Memorial	Location
Burma Star Association	Civic Centre
Hamilton And Co Limited Roll Of Honour (Reprint)	Civic Centre
Harrow Peace Memorial (El Alamein Stone)	Civic Centre
Kodak Mural	Civic Centre
Holocaust Memorial	Civic Centre
Royal Commercial Travellers Schools Plaque - WW1	Elliott Hall Arts Centre
Royal Commercial Travellers School Honour Board	Elliott Hall Arts Centre
Theodore Bayley Hardy VC	Elliott Hall Arts Centre
Royal Commercial Travellers Schools Window	Elliott Hall Arts Centre
Pinner Books Of Remembrance	West House
Civilian War Dead Of Harrow - Memorial Garden	Harrow Weald Cemetery
Harrow Weald Street Shrine - WW1	Harrow Weald

5.45 Prior Period Adjustment

In 2006-07 the Council corrected the useful economic lives given to some infrastructure assets initially acquired in 1994. Prior to this correction, these assets were given useful economic lives of 40 years rather than 20 years as required by the Council's accounting policy. Depreciation expense was therefore understated each year from acquisition until 2006-07. An adjustment should have been made at the time, reducing the book value of these infrastructure assets for the cumulative impact of understated depreciation. This adjustment was not however done in 2006-07 resulting in a materially incorrect net book value being carried forward.

Depreciation has been charged on these assets at the correct rate from 2006-07 onwards. A prior period adjustment of £12.825m has been made to opening balances of property, plant and equipment and capital adjustment account in the accounts to reduce the net book value of the assets to £2.2m, correcting the error made in 2006-07.

The effects of the restatement on the Council's opening balance sheet are as follows:

	Opening balances as at 01-April-11 £000	Correction required to opening balances £000	Restated opening balances 01-April-11 £000	Restated opening balances 31-Mar-12 £000
Property, Plant and Equipment	885,739	-12,825	872,914	747,057
Long Term Assets	931,024	-12,825	918,199	792,840
Net Assets	431,224	-12,825	418,399	144,103
Unusable Reserves	-388,217	12,825	-375,392	-97,469
Total Reserves	**-431,224**	**12,825**	**-418,399**	**-144,103**

6 Housing Revenue Account

6.1 Housing Revenue Account (HRA)

The account is maintained in accordance with the provisions of the Local Government and Housing Act 1989 to show all the transactions relating to the provision, maintenance and management of the Council's housing stock.

2011-12 £000		Note	2012-13 £000	£000
	Expenditure			
6,778	Repairs and maintenance		**7,203**	
7,649	Supervision and mangement		**7,375**	
170	Rents, rates, taxes and other charges		**179**	
7,258	Negative HRA Subsidy payable	6.2.3	**0**	
4,173	Depreciation of non current assets	6.2.5	**6,629**	
1,503	Impairment of non current assets		**490**	
-27	Reversal of past impairment losses	5.10.3	**-11,213**	
24	Debt management costs		**34**	
65	Movement in the allow ance for bad debts		**147**	
88,461	Sums directed by the Secretary of State that expenditure in accordance w ith the Code		**0**	
116,054	**Total Expenditure**			**10,844**
	Income			
-24,552	Dw elling rents (gross)	6.2.1	**-26,150**	
-659	Non-dw elling rents (gross)	6.2.2	**-596**	
-1,510	Charges for services and facilities		**-1,547**	
-914	Contributions tow ards expenditure		**-862**	
-27,635	**Total Income**			**-29,155**
88,419	**Net cost of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement**			**-18,311**
194	HRA's share of Corporate and Democratic Core			**389**
88,613	**Net cost of HRA Services**			**-17,922**
	HRA share of operating income & expenditure included in the Whole Authority Comprehensive Income & Expenditure Statement			
0	(Gain) on sale of HRA Fixed Assets			**-965**
0	Pooling payments in respect of Right to Buy disposals			**562**
2,357	Interest payable and similar charges			**6,433**
-84	Interest & investment income			**-101**
-32	Capital grants & contributions receivable			**-441**
90,854	**(Surplus) Deficit for the year on HRA services**			**-12,434**

Statement of Movement on the HRA Balance

2011-12 £000		Note	2012-13 £000
-3,780	**Balance on HRA at end of the previous year**		**-2,791**
90,854	(Surplus) Deficit for the year on the HRA Income & Expenditure Statement		**-12,434**
49	Adjustment betw een accounting basis and funding basis under regulations	6.2.11	**932**
90,903	Net increase or decrease before transfers to(/from) reserves		**-11,502**
-89,914	Transfer to/(from) reserves	6.2.11	**11,118**
989	**(Increase) Decrease in year on the HRA**		**-384**
-2,791	**Balance on HRA at end of the current year**		**-3,175**

6.2 Notes to the Housing Revenue Account

Dwelling Rents Income

This is the total income due for the year after allowance is made for voids etc. At year end 0.69% of lettable properties were vacant (2011-12 0.70%). The average depooled rents were £102.14 per week in 2012-13 (£95.57 in 2011-12). There was an average rent increase of 6.87% over the previous year. The average increase, after taking into account service charges, was 6.84%.

Non-dwelling Rents

This includes garages. At the year-end 55.28% of garages were vacant compared with 50.68% in 2011-12.

HRA Subsidy

This represents the amount of negative subsidy payable to the Government by the Council in 2011-12. The Council is no longer required to make this payment as the national HRA subsidy system was replaced by HRA self financing from 1 April 2012. Refer also to note 6.2.4.

Sums directed by Secretary of State that are expenditure in accordance with Code

The Government has dismantled the HRA Subsidy framework in favour of a system of Self Financing effective from 1 April 2012. As a result the Council was required to make a one off payment, the Self Financing Settlement, of £88.461m to the Secretary of State in 2011-12. This amount was disclosed in the Income & Expenditure account and reversed through the Statement of Movement on HRA Balances. This has been financed through PWLB borrowing.

Depreciation

	Land £000	Dwellings £000	Garages & Halls £000	Shops £000	Non operational assets £000	**Total 2012-13 £000**
Net book value as at 1 April 2012	91,355	171,577	12,514	3,931	64	**279,441**
Additions	0	7,562	0	0	0	**7,562**
Revaluations and restatements	1,848	9,534	152	-628	5	**10,911**
Value at 31 March 2013	**93,203**	**188,673**	**12,666**	**3,303**	**69**	**297,914**
Disposals	-233	-433	0	0	0	**-666**
Gross book value as at 31 March 2013	**92,970**	**188,240**	**12,666**	**3,303**	**69**	**297,248**
Depreciation for year	0	-6,607	0	-22	0	**-6,629**
Net book value as at 31 March 2013	**92,970**	**181,633**	**12,666**	**3,281**	**69**	**290,619**

The valuation of HRA fixed assets has been prepared on the basis of Existing Use Value and calculated in accordance with the RICS Valuation – Professional Standards dated March 2012 but subject to amendment in accordance with the Department of Communities and Local Government (DCLG) Guidance for Stock Valuation for Resource Accounting 2010 (published January 2011).

The HRA portfolio has been revalued in line with the 5 year rolling programme of valuations as set out in the Accounting Policies and Revaluations note 5.10.2.

A vacant possession valuation for dwellings at 1 April 2012 would have been £986.269m (£966.715m at 1 April 2011), therefore recognising the economic cost to the Government of providing Council housing at less than open market value of £739.732m (2011-12 £725.066m).

Depreciation has been charged on a straight line basis over the useful life of the property. Material components are depreciated separately. Please refer to the Accounting Policies for details.

Charges for impairment of HRA assets were £0.490m (2011-12 £1.503m). There was no amortisation of revenue expenditure funded from capital resources (formerly referred to as deferred charges) during the financial year. No non-operational land his held within the HRA.

Major Repairs Reserve

As from 1 April 2001 councils are required to establish and maintain a Major Repairs Reserve. The main credit to the reserve is an amount equal to the total depreciation charge for HRA Assets.

	Balance 01-Apr-12 £000	Transfer to Reserve £000	Capital Expenditure £000	**Balance 31-Mar-13 £000**
Movements	-4,148	-6,629	7,393	**-3,384**

Capital Expenditure and Funding Statement

2011-12 £000		2012-13 £000
	HRA Capital Expenditure	
6,094	Dwellings	**7,563**
6,094	**Total**	**7,563**
	Financed by:	
0	Major Repairs Reserve	**7,393**
13	Capital receipts - Right to Buy & Affordable Housing	**102**
125	Grant - extensions and conversions	**68**
5,956	Borrowing	**0**
6,094	**Total**	**7,563**

Capital Receipts

Under the Local Government and Housing Act 1989 a percentage of income from the disposal of HRA assets must be set aside. This ‘reserved’ element can be used to either repay debt or as a provision to meet future credit liabilities.

2011-12 £000		2012-13 £000
0	**Balance at 1 April**	**0**
	Receipts in year:	
28	Houses, Mortgage Redemptions & other	**1,646**
-15	Paid to DCLG Pool	**-562**
-13	Applied in the year	**-500**
0	**Balance at 31 March**	**584**

Pensions (IAS 19)

The Council considers it to be proper accounting practice to allow the HRA to be charged with an attributable share of current and past service costs. To ensure there is no net effect on the HRA both entries are reversed out and replaced by employers' contributions payable via an appropriation to the Pension Reserve after net operating expenditure.

Note 5.40 provides further details.

Housing Revenue Account Statistics

2011-12 Total	Housing Stock	Houses	Flats	Bungalows	2012-13 Total
105	4 or more bedrooms	102	1	1	**104**
1,393	3 bedrooms	1,293	95	1	**1,389**
1,467	2 bedrooms	557	878	26	**1,461**
2,000	1 bedroom	0	1,861	136	**1,997**
4,965	LBH managed stock as at 1 April				**4,951**
957	Garages				**958**
	Summary of change in stock				
4,966	Stock as at 1 April				**4,965**
	Less				
0	Sales				**-14**
0	Stock transfers				**0**
-1	Conversions				**0**
4,965	**Total HRA stock at 31 March**				**4,951**
	Measures of performance & information for dosclosure notes to HRA				
£50.59	Average weekly costs per dwelling of management and maintenance				**£52.72**
£1.223	Rent arrears (current and former tenants)				**£0.989**
99.03%	Rent collection rate (BVPI 66a)				**98.39%**
1.55%	Current tenant arrears as percentage of the authorities rent roll (whether dwellings				**0.50%**
0.43%	Rent loss through voids				**0.73%**
£0.166m	Write offs in year				**£0.095m**
£0.638	Provision for bad debts				**£0.757m**

Statement of Movement on the HRA Balance

2011-12 £000		2012-13 £000
	Adjustment between accounting basis and funding basis under regulations	
38	Difference between amortisation of premiums & discounts determined in accordance with the Code and those determined in accordance with statute	-33
	Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	
11	Accumulated Compensated Absences Adjustment	0
0	Gain / (loss) on sale of HRA fixed assets	965
49		932
	Transfer to / (from) earmarked reserves	
	HRA share of contributions to/from Pensions reserve :	
-388	Net charges made for retirement benefits in accordance with IAS19	-456
405	Employer's contributions payable in the year	456
-88,461	**Sums directed by the Secretary of State to be credited to the HRA that are not expenditure in accordance with the Code**	0
	Transfer to / (from) the Capital Adjustment Account	
-1,476	Impairment	11,213
32	Capital expenditure funded by Grants	60
25	Voluntary set aside	27
-26	Finance Lease Depreciation	-26
-4,173	Depreciation transfer	-6,629
4,148	Transfer to / (from) the Major Repairs Reserve	6,629
	Transfers to/from Capital Reserves	
0	Pooling payments to DCLG financed through capital reserves	-562
0	Other	406
-89,914		11,118
-89,865		12,050

THIS PAGE IS LEFT BLANK INTENTIONALLY

7 Collection Fund

This account reflects the statutory requirements for the London Borough of Harrow, as the billing Authority, to maintain a separate Collection Fund. The Fund shows the transactions in relation to the Council Tax and Non-Domestic Rates, and sets out the way in which these have been distributed to the General Fund and the Greater London Authority (the preceptor). The council tax is the means of raising income from local residents to pay for council services.

Statement of Income and Expenditure

2011-12 £000		Notes	2012-13 £000
	Income		
-112,917	Income from Council Tax		-113,626
-20,123	Council Tax Benefits (transfer from General Fund)		-20,140
-47,092	Income Collectable from Business Ratepayers		-47,797
-1,219	Income Collectable from Business Ratepayers - BRS		-1,220
-181,351	**Total Income**		-182,783
	Expenditure		
	Precepts and demands		
103,405	Local Demand (Harrow)		104,583
27,000	Greater London Authority		27,034
	Business Rates		
46,836	Payment to the National Pool		47,543
1,210	Payment to the GLA - BRS (Crossrail)		1,212
256	Costs of Collection - NNDR		254
9	Costs of Collection - BRS		8
	Contributions		
2,494	Towards previous year's Collection Fund surplus		1,684
	Bad and Doubtful Debts		
737	Council Tax Write Offs		1,361
450	Council Tax Provisions		-292
182,397	**Total Expenditure**		183,387
1,046	Movement on Fund balance: Surplus(-)/Deficit for the year		604
-2,774	Surplus(-) brought forward		-1,728
-1,728	**Surplus(-) carried forward**		-1,124

7.1 Notes to the Collection Fund

Income from Council Tax

The Council tax is levied on domestic properties and the charge is based on the valuation band assessed for each dwelling. The council tax base, which is used in the tax calculations, is based on the number of dwellings in each band. This is adjusted for exemptions, discounts, disabled banding changes and appeals. The Council Tax, as shown, reflects both Harrow Council and GLA services:

2011-12 Property Numbers	2011-12 Council Tax		Valuation Bands	Band D Ratio	2012-13 Property Numbers	2012-13 Council Tax £
240	997.58	A =	Not exceeding £40,000	6/9	270	995.51
2,143	1,163.84	B =	£40,001 - £52,000	7/9	2,184	1,161.43
14,384	1,330.11	C =	£52,001 - £68,000	8/9	14,640	1,327.35
25,454	1,496.37	D =	£68,001 - £88,000	1	25,614	1,493.27
24,482	1,828.90	E =	£88,001 - £120,000	11/9	24,633	1,825.12
10,394	2,161.42	F =	£120,001 - £160,000	13/9	10,393	2,156.95
9,445	2,493.95	G =	£160,001 - £320,000	15/9	9,453	2,488.78
2,158	2,992.74	H =	£320,001 +	18/9	2,161	2,986.54
88,700			**Total**		89,348	
-1,552			Adjustment for non-collection		-1,208	
87,148			**Council tax base**		88,140	

National Non-Domestic Rates

Under the arrangements for National Non-Domestic Rates (NNDR), the Council collects National Non-Domestic Rates (NNDR) for its area, which is based on local rateable values multiplied by a uniform business rate. The total amount, less certain relief's and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government, which in turn pays back to authorities their share of the pool, based on a standard amount per head of the local adult population.

The total non-domestic rateable value for the London Borough of Harrow at the year-end was £129.99m (£128.58m in 2011-12) and the national non-domestic rate multiplier for 2012-13 was 0.458 (0.433 in 2011-12).

Business Rate Supplement - Crossrail

In April 2010, the Mayor introduced a levy of 2p on non-domestic properties with a rateable value of over £55,000 in London to help fund the Crossrail project. Powers were granted to the GLA to introduce this under the 2009 Business Rates Supplements Act.

8 Annual Governance Statement

8.1 1. Scope of Responsibility

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

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk i.e. it is responsible for ensuring a sound system of governance.

The Council has approved and adopted a Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government'.* The code has been taken into account in drafting our constitution and a copy can be obtained from Harrow Council, Civic Centre, Station Road, Harrow, Middlesex HA1 2XF or from our website at:

http://www.harrow.gov.uk/downloads/file/8017/part_5k-code_on_corporate_governance

The Code is reviewed and updated annually. This statement explains how the Council has complied with the code and the governance framework and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 in relation to the publication of this Annual Governance Statement.

8.2 The Purpose of the Governance Framework

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

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

The governance framework has been in place at Harrow Council for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

8.3 The Governance Framework

The key elements of Harrow's governance framework are set out in our Code of Corporate Governance. A brief description of them is contained in the following paragraphs.

The Council's Corporate Plan 2012/13 sets out the vision for the Council. The plan was underpinned by engagement with the community including (for example) in depth consultation about the future of adult social care services, engagement on the development of a master plan for the Heart of Harrow and a programme of "Lets Talk" events.

The Corporate Plan sets out the following four Corporate Priorities:

- Supporting and protecting people who are most in need,

- Keeping neighbourhoods clean, green and safe,
- United and involved communities, and
- Supporting our town centre, our local shopping centres and businesses

The vision and priorities are reviewed annually. In addition a further fifteen outcomes have been agreed as part of the Corporate Priorities for 2013/14 which build on these priorities as detailed in the Corporate Plan 2013-2015 and agreed in February 2013.

Harrow Council works in partnership with many different organisations to deliver the best outcomes for our community. The constitution for the Harrow Strategic Partnership identifies the role of the partnership as a conduit for change to improve the social, economic, environmental, health, education, and community safety needs of the communities of Harrow. The Partnership priorities are reviewed regularly and currently include.

- Public Service Integration and Joint Service Delivery;
- Building Community Capacity;
- Health; and
- Worklessness/Welfare.

The Council has adopted a Commissioning Model which places emphasis on monitoring and evaluating the quality of the service provided (the “review” stage of the cycle) and on gathering the views of service users in the “understand” phase of the cycle.

Directorates set out their evidence through Commissioning Panels (October 2011 for 2012/13) the output of which was published as part of the budget cycle. The Commissioning Panel Guidance asks how community engagement/customer research helped shape the proposals being put forward.

The authority strives to deliver best value for money to its residents by improving performance and minimising costs. A wide range of value for money (vfm) benchmarking information is used within the authority and work is undertaken with each directorate on cost and performance benchmarking as part of the planning and improvement cycle. This enables each directorate to understand where costs are high and feeds into service plans. Understanding of vfm strengths and weaknesses has been fundamental in Harrow’s efficiency drive and its transformation programme. Each directorate is required to identify efficiencies and value for money improvements as part of their commissioning plans, agreed through the Commissioning Panels.

Allocation of Responsibilities of the Executive and the individual members are set out in the Council’s Constitution. Minutes of all decisions made by the Executive and individual Executive members are available on the intranet and internet and records are maintained by Legal & Governance Services. The Council’s Constitution includes details of Director responsibility, committee terms of reference and details of the statutory obligations (Chief Executive, Corporate Directors of Children’s, Adult Social Services, Corporate Finance and Director of Legal and Governance Services).

Delegations are reviewed and approved annually. Matters specifically reserved for council and cabinet are reviewed and updated in accordance with legislation when issued. Delegations were last reviewed and approved by the Council on 23 May 2013.

A scrutiny function is in place which comprises an overview and scrutiny committee, a performance and finance sub committee, a health and social care sub committee and lead scrutiny councillors for:

- Health;
- Community, Health and Wellbeing;
- Children and Families;

- Environment and Enterprise; and
- Corporate Resources.

The function is driven by the need to hold the council and our partners to account both for their policy direction and performance and the establishment of the performance and finance sub committee is a key component in ensuring that the function is focused on the issues of the greatest importance to the council. The lead members ensure that expertise to tackle particular areas of service delivery is maintained, and fed into the work programme of the committees.

Standards of behaviour for members and staff are defined in their respective Codes of Conduct which are available on the intranet and used as a basis for training. Additionally the Council have established Standards Committee web pages which provide greater detail to the public on Member conduct generally.

The Council has a duty to manage its risks effectively and this is achieved through a consistent corporate process in a hierarchical series of risk registers. The Council's Risk Management Strategy identifies and allocates risk management roles and responsibilities of council members, officers and partners. The strategy was last updated in October 2011 and will be reviewed and updated during 2013/14. The Corporate risk register is reviewed by the Corporate Strategy Board on a quarterly basis. All Directorates have risk registers and these are reviewed by Directorate Management Teams regularly and the Improvement Boards quarterly. In 2011/12 a risk appetite statement was developed and approved by the Executive in accordance with best practice and this was updated in 2012/13. The statement outlines the nature and the extent of the significant risks the Council is willing to take to achieve its corporate priorities and is the means by which the Council seeks to ensure that these risks are properly and fully disclosed to Council stakeholders.

A Corporate Anti-fraud Policy and Corruption Strategy is maintained by the Council's Corporate Anti-fraud team.

The role of the Chief Financial Officer (CFO) was filled by an interim member of staff during the majority of the 2012/13 financial year and filled on a permanent basis in March 2013. However throughout this period the authority's financial management arrangements have conformed with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The CFO reports operationally to the Corporate Director of Resources and has direct access to the Chief Executive. The authority's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit. The Head of Internal Audit is a middle manager with extensive internal audit experience who has regular and open engagement with the Leadership Team and the Audit Committee.

The role of the Statutory Monitoring Officer is to report on likely contravention of any enactment or rule of law and the Statutory Monitoring Officer provisions are contained in Part 3 of the Constitution. Effective arrangements are in place to discharge the monitoring officer function via the Director of Legal and Governance Services. Similarly the arrangements for the discharge of the Head of Paid Service is covered in the constitution and this role is fulfilled by the Chief Executive.

The Governance, Audit and Risk Management (GARM) Committee undertake the core functions of an audit committee as identified in CIPFA's Guidance *Audit Committees – Practical Guidance for Local Authorities.* Its terms of reference encompass the review and monitoring role of a range of risk related services, including monitoring performance on corporate governance generally. The GARM Committee is independent of the executive and scrutiny functions.

A whistleblowing policy exists and was last reviewed in July 2011. It is accessible on the intranet, covered in the Staff Handbook and referenced in the staff induction checklist. A complaints procedure is also in place and is available on the Harrow Council website (How to make a complaint). A review of complaints, including the number and reason for complaints, the timescales for resolution and the actions taken as a result forms part of the quarterly directorate Improvement Board reports.

A Member Development Programme is in place that includes mandatory training on their statutory role. Access is available to all members via e-learning. During 2012-13 the Member Development Programme was assessed under the Member Charter Mark process and an improvement report completed as well as an evidence file of current programme achievements and feedback. This work is leading to improvements in the Member Development programme and in member induction. Directorate Learning and Development Plans for staff are produced annually and ensure the ‘golden thread’ between the Council’s vision and objectives, through to Service Planning and individual objectives for staff. For 2012/13 a new Corporate development programme was designed and began delivery with a new programme being rolled out quarterly. This has led to an improved attendance at corporate training events.

The Council’s Involvement Tracker seeks residents’ opinions on a wide range of service and community issues, the Council’s Residents’ Panel provides for structured engagement and Service User Groups are in place in some Directorates for example, Neighbourhood Champions and Park User Groups in Environment and Enterprise. Harrow’s Community Involvement Toolkit provides practical advice and guidance including how to engage “seldom heard” groups and a consultation portal is used to co-ordinate consultation activity across the Council. In 2013/14 the corporate responsibility for consultation has moved to the Council’s Communications team, which will enable a greater consistency on the approach and delivery of communications.

8.4 Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have the responsibility for the development and maintenance of the governance environment, assurance provided by managers via the annual Management Assurance process, the Corporate Governance Group, the Corporate Governance Working Group, the Internal Audit annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.

The effectiveness of the governance framework has been evaluated by:

- Undertaking an annual review of governance arrangements in place against the Council’s governance framework as reflected in the Code of Corporate Governance;
- Considering the Head of Internal Audit’s overall annual opinion on the adequacy and effectiveness of the authority’s control environment;
- Undertaking an annual management assurance exercise to obtain assurance on the operation of key controls in place to manage the authority’s highest corporate risks; and
- Review of the overall assessment and the draft Annual Governance Statement by the Corporate Governance Group, the Corporate Strategy Board and the Governance, Audit & Risk Management Committee.

The results of the key elements of the evaluation of effectiveness are summarised in the following paragraphs.

8.5 Annual Review of Governance

The process employed for the annual review of governance was reviewed against new CPIFA guidance ‘*delivering good governance in Local Government 2012 Edition (published in November 2012)* and revised accordingly.

The process involves demonstrating compliance with the principles of good governance through the identification of systems, processes and documentation that provides evidence of compliance with the authority’s governance framework. The process is undertaken by the Corporate Governance Working Group.

The aim of the governance review is to demonstrate that the authority's governance arrangements are adequate and working effectively in practice and, where gaps in governance are identified that will impact on the authority's achievement of its objectives, that appropriate action is taken to improve governance in the future. To this end an action plan has been agreed as part of the annual review process which will be monitored throughout the coming year by the Corporate Governance Group and the Governance, Audit & Risk Management Committee.

8.6 Head of Internal Audit's Opinion

Internal Audit provide assurance to the Council on internal control and risk mitigation through the delivery of an agreed audit plan and a series of follow-up reviews which culminates in the provision of an overall audit opinion on the Council's control environment annually. The overall opinion is formulated from elements agreed as part of the Internal Audit Strategy.

The overall audit opinion for the Council's control environment for 2012/13 was assessed as "good". The detailed report setting out the reasoning behind this assessment was considered by the Governance, Audit and Risk Management Committee (GARM) in July 2013.

8.7 Management Assurance

A management assurance process has been in place at the Council since 2005/06. During 2012/13 this process was reviewed by the Corporate Governance Group and realigned with the Corporate Risk Register. The new process collates assurance provided by senior managers on the key controls in place to manage the authority's most significant (red) risks contained in the Corporate Risk Register.

The 155 key controls identified to manage the 17 red corporate risks were assessed by managers and assurance provided on whether they were operating throughout the year and effective in either reducing or managing the risk. Evidence was provided to support the assurance given.

Assurance was provided that 141 (91%) of the identified key controls were operating, 42 (30%) of which were effective in reducing corporate risks and 99 (70%) were effective in managing the corporate risks. Of the 17 corporate risks in scope the risk rating of 6 improved during the year, 7 remained the same and 4 deteriorated.

A number of factors impacted on 4 risks that deteriorated during the year including staffing levels, the change in the political make-up of the Council and resident satisfaction levels. However there is not always a direct correlation between controls being in place and operating and an improvement in the level of risk as factors external to the Council, over which it has limited control, may also have an impact on the level of risk e.g. the economic environment; government policy; legislation.

8.8 Declaration (Part I)

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Corporate Governance Group and the Governance, Audit & Risk Management Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions are outlined below.

8.9 Significant Governance Issues

The review process for 2012/13 has identified 19 minor and 1 significant governance gaps of which 7 where carried forward from 2011/12.

A number of minor gaps identified relate to the need to review the following existing policies and procedures; Contract Procedure Rules; Corporate Anti-fraud policy; Risk Management Strategy; Whistleblowing Policy; Data Quality Procedures to ensure that they are up to date and cover new legislation/requirements.

Two of the minor gaps were previously considered significant and have now been down graded to minor as action has been taken to reduce the risks.

Only 1 significant governance gap has been identified which relates to the PSN Code of Connection which the Council is required to comply with to enable connection to Government systems via the PSN (Public Services Network). An application to stay connected was rejected on the basis that the scope, which covered the secure part of the network, was too narrow. The application is due to be re-submitted before mid October 2013 covering the whole network and work is underway to resolve known issues. If the application is rejected again and access to PSN is denied this will impact on the Council's ability to provide Housing and Council Tax Benefits, Blue Badges and the work of the Corporate Anti-fraud Team.

This is an issue impacting on a number of Councils across London and has been formally raised with London Councils.

An action plan has been agreed as part of this process to address the gaps identified to further enhance our governance arrangements.

8.10 Declaration (Part II)

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

Signed: ....
Councillor Thaya Idaikkadar
Leader of the Council

Date: 6/9/2013

....
Michael Lockwood
Chief Executive

Date: 06/09/13

9 Pension Fund Accounts

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2012-13

I certify that the accounts set out in Section 9 present fairly the financial position of the Pension Fund as at 31 March 2013 and it income and expenditure for the year.

Simon George

Chief Finance Officer

27 September 2013

9.1 Administration of the Fund

The London Borough of Harrow Pension Fund is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and The Local Government Pension Scheme (Administration) Regulations 2009. Its purpose is to provide pensions to all the Council's employees with the exception of teaching staff. Also included are certain employees of admitted and scheduled bodies who have gained admittance to the Fund in accordance with the Fund's admission criteria. The London Borough of Harrow is the administrating employer.

The objective of this financial statement of the Pension Fund generally is to provide information about the financial position, performance and financial adaptability of the Fund. This statement shows the accountability of management for the resources entrusted to it, and of the disposition of its assets at the period end.

Scheduled:

This is a statutorily defined body listed within Local Government Pension Scheme (LGPS) Regulations and has a statutory obligation to participate in the LGPS (e.g. a local authority, a further or higher education establishment). Schools moving to Academy status become scheduled employers. The scheduled employers within the Fund are:

- Harrow Council;
- St Dominic's Sixth Form College;
- Stanmore College;
- Harrow College;
- Bentley Wood School;
- Canons High School;
- Harrow High School;
- Hatch End School;
- Nower Hill School;
- Park High School;
- Rooks Heath School;
- NLCS;
- Krishna Avanti;
- Salvatorian; and
- Avanti Free School.

Admitted:

There are two types of admission body:

Community Admission Body – These are typically charities or other public sector bodies providing a public service otherwise than for profit and which has sufficient links with the Scheme Employer to be regarded as having a community of interest.

Transferee Admission Body – These are typically private sector companies or charities who will have taken on staff from a local authority as a result of an outsourcing of services.

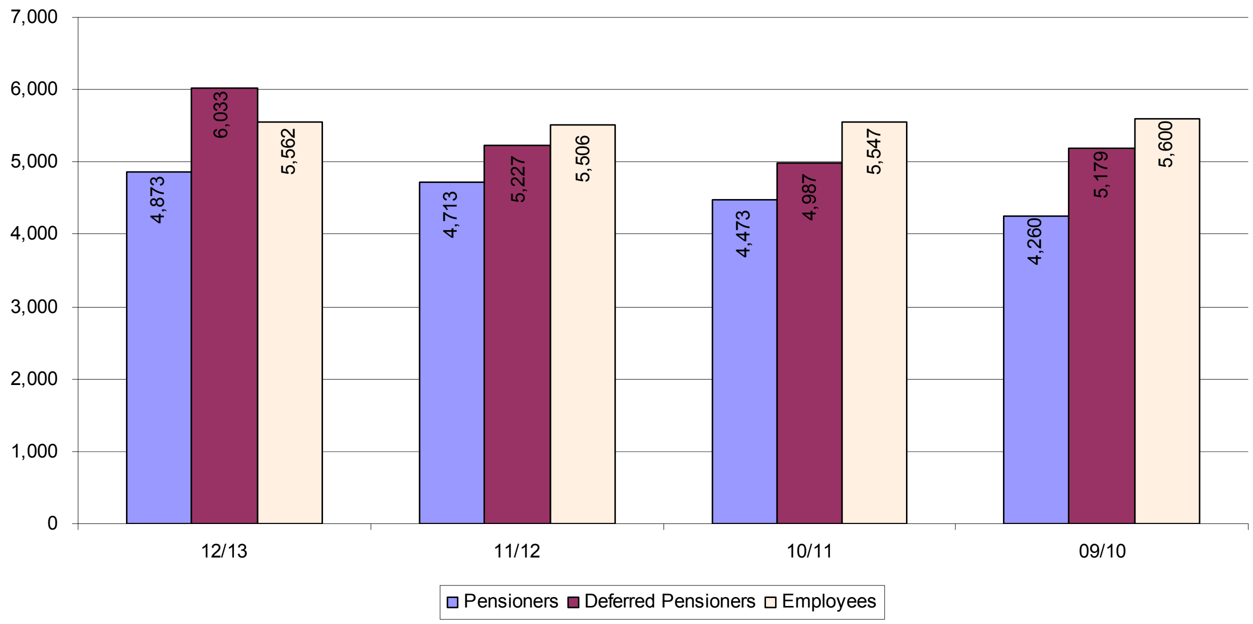
The organisations listed below have been admitted to the fund:

- Capita IT;
- Kier;
- Care UK;
- Harrison Catering;
- Julius Rutherfoord;
- KGB Cleaning;
- Continyou;
- Granary Kids;
- Mears; and
- Linbrook

Membership of the Fund is voluntary. Full-time, part-time and casual employees where there is a mutuality of obligation and who have a contract of more than three months are brought into the Fund automatically, but have the right to 'opt out' if they so wish. Casual employees with no mutuality of obligation are not eligible for membership. Contributors to the Fund are contracted out of the State Second Pension.

The Fund is financed by accumulated contributions paid by employees and their employers together with returns from the investment of fund monies. The pension benefits payable out of the Fund are primarily determined by legislation and not by the Council.

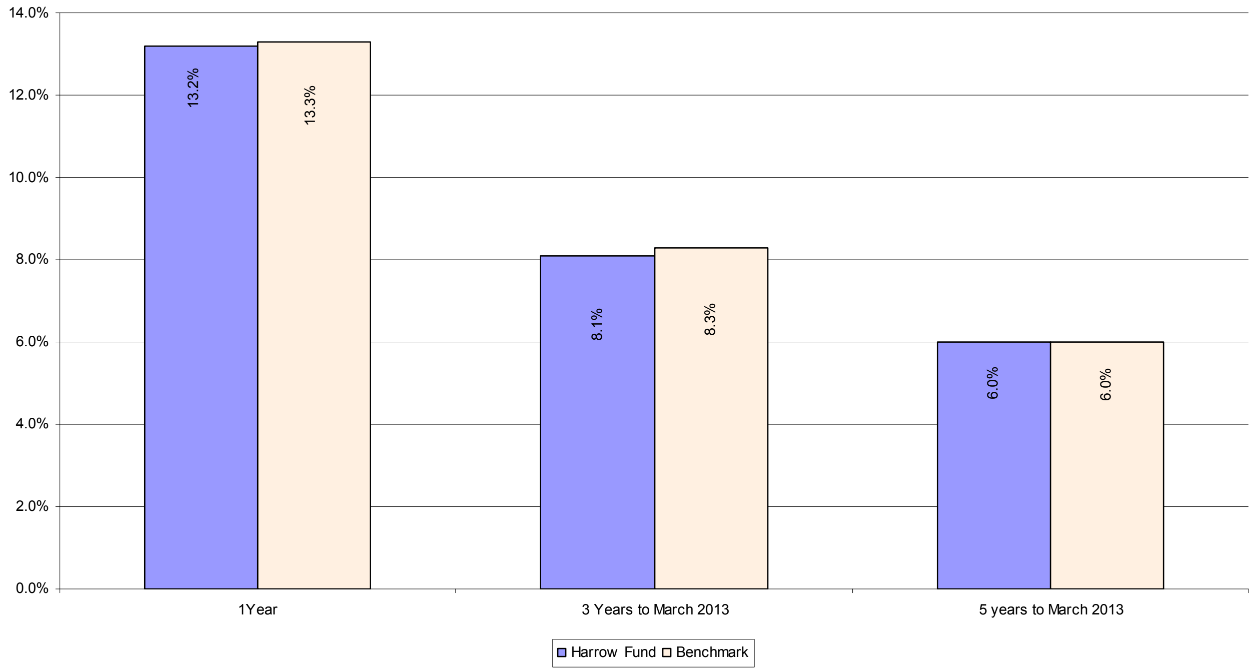
Membership of the Fund



Responsibility for the overall direction of the fund's investment policy rests with a Council Committee: The Pension Fund Investment Panel. In implementing the Fund's investment policy, the Council has appointed 8 investment managers with responsibility to deal at discretion within broad investment objectives laid down by the Council. These are BlackRock Investment Management (UK) Limited, Fidelity International, Longview Partners Investments, Wellington Management International Limited, State Street Global Advisors Limited, Pantheon Private Equity, Aviva Investors Global Services Limited, and Record Currency Management Limited.

9.2 Fund performance

The Council uses WM Performance Services as its independent investment performance measurer. Investment returns over 1, 3 and 5 years are shown below.



The Fund had a good year with all the main asset classes, with the exception of property, providing returns in excess of 10%. Returns over all three time periods are strong, reflecting recovery from the significantly lower returns achieved at the height of the financial crisis in 2008.

The fund has moderately under-performed against its benchmark over the last three years. This is due to holding high cash balances during a period of rising equity and bond markets in order to provide protection against the risk of volatility in the equity market.

The average local authority fund (as per WM performance services) returned 13.8% on its assets during the year. Harrow was ranked in the 67th percentile for return on assets as measured by WM. The higher level of investment in listed equities added 0.4% to the Council's relative return while the performance of the funds equity managers detracted from the relative return by 1%.

9.3 London Borough of Harrow Pension Fund Account

Pension Fund Account for the year ended 31st March 2013

2011-12 £000		Notes	2012-13 £000
	Contributions and Benefits		
24,725	Contributions receivable	9.4.2	**25,351**
2,527	Individual Transfers in from other schemes		**1,279**
88	Other Income (including Capital cost)		**-24**
	Less:		
-25,103	Benefits Payable	9.4.3	**-26,716**
-1,076	Leavers	9.4.4	**-1,062**
-789	Administrative expenses	9.4.5	**-827**
372	**Net additions from dealings with members**		**-1,999**
	Returns on Investments		
4,948	Investment Income	9.4.6	**4,833**
6,951	Change in market value of investments	9.4.7	**60,112**
133	Investment management expenses	9.4.5	**339**
12,032	**Net returns on investments**		**65,284**
12,404	Net (Increase)/decrease in Fund during the year		**63,285**
476,538	Net assets at start of year		**488,942**
488,942	**Net assets at end of year**		**552,227**

Net Assets Statement

2011-12 £000		Notes	2012-13 £000
	Investment Assets		
464,829	Pooled investment vehicles	9.4.9	**531,020**
2,014	Derivative contracts	9.4.10	**865**
466,843			**531,885**
	Investment Liabilities		
-366	Derivative contracts	9.4.10	**-3,139**
466,477			**528,746**
22,118	Cash deposits	9.4.7	**20,117**
488,595	**Net Investment Assets**		**548,863**
674	Current assets	9.4.12	**3,974**
-327	Current liabilities	9.4.12	**-610**
488,942	**Net assets of the scheme available to fund benefits at 31 March 2013**		**552,227**

The accounts summarise the transactions of the Fund and show the value as at 31st March 2013 of the assets and liabilities recognised by the Fund. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is disclosed in notes 9.4.14 and 9.4.15.

9.4 Notes to the Pension Fund Accounts

Accounting Policies

The accounts have been compiled in accordance with the CIPFA Code of practice Local Authority Accounting in the United Kingdom 2012-13 and following guidance in the Statement of Recommended Practice “Financial Reports of Pension Schemes” (revised May 2007). The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

Basis of Preparation - Except where otherwise stated, the accounts have been prepared on an accruals basis.

Investments - These are shown in the accounts at market value which has been determined as follows:

All listed investments are quoted at the bid price at the close of business on 31 March of each financial year;

- Unlisted securities are valued having regard to latest dealings, professional valuations, asset values, currency rates and other appropriate financial information adjusted to reflect cash transactions up to 31 March 2013;
- Investments in pooled investment vehicles are stated at the bid value of the latest prices quoted by their respective managers; and
- Derivatives are valued at the appropriate closing exchange rate or the bid spot or forward rates. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Most investments are in pooled funds where the change in market value will reflect investment income earned by the fund and fees and expenses charged to the fund.

Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on 31 March of each financial year.

Benefits, Refunds of Contributions and Transfer Values - Benefits payable and refunds of contributions are accounted for in the period in which they are payable.

Transfer values are those sums paid to, or received from, other pension schemes and relate to periods of previous pensionable employment. Transfer values have been included in the accounts on a payments and receipts basis. The transfers can take a considerable time to determine and amounts can vary depending upon the date of settlement.

Investment Income - Dividends and interest on government stocks, loans and deposits have been accounted for on an accrued basis. Foreign income has been converted into sterling at the date of the transaction.

Investment Management and Administration - Regulations published in 1989 permit the Council to charge administration costs to the Pension Fund. A proportion of the relevant Council officers’ salaries, including related on-costs, have been charged to the Fund based on estimated time spent on Fund administration and investment related business. The fees of the Fund’s investment managers have been accounted for on the basis contained within their respective management agreements.

Contributions

2011-12 £000		2012-13 £000
	Employers - normal	
15,563	London Borough of Harrow	**15,161**
2,117	Scheduled Bodies	**3,330**
660	Admitted Bodies	**494**
	Members - normal	
5,484	London Borough of Harrow	**5,225**
686	Scheduled Bodies	**1,024**
215	Admitted Bodies	**117**
24,725		**25,351**

Benefits

2011-12 £000		2012-13 £000
	Pensions	
-19,648	London Borough of Harrow	**-21,085**
-522	Scheduled Bodies	**-709**
-196	Admitted Bodies	**-141**
-20,366		**-21,935**
	Commutation of Pensions and Lump Sum Retirement Benefits and commitments	
-3,807	London Borough of Harrow	**-3,840**
-394	Scheduled Bodies	**-288**
-64	Admitted Bodies	**-24**
-4,265		**-4,152**
	Lump Sum Death Benefits	
-439	London Borough of Harrow	**-611**
-33	Scheduled Bodies	**-18**
-472		**-629**
-25,103		**-26,716**

Leavers

2011-12 £000		2012-13 £000
-4	Refunds to members	**-2**
-1,072	Individual transfers to other schemes	**-1,060**
-1,076		**-1,062**

Investment Management and Administration Expenses

2011-12 £000		2012-13 £000
133	Investment management expenses	**339**
	Scheme administration	
-676	Harrow Council	**-682**
-113	Misc. (including Actuary Fees)	**-145**
-789	**Total Administration Expenses**	**-827**
-656	**Total Expenses**	**-488**

Investment Income

2011-12 £000		2012-13 £000
4,800	Income from pooled investment	**4,628**
148	Interest on cash deposits	**205**
4,948		**4,833**

Income from dividends has been accrued from the point when securities have been quoted ex-dividend.

Investments

	Value at 01-Apr-12 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	**Value at 31-Mar-13 £000**
Pooled Investment Vehicles					
Property	41,343	11,197	-10,156	-479	**41,905**
Other	423,486	6,869	-3,448	62,208	**489,115**
Derivatives	1,648		-2,305	-1,617	**-2,274**
	466,477	**18,066**	**-15,909**	**60,112**	**528,746**
Cash Deposits	22,118				20,117
	488,595				**548,863**

The change in market value reflects higher valuations for both equities and bonds. Equity markets responded to better news on economic growth while bonds were supported by expectations of prolonged low interest rates and loose monetary policy. £57.229m of the change in market value was in respect of unrealised net gains.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees, commissions, stamp duty and other fees.

With all investments held through pooled vehicles, the value of sales and purchases is low. No direct transaction costs were incurred during the year. Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately available.

Derivative receipts (£2.3m) are in respect of realised profits on forward foreign exchange trades settled during the period.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

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

	2012-13		2011-12	
	£000	**%**	£000	%
State Street Global Advisors	**142,591**	**27%**	122,061	26
Longview Partners	**40,109**	**7%**	33,941	7
Fidelity International	**98,872**	**18%**	84,747	18
Wellington Management	**109,156**	**21%**	96,985	21
BlackRock	**72,059**	**14%**	63,492	14
UBS	**0**	**0%**	320	0
Aviva	**41,905**	**8%**	41,343	9
Pantheon	**26,328**	**5%**	23,045	5
Mellon	**0**	**0%**	0	0
Record Currency	**-2,274**	**0%**	1,648	0
Total Fund	**528,746**	**100%**	467,582	100

Bank Balances of £20.117m at 31 March 2013 are excluded from the above table.

Investments Exceeding 5% of the Total Value of Net Assets

2011-12 £m		2012-13 £m
122.1	SSGA MPF UK Equity Index Sub-Fund	**142.6**
97.0	Wellington Global Pooled Value Equity Portfolio	**109.2**
84.7	Fidelity Inst Select Global Pooled Equities	**86.8**
50.1	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	**57.5**
33.9	Longview Partners Invest - Global Pooled Equities FD K Class	**40.1**
31.7	Aviva Investors UK Real Estate Fund of Funds Open Ended	**41.9**
419.5		**478.1**

Pooled Investment Vehicles

2011-12 £000		2012-13 £000
41,343	UK Managed Funds - Property	**41,905**
184,767	UK Managed Funds - Other	**214,651**
238,719	Overseas Other	**274,464**
464,829		**531,020**

Derivatives

2011-12 £000		2012-13 £000
	Investment Assets	
2,014	Forward Foreign exchange contracts	**865**
	Investment Liabilities	
-366	Forward Foreign exchange contracts	**-3,139**
1,648	**Net Derivatives**	**-2,274**

Counterparty	Duration	No. of Contracts	Value at 31-Mar-13 Assets £000	Liabilities £000
Barclays Bank - London	9 days - 4 mths	**3**	**7**	**-108**
Deutsche Bank - London	9 days - 6 mths	**7**	**11**	**-248**
Northern Trust	12 days - 6 mths	**3**	**2**	**-121**
Royal Bank of Canada - London	9 days - 7 mths	**9**	**176**	**-1,321**
Standard Chartered	6 mths	**1**	**88**	
State Street - London	9 days - 7 mths	**4**	**118**	**-1,065**
Toronto Dominion - Toronto	9 days - 4 mths	**7**	**8**	**-132**
UBS AG London	4 mths - 7 mths	**8**	**12**	**-84**
Westpac - Sydney	7 mths	**5**	**443**	**-60**
		47	**865**	**-3,139**

The scheme objective in using derivatives is to reduce risk in the portfolio by entering into forward contracts to mitigate the effect of currency risk from overseas investments held in the portfolio without disturbing the underlying assets. The overseas equity portfolio is 50% hedged against the currency risk arising from developed market currencies. Exposures to currencies that have a higher bid offer spread e.g. emerging markets, are not hedged. The non sterling currency exposure at the year end is £168.4 million. The notional gross value of currency hedges is £58.6 million. The main currency exposures before hedging in sterling are US$ £81.0, Yen £16.2, Euro £10.8 and Swiss Fr £10.3.

Additional Voluntary Contributions (AVCs)

Members of the Fund are able to accrue additional benefit through the payment of AVCs, which are invested outside of the Fund with insurance companies. These amounts are not included in the Pension Fund Accounts in accordance with section 4 (2)(b) of the Local Government Pension

Scheme (Management and Investment of Funds) Regulations 2009. However, the note below details the change in value of AVCs during the year.

2011-12		2012-13
2,193	Value of AVC Fund at 1 April	**2,099**
274	Employee contributions	**356**
81	Investment income and change in market value	**107**
7	Transfer Values In	**0**
-456	Benefits paid and transfers out	**-351**
2,099	**Value of AVC Fund at 31 March**	**2,211**

Current Assets & Liabilities

2011-12 £000		2012-13 £000
	Current Liabilities	
-58	Unpaid Benefits	**-149**
-269	Other Unpaid liabilities	**-461**
-327		**-610**
	Current Assets	
572	Cash balances held by London Borough of Harrow	**3,778**
80	Contributions due from employers	**177**
22	Other Current Assets	**19**
674		**3,974**
347	**Net Current Assets**	**3,364**

Related Party Transactions

2011-12 £000		2012-13 £000
15,563	Employer's pension contribution to the fund	**15,161**
-676	Administration expenses paid to the Council	**-682**
572	Cash in hand held by Council	**3,778**

The fund is required under IAS24 to disclose details of material transactions with related parties.

The Council is a related party to the Pension fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out above. Details of total contributions made in the year are set out in note 9.4.2 to the accounts.

The Pension Fund has operated a separate bank account since April 2011. However, due to the ease of administration and to avoid any undue cost to the Scheme some transactions continue to be processed through the Council's bank account and as such these balances are settled on a monthly basis.

Actuarial Valuation

An actuarial valuation of the Fund was carried out as at 31 March 2010. The market value of the Fund's assets at the valuation date was £436m and the total accrued liabilities of the Fund were £593m. The Fund deficit was therefore £157m, producing a funding level of 73.5% (compared to 87% at 31 March 2007).

To reach the funding level of 100% over a period of 20 years, the common employer's contribution rate is 25.7% of pensionable pay. Projected Unit Method is used to determine this rate. Adjustments have been made to the common rate of employer's contribution to take account of certain circumstances that are peculiar to individual employers.

The main actuarial assumptions used in the 2010 actuarial valuation are detailed below:

Assumption	
Price Inflation (CPI)	2.8%
Pay Increases	4.6%
Gilt based discount rate	4.5%
Funding basis discount rate	
Longevity at 65 for current pensioners:	
Male	21.6
Female	23.6
Longevity at 65 for future pensioners:	
Male	23.6
Female	25.9

The Objectives of the Administering Authority in managing the Fund are as detailed below:

- To ensure the long term solvency of the fund;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- To maximise investment returns for an appropriate level of risk;
- To help employers recognise and manage pension liabilities as they accrue; and
- To minimise the degree of short term change in the level of each employers contributions.

Actuarial present value of promised retirement benefits

IAS26 Accounting and Reporting by Retirement Benefit Plans imposes a requirement on administering authorities to disclose the actuarial present value of promised retirement benefits. This has been calculated in accordance with the defined benefit obligation under IAS 19 Employee Benefits.

The valuation of liabilities as at 31 March 2013 has been carried out using assumptions that are in line with IAS 19 as opposed to the Pension Fund's funding assumptions. These are as follows:

2011-12		2012-13
2.5%	Rate of inflation	**2.8%**
4.3%	Rate of increase in salaries	**4.6%**
2.5%	Rate of increase in pensions	**2.8%**
4.8%	Rate for discounting scheme liabilities	**4.5%**

In addition, mortality rates are equivalent to those used by the scheme's actuary in the triennial valuation.

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation at 31 March 2010. The liability at 31 March 2013 (£846m) has been estimated by the actuary as comprising £412m in respect of employee members, £137m in respect of deferred pensioners and £297m in respect of pensioners. The actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises.

9.5 Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare, maintain and publish a written statement of principles governing their decisions about investments. The Pension Fund has adopted a formal Statement of Investment Principles which is published on the council website at www.harrow.gov.uk.

THIS PAGE IS LEFT BLANK INTENTIONALLY

10 Appendices

10.1 Glossary of Terms

The glossary's definitions are intended to provide a clear and concise explanation of the technical terms used in this publication.

Accounting Standards: By law local authorities are required to follow "proper accounting practices" which are set out both in Acts of Parliament and in professional Codes and statements of recommended practice (The Code).

Accrual: a sum included in the financial statements to cover income and expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end of the period.

Actuarial Valuation: a valuation of assets held, an estimate of the present value of benefits to be paid, and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Actuary: an independent professional who advises on the financial position of the pension fund.

Agency Services: the provision of services by one body (the agent) on behalf of another that is legally responsible for providing the service.

Amortised Cost: the initial measurement will be at fair value, normally the amount of the originating transaction such as the receipt or loan advance less transaction costs. The effective interest rate is then calculated to the amount in the balance sheet at initial measurement. The result in the balance sheet carrying amount (the amortised cost) and a profile of interest charges that might be different from the amounts specified in the contract as being for interest and principal.

Bad Debt Provisions: amount of money set aside to meet cost of monies owed to the Council that are not expected to be repaid.

Balances: unallocated reserves held to resource unpredictable expenditure demands.

Capital Expenditure: expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools, roads etc.

Capital Grants: money received from government departments and other statutory bodies towards the Council's capital expenditure.

Community Assets: assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Contingency: money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Contingent Liability: is either; a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or b) past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient liability.

Corporate and Democratic Core: comprises all activities that local authorities engage in specifically because they are elected, multipurpose authorities with a responsibility for making choices in the use of taxpayer's money. The cost of the activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Council Tax: a locally determined charge based on domestic property values levied by a local authority to enable it to provide its services.

Creditors: amounts owed by the Council for goods and services received where payment has not been made at the date of the balance sheet.

Current Asset: an asset held, which will be consumed or cease to have value within the next financial year. Examples are stocks and debtors.

Current Liability: an amount which will become payable or could be called in within the next accounting period. Examples are creditors and cash overdrawn.

Current Service Cost: the increase in the present value of Pension Fund liabilities expected to arise from current year service.

Debtors: amounts owed to the authority for goods and services provided but not received at the date of the balance sheet.

Dedicated Schools Grant (DSG): a specific grant for the funding of schools and which is ring fenced to the Schools Budget.

Depreciated Replacement Cost (DRC): the cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Depreciation: the measure used to determine the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technological or other changes.

Earmarked Reserves: amounts set aside for a specific purpose or a particular service or type of service.

Fair Value: the price at which an asset could be exchanged in an arms length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Fees and Charges: income raised by charging users of services.

Finance Leases: a method of paying for capital expenditure where a rent is paid for an asset during its useful life. Finance leases are treated as capital. See Operating Leases.

General Fund: the account that covers the net cost of all services other than the provision of Council housing for rent.

Housing Revenue Account (HRA): a statutory account which contains all expenditure and income relating to the provision of Council housing for rent. The HRA must be kept entirely separate from the General Fund. Local authorities are not allowed to make up any deficit on the HRA from the General Fund.

Impairment: a reduction in the value of a fixed asset below its previously assessed value in the balance sheet.

Infrastructure Assets: a classification of fixed assets which have no market value, and which exist primarily to facilitate transportation and communication requirements (e.g. highways and footpaths) and similar environmental works.

Levies: payments to London-wide bodies, e.g. Environment Agency, Lee Valley Regional Park and West London Waste Authority. The cost of these bodies is borne by local authorities in the area concerned, based on their Council tax base and is met from the General Fund.

Minimum Revenue Provision (MRP): the minimum amount which must be charged to the Council's revenue account and set aside as provision for credit liabilities.

National Non Domestic Rate (NNDR): a flat rate in the pound set by Central Government and levied on businesses in the borough. The money is collected by the Council and passed to Central Government. Sums are then re-allocated to all Councils in proportion to their population.

Net Realisable Value: the open market value of the asset in its existing use (open market value in the case of non-operational assets), or sale proceeds for stocks and stores less the expenses to be incurred in realising the asset.

Non-Distributable Cost: these include overheads for which no user now benefits and should not be apportioned to services. Examples are spare computer capacity and empty offices. These also include pension costs in relation to scheme members past service.

Operating Lease; a lease under which the asset can never become the property of the lessee.

Past Service Cost: the increase in present value of Pension Fund liabilities arising in the current year from previous years service.

Precepts: a charge on the Collection Fund by another public body (a precepting authority), determined by legislation.

Pension Fund: the Fund for staff in the Local Government Pension Scheme, maintained on an actuarial basis, which makes pension payments on retirement of participants; it is financed by contributions from the employer and employees from investment income.

Pension Interest Costs: the expected increase in present value of Pension Fund liabilities because benefits are due one year sooner.

Post Balance Sheet Events: are events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Director of Finance signs the Statement of Accounts.

Prior Year Adjustments: those material adjustments applicable to prior years arising from changes in accounting policies or to correct fundamental errors.

Property, Plant and Equipment: tangible assets that yield benefit to the Council and the services it provides for a period of more than one year.

Provisions: monies set aside for liabilities and losses which are likely to be incurred but where exact amounts or dates are uncertain.

Private Finance Initiative (PFI): PFI is the procurement of public services and assets by local authorities where the private sector is responsible for the design, construction, finance and operation of an asset or service for a specified time after which it is transferred back into the public sector.

Public Works Loan Board (PWLB): a government agency that provides long term and medium term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

Related Party: the relationship between a senior officer, elected member, or their families, with another body that has, or might develop a business relationship with the Council.

Revenue Expenditure: the day-to-day running costs relating to the accounting period irrespective of whether or not the amounts due have been paid. These costs would include salaries and wages, premises and the costs of supplies and services.

Revenue Support Grant: the main grant received from central government to support local Council revenue expenditure.

SERCOP: a consistent framework establishing proper practice for consistent financial reporting of local authority accounts.

Taxbase: the number of Band D equivalent properties in a local authority's area. An authorities tax base is taken into account when it calculates it's council tax, and when central government calculates entitlement to Formula Grant.

Trust Funds: money held in trust by the Council for a specified purpose.

The Code of Practice (The Code): aims to specify the principles and practices of accounting required to prepare a Statement of Accounts which presents fairly the financial position and transactions of the Council.

10.2 Abbreviations

ASB	Accounting Standards Board
AVC	Additional Voluntary Contributions
CFR	Capital Financing Regulations
CIPFA	Chartered Institute of Public Finance and Accountancy
CSB	Corporate Strategy Board
DSG	Dedicated Schools Grant
EU	European Union
FRS	Financial Reporting Standards
GARMC	Governance, Audit and Risk Management Committee
GDP	Gross Domestic Product
HRA	Housing Revenue Account
IAS 19	International Accounting Standard in respect of Employee Benefits
IAS 26	Accounting and Reporting by Retirement Benefit Plans
iFReM	International Financial Reporting Manual
IFRIC	International Financial Reporting Interpretations Committee
IFRIC 12	International Financial Reporting Interpretations Committee relating to Service Concession Arrangements
LBH	London Borough of Harrow Council
LGPS	Local Government Pension Scheme
LOBO	Lenders Option Borrowers Option
MMI	Municipal Mutual Insurance
MRP	Minimum Revenue Provision
NDC	Non Distributed Costs
NI	National Insurance
NPV	Net Present Value
PFI	Private Finance Initiative
PWLB	Public Works Loan Board
RCCO	Revenue Contribution to Capital Outlay
RICS	Royal Institute of Chartered Surveyors
RSG	Revenue Support Grant
SERCOP	Service Reporting Code of Practice
SETS	Stock Exchange Electronic Trading Service
USM	Unlisted Securities Market
VfM	Value for Money
WLWA	West London Waste Authority

10.3 Service Reporting Code Of Practice (SERCOP)

Division of Service Service Reporting Code of Practice Summary	2012-13 Gross Expend. £000	2012-13 Gross Income £000	2012-13 Net Expend. £000	2011-12 Net Expend. £000
Central Services	28,063	-24,674	3,389	1,051
Court Services	161	0	161	178
Cultural and Related Services	12,705	-2,318	10,387	12,261
Environmental and Regulatory Services	19,313	-3,361	15,952	16,867
Planning Services	8,963	-3,279	5,684	5,700
Education and Children's Services	193,018	-146,784	46,234	38,543
Highw ays & Transport Services	31,914	-14,395	17,519	18,796
Housing Services - general fund	150,936	-141,531	9,405	11,801
Housing Services - HRA	10,844	-29,155	-18,311	-1,545
Local Authority Housing - Revaluation Loss on Dw ellings	0	0	0	1,503
Local Authority Housing Settlement Payment to Government for HRA Self Financing	0	0	0	88,461
Adult Social Care	74,900	-18,324	56,576	58,291
Corporate and Democratic Core	10,203	-915	9,288	10,614
Non Distributed Costs	1,587	-636	951	-2,537
Cost of Services	**542,607**	**-385,372**	**157,235**	**259,984**
Other items			-179,455	-48,849
Surplus or Deficit on the Provision of Services			**-22,220**	**211,135**
Central Services				
Local Tax Collection	25,437	-22,955	2,482	423
Registration of Births, Deaths and Marriages	1,363	-1,282	81	-54
Elections	638	-6	632	404
Emergency Planning	242	0	242	217
Local Land Charges	383	-431	-48	85
General Grants Bequests and Donations	0	0	0	-24
	28,063	**-24,674**	**3,389**	**1,051**
Court Services				
Coroners' Court Services	161	0	161	178
	161	**0**	**161**	**178**
Cultural and Related Services				
Culture and Heritage	1,987	-727	1,260	1,295
Recreation and Sport	1,532	-485	1,047	3,596
Open Spaces	3,342	-883	2,459	2,565
Library Service	5,844	-223	5,621	4,805
	12,705	**-2,318**	**10,387**	**12,261**
Environmental and Regulatory Services				
Cemetery, cremation and mortuary services	626	-330	296	448
Community safety (Crime Reduction)	386	-115	271	390
Community Safety (CCTV)	600	-1	599	713
Flood Defence and Land Drainage	1,145	-384	761	926
Street Cleansing (Not chargeable to highw ays)	5,674	-14	5,660	4,271
Waste Collection	3,894	-966	2,928	4,589
Trade Waste	540	-725	-185	78
Recycling	2,610	0	2,610	2,493
Climate Change Costs	409	-139	270	285
Regulatory Services	3,429	-687	2,742	2,674
	19,313	**-3,361**	**15,952**	**16,867**

Division of Service	2012-13 Gross Expend. £000	2012-13 Gross Income £000	2012-13 Net Expend. £000	2011-12 Net Expend. £000
Planning Services				
Building Control	1,020	-669	351	579
Development Control	2,232	-979	1,253	1,313
Planning Policy.	2,042	-38	2,004	2,432
Environmental initiatives	37	0	37	36
Economic Development	938	-444	494	537
Community Development	1,817	-253	1,564	1,406
Business Support	877	-896	-19	-603
	8,963	**-3,279**	**5,684**	**5,700**
Education and Children's Services				
Early years	10,086	-6,040	4,046	-239
Primary Schools	95,953	-92,939	3,014	2,663
Secondary Schools	17,509	-16,417	1,092	873
Special Schools	18,810	-19,816	-1,006	7,419
Management and support services	3,771	-1,289	2,482	0
Service Strategy	2,723	-332	2,391	2,621
Commissioning and social w ork	437	-80	357	0
Children looked after	8,476	-290	8,186	7,010
Family support services	398	-268	130	75
Youth justice	895	-313	582	765
Asylum seekers	1,404	-655	749	1,006
Other children's and families' services	14,315	-2,975	11,340	8,723
Services to Young People	3,135	-976	2,159	1,683
Other School-related Education Functions	10,657	-3,720	6,937	2,481
Children's and Young People's Safety	4,449	-674	3,775	3,463
	193,018	**-146,784**	**46,234**	**38,543**
Highw ays and Tranportation Services				
Transport planning, policy and strategy	235	-92	143	182
Structural Maintenance	6,377	-317	6,060	5,676
Environment Safety and Routine Maintenance	3,077	-944	2,133	2,981
Street Lighting	1,942	-16	1,926	2,074
Winter Service	401	-78	323	276
Traffic Management and Road Safety	6,120	-2,525	3,595	2,779
Parking Services	4,463	-10,392	-5,929	-4,087
Public Transport	9,299	-31	9,268	8,915
	31,914	**-14,395**	**17,519**	**18,796**
Housing Services				
Housing strategy	1,861	-9	1,852	2,797
Enabling	296	-7	289	437
Housing advice	2	-2	0	1
Private sector housing renew al	742	-114	628	496
Homelessness	4,955	-2,445	2,510	2,626
Housing benefits payments	136,513	-137,026	-513	-523
Housing benefits administration	2,753	-1,816	937	1,972
Contribution to the HRA re:items shared by the w hole community	175	-12	163	163
Other council property	9	-3	6	6
Supporting People	3,630	-97	3,533	3,825
Housing Revenue Account	10,844	-29,155	-18,311	-41
Local Authority Housing Settlement Payment to Government for HRA Self Financing	0	0	0	88,461
	161,780	**-170,686**	**-8,906**	**100,220**
Adult Social Care				
Service Strategy	699	-231	468	333
Older people(Aged 65 or over) including older mentally ill	37,774	-9,961	27,813	28,001
Adults aged under 65 w ith a physical disability or sensory impairment	7,919	-796	7,123	7,418
Adults aged under 65 w ith a learning disabilities	21,722	-6,997	14,725	15,302
Adults aged under 65 w ith mental health needs	5,966	-241	5,725	5,620
Other adult services	820	-98	722	1,617
	74,900	**-18,324**	**56,576**	**58,291**

Division of Service	2012-13 Gross Expend. £000	2012-13 Gross Income £000	2012-13 Net Expend. £000	2011-12 Net Expend. £000
Corporate and Democtratic Core				
Democratic Representation and Management	4,345	-393	3,952	2,273
Corporate Management	5,858	-522	5,336	8,341
	10,203	**-915**	**9,288**	**10,614**
Non Distributed Costs				
Retirement Benefits and Exit Packages	1,587	-636	951	-2,977
IAS19	0	0	0	440
	1,587	**-636**	**951**	**-2,537**

This page is intentionally left blank

Deloitte.

The London Borough of Harrow

Report to theGovernance, Audit and Risk Management Committee on the year ended 31 March 2013 Audit

12 September 2013

Deloitte.

Deloitte LLP
3 Victoria Square,
Victoria Street,
St Albans, AL1 3TF
Tel: +44 (0) 1727 839000

www.deloitte.co.uk

The Governance, Audit and Risk Management Committee
London Borough of Harrow
Station Road
Harrow
HA1 2XY

12September 2013

Dear Sirs,

We have pleasure in setting out in this document our report to the Governance, Audit and Risk ManagementCommittee of the London Borough of Harrow("the Council") for the year ended31 March 2013. This report covers the principal matters that have arisen from our audit of the Councilfor the year ended 31 March 2013.

In summary:

- The significant risks and other items arising in the course of the audit, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- Our work is largely complete. Should we become aware of any circumstances which would cause result in further work or for us to issue a qualified opinion on the accounts or a qualified value for money conclusion, we would report on this verbally at the meeting to be held on 24 September 2013.

We would like to take this opportunity to thank the management teamfor their assistance and co-operation during the course of our audit work.

Yours faithfully,

Paul Schofield

Engagement Lead

Contents

Executive summary

We have the pleasure in setting out in this document our report to the Governance, Audit and Risk Management Committee ("GARM") of the London Borough of Harrow ("the Council") on the audit of the Council's financial statements for the year ended 31 March 2013. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2013.This summary is not intended to be exhaustive but highlights the most significant matters which we would like to bring to your attention and should, therefore, be read in conjunction with the report and the appendices thereto.

Status	Description
Completion of the audit	
Our audit is largely complete	We have completed our work on the areas of significant risk as identified in our audit plan.There are no additional risks identified by our work to date. Our outstanding areas are: • Completion of review of events after the reporting period and up to the proposed date of signing the financial statements; • Final confirmation of the wording in the Annual Governance Statement to account for events up to the date of approval of the financial statements; • Completion of final internal review procedures and documentation; • Final review of financial statements; and • Receipt of signed management representation letter.
Overall view	
We have not identified any matters through our work to date which would prevent us from issuing an unmodified audit opinion on the truth and fairness of the financial statements	We have not identified any matters through our work to date which would prevent us from issuing an unmodified audit opinion on the truth and fairness of the financial statements.The matters that we have taken into account in forming our overall view are described in the following sections of this report. Under the Audit Commission Act 1998, we issue a certificate 'when the audit of the accounts has been concluded'. The issue of the audit certificate marks the closure of the audit and the end of the exercise of the auditor's powers and duties in respect of that audit. The audit certificate can be issued as soon as all the work required to meet auditors' responsibilities under sections 2 and 3 of the Code has been completed. One of our statutory responsibilities is to issue an opinion on the Whole of Government Accounts (WGA) return. The deadline for the audited return is 4th October. We intend to complete our work in this regard so that at the same time we issue our opinion on the financial statements, we would also issue our assurance statement on the WGA. At the time of writing this report we have received enquiries from local residents relating to the proposed development of the Whitchurch playing fields, which we are investigating. These matters do not have an impact on the current year financial statements and are currently deemed not to be objections and so should not delay the audit certificate.

Executive summary (continued)

Overview of risk	Description	Status
Significant audit risks		**Status**
There were no significant issues arising from our review of these audit risk areas	In our audit plan we identified a number of significant audit risks. Our findings in respect of those risks are as follows: 1. **Recognition of grant income:**our testing of grants did not identify any significant issues. 2. **Valuation of the pension liability** is sensitive to small changes in assumptions. Overall, the assumptions used by the authority fell within a reasonable range. 3. **Revaluation of properties:**in the 2012/13 year the Council valued a range of assets including community premises, housing property, sports premises, youth centres and investment properties. We considered the process undertaken for the valuation of these assets and reviewed the assumptions used. We concluded that the resulting valuations were reasonably stated. 4. **Housing Revenue Account ("HRA") self-financing:**The impact of the Localism Act 2011 on statutory mitigations for depreciation on HRA fixed assets is a new accounting requirement for 2012/13. Our testing has identified no issuesin respect of the new accounting requirements. 5. **Management override of key controls:**we are required to assume that all organisations have a risk of management override of controls in accordance with international auditing standards.To address this, we tested the employment/redundancy provision. Our testing identified no material misstatements and the assumptions made were deemed reasonable. We also considered one off transactions impacting reservesin light of the low reserves position with no material misstatements were noted. Significant risks are discussed in more detail in section 1.	1 G 1 G 1 G 1 G 1 G

1 G	Risk appropriately addressed	1 A	Risk with information outstanding and audit subject to completion	1 R	Material unresolved matter

Executive summary (continued)

Status	Description
Value for money (VFM) conclusion	
We expect to issue an unqualified value for money conclusion	One of our responsibilities is to include in our audit report a conclusion on whether the London Borough of Harrow has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources- this conclusion is known as "the VFM conclusion". The conclusion is given in relation to two criteria specified by the Audit Commission. On the basis of our work, we confirmed our preliminary assessment that there were no risks which required us to carry out other locally determined work and we propose to issue an unqualified VFM conclusion. Our work in this area is discussed further in section 2.
Risk management and internal control systems	
We did not identify any significant deficiencies in the financial reporting systems	Our audit findings did not identify any significant deficiencies in the financial reporting systems. However, we have identified a number of recommendations which we have identified during the course of our work. These are discussed in section 3.
Identified misstatements, disclosure misstatements and prior period adjustment	
As set out in appendix 1, based on our work performed to date, we have identified one misstatement above the threshold for reporting to you	Audit materiality was £4.4 million as set out in our Audit Plan. We have identified an uncorrected misstatement, over the threshold for reporting, being £0.7m on the upward revaluation of the Housing Revenue Account Council Dwellings. This arose from a movement in the Housing Price Index used in the revaluation, between the date of preparation of the revaluation, and the date of the audit, We have notidentified any significant uncorrected disclosure misstatements. Accumulated depreciation arising on assets revalued in the current and prior year has been reversed in the property plant and equipment note to correct a disclosure deficiency that was identified in the prior year. A prior period adjustment of £12.8m was made to opening reserves, due to the incorrect application of the useful economic life and the resultant under-charging of depreciation in prior periods. This adjustment corrected the net book value of the assets. We our finalising our review of the financial statements at the time of writing and we will provide an update on the position at the meeting. This will take account of any events up to the date of approval of the financial statements that may need to be taken into account.

Executive summary (continued)

Status	Description
Significant representations	
We will request management representations	A copy of the draft representation letter to be signed on behalf of theCouncilis included at appendix 3. Non-standard representations have been highlighted in italics.
Independence	
We confirm we comply with APB Revised Ethical Standards for Auditors	Our reporting requirements in respect of independence matters, including fees, are covered in section 5.
Scoping of material account balances, classes of transactions and disclosures	
We have performed a risk assessment to assess the level of procedures required on account balances	As part of our procedures we undertake a risk assessment to determine the level of substantive testing required as part of the audit. This assessment involves performing limited procedures on account balances to assess the risk of material misstatement. If we conclude that the risk of material misstatement is remote, we may choose to not perform any further procedures on that account balance or note to the financial statements. We have not scoped out any account balances and notes greater than our audit materiality.

1. Significantaudit risks

Understanding the subjective judgements and estimates

The table below shows, on a range of acceptable outcomes from less prudent to more prudent, where management's key assumptions and valuations relating to significant estimates lie. We have only included those significant risks which we consider to involve key judgements.

Acceptable range

	Less prudent													More prudent	
Pension liability									✔ ✔						We have concluded that the assumptions used by the Council's actuary to calculate the pension liability are reasonable. When compared to our own in-house benchmark we consider the assumptions to be slightly prudent but consistent with the prior year.
Property revaluation							✔ ✔								We engaged our property specialists Deloitte Real Estate (DRE) to review the assumptions and methodology used in the valuations. We concluded that the valuation methods selected, and the way in which those methods were applied, was reasonable. We recommend the council consider whether Depreciated Replacement Cost (DRC) is the most appropriate methodology given that this method is normally applied only for specialised assets where there is no market-based evidence of fair value.
Management override of controls								✔	✔						We did not identify anything from our testing of journals or review of other estimates or judgements to suggest a prudent or aggressive stance taken by management. We identified provisions made in the prior year for restructuring were in part released in the current year. This release reflects a less prudent approach in the current year. A recommendation related to the release of this provision is included in section 3.

Current year position ✔

Prior year position (if relevant) ✔

1. Significant audit risks

The results of our audit work on significant audit risks are set out below:

1 G	Risk appropriately addressed	1 A	Risk with information outstanding and audit subject to completion	1 R	Material unresolved matter

Recognition of GrantIncome	
G1 **We have not identified any errors in our sample testing of the grant income**	Accounting for grant income can be complex as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant. This risk was identified because presumed risk of fraud around revenue is a requirement under ISA 240 and as grant income is a material income stream to the Council (revenue and capital grants amounted to over £303m in 2012/13) and there is an element of professional judgement in determining whether certain grants have conditions or restrictions attached and whether those conditions or restrictions have been discharged.
Deloitte response	We performed detailed testing on a sample of revenue and capital grants, by reviewing correspondence attached to specific grants and comparing with the Council's accounting treatment. We have also tested the design and implementation of controls around grants and concluded that this is effective.Our testing identified no significant issues with the revenue and capital grants within the sample selected. In the prior year a recommendation was made around increased central monitoring of grants and the maintenance of a central grant register. This has been implemented in the current year with improved year-end monitoring through the use of a grant register however we recommend that this is further developed to operate continuously throughout the year.

1. Significantaudit risks (continued)

Valuation of the pension liability	
G1 **We consider the assumptions used to calculate the pension liability to fall within a reasonable range**	The determination of the net pension liability was identified as a risk because it is substantial, and its calculation is sensitive to small changes in judgemental assumptions made about future changes in salaries, mortality and other key variables. The total pension liability recognised in the draft financial statements of £806.8mrelates to the London Borough of Harrow (LBH) Pension Fund which is within the Local Government Pension Scheme (LGPS). The total net pension liability has increased by £104.8m on the prior year liability of £702.0m, mainly due to poor performance of the fund assets in the current economic environment and a change in the discount rate.
Deloitte response	We considered the Council's arrangements, including the use of actuarial services to calculate the pension liability, to be reasonable. We engaged our own actuarial experts to assist in the review of the assumptions used to calculate the pension liability and the resulting accounting entries and disclosures. Our actuaries have concluded that the assumptions used in the calculation are near the prudent end ofthe reasonable range. We highlight that the assumptions used in the prior year were also considered to be towards the prudent end of reasonable. Some specific findings from the review include: • Hymans Robertson has a standard assumption setting approach for the bulk of its clients which participate in anLocal Government Pension Scheme (LGPS). The financial assumptions reflect the duration (mean term) of the liabilities for a "typical" LGPS employer (which the actuary takes to be around 17 years). The assumptions do not therefore necessarily reflect the Section's profile. • Although the discount rate is relatively optimistic, the inflation increase assumptions are very prudent; in particular the Council has not applied an inflation risk premium (IRP) deduction to the inflation measure. The general market trend is to allow for an IRP. Had a typical IRP deduction been applied, the liability value could be approximately £35m lower. • No expected return on assets assumption has been provided. Although this assumption is not relevant under the revised IAS 19, it will be needed to quantify the impact in the FY14 accounts of adopting the revised IAS 19. • LGPSs are not sectionalised – the values of the assets and liabilities in respect of each participating employer (i.e. for each section) are determined only once every three years, the most recent valuation being as at 31 March 2010.

1. Significant audit risks

Revaluation of properties

G1 **We consider the Council's valuation of fixed assets to be reasonable**	The Council's substantial portfolio of property assets is subject to a rolling five year revaluation programme. In the 2012/13 year the Council undertook a detailed revaluation of assets with a carrying value of £75.0m, which equates to 10.0% of the £747.1m carried in the balance sheet value for property, plant and equipment at 31 March 2013. The revaluation of council dwellings (held within the Housing Revenue Account (HRA))was performed using indices provided by the Land Registry to the housing stock in order to update this valuation for the year ended 31 March 2013. In 2012/13 the Accounts presented for audit showed a reversal of impairment of £8.5m for Other Land and Buildings and £0.5m impairment on HRA Other Land and Buildings. • General Fund: an impairment of £2.7m was taken on other Land and buildings, compared to £4.6m in 2011/12. At a portfolio level, other land and buildings have shown a 4.2% reduction in value. This is in line with what we would expect for the types of assets valued. • Council Dwellings: the HRA has incurred an impairment of £0.5m and a reversal of impairment of £11.2m, compared to an impairment of £1.5m in 2011/12. This as a result of a 6.5% increase in the house prices in the borough to 31 March 2013. • Investment properties: the value of the portfolio has increased by 11.57% mainly due to higher rentals arising fromrent reviews on these properties during the year.
Deloitte response	We engaged our property specialists Deloitte Real Estate (DRE) to review the assumptions and methodology used to value the different types of land and property. We concluded that the valuation methods selected, and the way in which those methods were applied, werereasonable. The Depreciated Replacement Cost (DRC) method is normally only applied for specialised assets where there is no market-based evidence of fair value. We recommend that the valuer considers whether DRC is almost the most appropriate methodology to use. Valuation cross checks are also recommended e.g. value per space or per square foot to ensure that the valuation is reasonable. One misstatement was noted in the HRA valuation of £0.7m due to movement in the Housing Price Index used for the revaluation, between the date of the preparation of the revaluation and the date of the audit. This has been included in appendix 1. We have also identified a control observation related to the DRC method. For further information refer to section 3. As part of our testing we also considered whether there was any evidence of impairment to assets which might mean the carrying value of other assets was not appropriate. Management have provided us with evidence of their impairment review which considered properties that weren't subject to current year revaluation.

1. Significantaudit risks (continued)

Housing Revenue Account (HRA) self-financing	
G1 **We did not identify any issues from our testing of the HRA self-financing settlement**	In the year ending 31 March 2012, the Council made an HRA self-financing settlement payment of £88.46m, which will allow it to retain surpluses on the HRA account going forward. As a result, all HRA revenue and capital expenditure is expected to be funded from existing resources meaning that rent collection, depreciation, and impairment of HRA assets have a real impact on the HRA surplus or deficit. There are transitional arrangements in place for a 5 year period that allow the Council to mitigate the impact of depreciation or impairment of HRA dwellings by reducing the impact of a portion of depreciation on the bottom line. The Council has made the decision not to use these transitional arrangements. This is a new requirement in the current year and there is a risk that the impact of depreciation and impairment of HRA properties is understated; therefore it is considered a significant audit risk.
Deloitte response	We have reviewed the estimate on the depreciation charge of HRA properties to verify that it is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 Guidance Notes and Item 8 Determination. In the prior year, the amount used for depreciation was a formula calculation based on what the Council considered was the correct amount to put to reserves to maintain the housing stock. This value was described as the Major Repairs Allowance. In the current year, as a result of the new requirements, a true figure for depreciation has been used as calculated using Code of Practice guidelines. We have verified that the depreciation and impairment charges are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 Guidance Notes and Item 8 Determination and have not noted any material misstatements. We have worked with management to ensure that the policy disclosures in the financial statements adequately explain the change in estimate brought about by the change in guidance.

1. Significantaudit risks (continued)

Management override of controls	
G1 **We consider some of management's judgements to be at the more prudent end of an acceptable range.**	International Standards on auditing include a presumption of a risk of management override of key controls which cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to prevent inaccurate or even fraudulent financial reporting.
Deloitte response	Our work focused on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties. In testing journals, we made use of computer assisted audit techniques to analyse the whole population of journals and to identify those which had features which could be indicators of possible fraud and to focus our testing on these. We did not identify any issues from the work carried out. Key accounting judgements have been reported in this document as separate significant risks, notably the valuation of fixed assets and the valuation of the pension liability. Our testing concluded satisfactorily in each of these individual areas.We highlight to the committee that, the Council shows consistent examples of prudence in its application of judgement, and the assumptions made are within the acceptable range (as set out at the table at the start of Section 1). From the work performed on the employment/redundancy provision, our testing concluded that there were no material misstatements and the judgements applied were reasonable.A control recommendation related to the prior year provision was included in section 3. There were also no significant unusual transactions in the reserves note from the testing performed. There was prior period adjustment of £12.8m to opening reserves due to the correction of the net book value of a number of assets. Two new reserves were created in the current year: a Business Risk reserve of £1.7m and a MTFS (medium term financial strategy) Implementation Cost reserve of £4.8m. We have reviewed the nature of these reserves and are satisfied that they do not currently meet the criteria for recognition as provisions in the financial statements. We consider management's application of judgements to be materially reasonable and did not identify any instances where the business rationale was not clear.

2. Value for money conclusion

Scope of our work

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the London Borough of Harrow has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as "the VFM conclusion".

Our conclusion is given in relation to two criteria:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2013
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on the our responsibilities;
- any work mandated by the Commission – of which there was none in 2012/13; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Risk assessment

Our preliminary assessment identified two potential risks in relation to our VFM responsibilities, which we reported in our audit plan. These related to:

- Low level of reserves; and
- Lack of capacity in the finance department.

In our audit plan we said we would undertake a wider risk analysis but also pay specific attention to these areas. We have done this and report our findings below.

2.Value for money conclusion

Low level of reserves

The Council has low reserves, but in the past few years has shown good evidence of gradually adding to these reserves. A spending protocol was issued in 2012/13 and operated for the remainder of the year which resulted in a net under-spend against budget without impacting the achievement of operational plans for 2012/13.

Benchmarking against other London Boroughs, using information provided by the Audit Commission, highlights that the Councilhas a low spend per head and that the Council has low grant-funding – which reduces the impact that future central cuts can have on the Council.

Reserves have been increasing steadily over the last two financial periods as a result of close monitoring of spending within the Council.

The Medium Term Financial Strategy (MTFS) approved in February 2013 was balanced for the first two years of the four year period ending 2016/17. This decreases the risk that reserves will be required in balancing the budget in the near future. That being said, the risk remains that the savings planned in the MTFS are not realised. There is also a remaining risk related to the unbalanced budget for the last two years of the MTFS.

The Council has used their position as a low spending body to drive relationships with third parties,such as other Councils. With limited reserves, they will need to continue to monitor results against budget on an on-going basis and controlling costs against budget as envisioned in the MTFS.

Lack of capacity in the finance department

During the year there were a number of staff movements in the finance function, and a number of key members are currently nearing the end of their employment (either due to resignation or due to retirement). A new Director of Finance and Assurance was also appointed during the year.

The finance team has been restructured during the year; although the total heads remain comparable, the structure of the team has changed as a result. These changes arebeing sufficiently managed by the new Director of Finance and Assurance, who has the relevant skills and experience andis highly engaged in the finance function.

Overall conclusion

On the basis of the work detailed above, and supplemented by more general enquiries such as reviewing the matters reported in the Annual Governance Statement, and other matters which came to our attention, we concluded that there were no significant risks which required us to carry out furtherwork and we propose to issue an unqualified VFM conclusion.

3. Risk management and internal control systems

Our audit approach in relation to internal control was set out in our 'Briefing on audit matters' and our planning report circulated to you in March 2013.

Key controls over significant risks

In Section 1 we discussed the identified significant audit risks. For each of these significant audit risks we have assessed the design and implementation of internal controls in each of those areas, summarised below.

Council controls in operation	Deloitte procedures on controls	Conclusion
Recognition of grant income Managing of the grants is largely delegated to individual directorates and is only reviewed and compiled by Corporate Finance in the course of the year end close the books process.	We raised a recommendation in the prior year in relation to thecentral monitoring of grants. There is now a central register maintained which we have obtained and reviewed. This is only collated at year end, and could be improved by collating this throughout the year as grants are awarded.	A
Valuation of the pension liability The Council engages actuaries to value the pension liability. Corporate finance engages with the actuary to discuss and challenge the assumptions being made.	We have considered the competence of the actuarial support and corroborated the role that Corporate Finance plays in reviewing the assumptions and valuations that take place. We are aware of a change in staff in this area of finance that will impact on this area going forward. We have made recommendations on methodology improvement in section 1.	G
Revaluation of properties The property portfolio is revalued on a 5 year rolling basis internally, in accordance with the RICS Appraisal and Valuation Standards. Accounting entries for the revaluations are then recorded by the Finance team.	We have considered the competence of the internal valuers and verified that the revaluations are appropriately recorded. We identified one instance where the valuer was using a different approach to that expected, albeit reaching the same conclusions.We have made a control recommendation later in this section.	A/G

G No issues noted A Requires improvement R Significant improvement required

3. Risk management and internal control systems (continued)

Council controls in operation	Deloitte procedures on controls	Conclusion
Management override of controls - journals Management is aware of key controls and judgements and has detailed these in the accounting policies. Hierarchical controls are in place with journals.	We have considered the key judgements highlighted by management and tested the design and implementation of controls around manual journals. We would recommend that management review journals before posting.	A
Management override of controls - isolated provisions Where management do not have the expertise to assess the value of the provision, third party experts are engaged (such as for the Municipal Mutual Insuranceliability). For the employment provision management were able to assess the appropriateness of recognising a provision and have data to support the valuation from payroll.	We have reviewed the working papers supporting the justification and value of the employment provision.	G

3. Risk management and internal control systems (continued)

Risk management and control observations

We have identified a number of control observations, the most significant of which are detailed below:

1. Authorisation of Journals	
Description	Our journal testing highlighted that journals over £20,000 are required to be authorised and reviewed on an ad-hoc basis. We noted that journals are often only authorisedafter they have been posted, and as such the controls around authorising journals have scope for improvement.
Recommendation	Authorisation of journals should be performed prior to the posting of the journal and evidenced by dated signatures of personnel with the appropriate authority to authorise journals.
Management response	System developments are already underway to ensure all journals are validated before posting.
Timeframe:	October 2013
Owner:	Head of Technical Finance and Accounting

3. Risk management and internal control systems (continued)

2. Adoption of Government Financial Reporting Manual (FReM) Requirements in Explanatory Foreword	
Description	The Code of Practice for 2012/13 applies all International Financial Reporting Standards and interpretations which are in effect for the accounting periods commencing on or before 1 January 2012. One of the key changes in the 2012/13 edition of the Code relates to the content of the Explanatory Foreword. In the Council's 2012/13 Accounts, the FReM requirements have not been adopted in the Explanatory Foreword.
Recommendation	Whilst the content and style of the Explanatory Foreword have been and still will be left to local judgement, the 2012/13 Code encourages local authorities to take into the consideration the requirements of sections 5.2.8 to 5.2.12 of the Government Financial Reporting Manual (FReM) where these requirements are relevant to a local authority. It is recommended that the Council adopts the new FReM requirements in the Explanatory Foreword to the Accounts and includes additional disclosures.By electing to prepare an Explanatory Foreword in accordance with the requirements of the FReMthe Council would need to disclose the matters required for disclosure under section 417 of the Companies Act 2006. In doing so, it is recommended that the Council takes into consideration the recommendations made by the Accounting Standards Board's Reporting Statement *Operating and Financial Review* as interpreted by the FReM for a public sector context. Specific additional disclosure that would be required include, but are not limited to, a brief history of the authority and its statutory background, an explanation of the going concern basis, details of company directorships and other significant interests held by members and sickness absence data.
Management response	Work is in progress to ensure the disclosure requirements of FReM are met for 2013-14 accounts.
Timeframe:	April 2014
Owner:	Head of Technical Finance and Accounting

3. Risk management and internal control systems (continued)

3. Use of Depreciated Replacement Cost methodology on Valuation of Assets	
Description	Depreciated Replacement Cost(DRC) methodology has been applied in the valuation of certainLand and Buildings.Where there is no market-based evidence of fair value because of the specialist nature of an asset, DRC is used as an estimate of fair value. Where the DRC method has been used, the specialist nature of the asset should be considered to ascertain whether DRC is the most appropriate method, as this method is of last resort and is only to be relied on if it is impractical to produce a reliable valuation using other methods. From the testing performed around the revaluation of assets, it was noted that for one asset, DRC was applied although it not the most appropriate methodology, as we believe there would be a market for this building assuming vacant possession. The impact, however, was not material.
Recommendation	There should be consideration of the most appropriate methodology applied in valuing each asset as DRCmay not be the most appropriate valuation methodology. Valuation cross checks are also recommended e.g.: value per space or per square foot to ensure that the valuation is reasonable.
Management response	The comments will be discussed with the valuation team and taken into account where considered appropriate in forthcoming valuations.
Timeframe:	By 1 April 2014
Owner:	Head of Service Corporate Estate

3. Risk management and internal control systems (continued)

4. Timely addressing of Complaint Investigations	
Description	It came to our attention during the course of our audit procedures that an investigation relating to a councillor's personal conduct had not been concluded. The related complaint about the councillor's behaviour had not been referred to the Standards Committee in a timely manner. This was due to a transition period where the responsibility moved from an individual that was being made redundant to the Director of Finance and Assurance. As a result of this having been discussed at length during the audit, we understand that the matter was dealt and concluded in the September Standards Committee, however the recommendation remains.
Recommendation	The Council must ensure that all complaints relating to councillors' conduct are addressed on a timely manner and using the established reporting protocols. Additionally the Council should ensure that there is full hand over of duties where those in senior posts leave and that these individuals are not making key Council decisions in their notice period.
Management response	Reporting lines will be reviewed for such cases to ensure that changes in structures do not in future impinge on the timeliness of complaints being passed to the Standards Committee.
Timeframe:	September 2013
Owner:	Director of Finance and Assurance

3. Risk management and internal control systems (continued)

5. Overstatement of prior year redundancy provision	
Description	In the prior year a redundancy provision was created, amounting to £3.8m, of which only 28% was utilised in the current year. This resulted in a net credit to the Comprehensive Income and Expenditure Statement (CIES) in the current year. The impact of the prior year overstatement of the redundancy provision is effectively recognition of expenses in the prior period that related to the current period.
Recommendation	We recommend that provisions are reviewed at year end to determine whether they are in line with the requirements of International Financial Reporting Standards and that they represent management's best estimate of the potential liability at year end.
Management response	The estimates and funding required for future redundancy payments were reviewed thoroughly as part of the 2012-13 closing process and classified between provisions and reserves in line with the requirements of IFRS
Timeframe:	Already in place as part of 2012-13 closing process
Owner:	Head of Technical Finance and Accounting

3. Risk management and internal control systems (continued)

6. Separate bank accounts – a prior year recommendation	
Description	West London Waste Authority (WLWA) does not have its own bank account; instead its transactions are processed by the Council in its account. Errors found in the course of the prior year audit of WLWA highlighted that value of the related party balances between Harrow and WLWA are simply the balancing figure in the trial balance.
Recommendation	We have raised for a number of years now the importance of separate accounts. Organisations must capture their correct cash value at all times rather than the value being a reporting date balancing figure. Without an accurate cash value being available for each organisation at a point in time it is difficult for the organisations to prioritise its resources their resources if funds are not allocated between organisations.
Management response	Processes and controls were already in place for 2012-13 to capture the correct cash balance and this will continue for the 2013-14 financial year. From 1 April 2014, WLWA are going to use a separate accounting system along with separate bank account and VAT registration.
Timeframe:	April 2014
Owner:	Director of Finance and Assurance

3. Risk management and internal control systems (continued)

7. Increased use of SAP to reduce manual journals – a prior year recommendation	
Description	There are a significant number of complex high value journals required to reconcile the day-to-day accounting ledger to the reported position and results in the financial statements.
Recommendation	The accounting software (SAP) is not set up in a way to facilitate a clean and swift year end close the books process. We are aware that management are considering potential improvements to the IT control environment and we recommend that a more organisation-specific version of SAP is used to reduce the level of manual intervention and override in the financial statement process. Additionally this would reduce the level of staff input and hence reduce the pressure on the team.
Management response	Systems development already in progress. A number of improvements will be implemented for 2013-14 closure process. The development work will continue in to 2014-15.
Timeframe:	Ongoing
Owner:	Head of Technical Finance and Accounting

3. Risk management and internal control systems (continued)

The points discussed below were noted in the course of our IT audit. No new recommendations were found in the course of the current year work; however those discussed below were raised in the 2010/11 year, but have not yet been fully addressed:

2010/11 Finding	Status		2011/12 Year Audit Update	2012/13 Year Audit Update
	On-going	Outstanding		
Third Party Access A number of systems are supported by third parties, for example Northgate on IWorld. Access to support these systems is given through shared, generic, unrestricted, and unmonitored accounts. Although we understand the requirement for third party access and access is given as required in the support contracts and SLA's, the use of these accounts removes individual accountability for actions taken, while logged on to the system. There is also a risk that without limiting the access and removal of access when not required that the controls set at a Harrow level will not be adhered to, for example an risk of modifications bring made which have not gone through the formal change management process. **2011 management comments:** All third parties sign a "Code of Connection" contract prior to access being granted on Harrow's systems. This contract is company specific and covers areas such as security, disaster recovery, business continuity planning and staff vetting. Once signed, 3rd party companies are able to login through remote access.	X		**2012 management comments:** Controls have been put in place so that access by a third party is enabled by Capita each time it is required on written request through the Change Management process. Additionally, for some systems the business owner holds the access token so that the third party has to call the Council to get a unique access code each time they log on.	Controls have been put in place so that access by a third party is enabled by Capita each time it is required on written request through the Change Management process. Additionally, for some systems the business owner holds the access token so that the third party has to call the Council to get a unique access code each time they log on.

4. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Companies Act, we are required to report to you on the matters listed below.

Confirmation	
We confirm we comply with APB Revised Ethical Standards for Auditors	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Non-audit services	
We confirm that our independence is not compromised by our provision ofnon-auditservices.	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors, the Audit Commission's additional instructions in relation to independence and non-audit services provided.

Fees	
The level of non-audit fees is within appropriate guidelines.	An analysis of professional fees earned by Deloitte in the year from 1 April 2012 to31 March 2013 is included in appendix 2.

5. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in March 2013 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the board and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the London Borough of HarrowGovernance, Audit and Risk Management Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Deloitte LLP

Deloitte LLP

Chartered Accountants

St Albans

12September 2013

Appendix 1: Audit adjustmentsand prior period adjustment

Uncorrected audit adjustments

Description	Assets DR / (CR) £	Liabilities DR / CR) £	Equity DR / (CR) £	Income Statement DR / (CR) £
HRA Revaluation difference due to change in HPI between preparation of account and audit date	728,528		(728,528)	

Correctedaudit adjustments

We identified no adjustments to the draft financial statements,over our threshold for reporting to you.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements.

We have not identified any significant disclosure misstatementsthat warrant disclosure to the GARM committee.

We are finalising our review of the financial statements at the time of writing and we will provide an update on the position at the meeting. This will take account of any events up to the date of approval of the financial statements that may need to be taken into account.

Prior period adjustment

A prior period adjustment of £12.8m has been made by the council in the 2012/13 Accounts. This arose from the incorrect application of the useful economic life and the resultant under-charging of depreciation in prior periods. This adjustment corrected the net book value of the assets.Typically a change in useful economic life would be accounted for prospectively and hence management have applied judgement in concluding that the original useful economic life was in fact allocated in error.

Appendix 2: Independence – fees charged during the year

The professional fees earned by Deloitte in respect of the period 1 April 2012 to 31 March 2013 are as follows:

		2012/13 £'000	2011/12 £'000
Fees payable in respect of our work under the Code of Audit Practice	[1]	193	271
Fees payable in respect of our work under the Code of Audit Practice – extensions to audit work	[2]	8	12
Fees payable in respect of the WGA return		5	5
Fees payable in respect of the certification of grants	[3]	43	110
Fees payable in respect of our work on value for money/use of resources	[4]	-	54
Fees payable in respect of our work under the Code of Audit Practice in respect of the Pension Fund		21	35
Other	[5]	16	-
Audit services provided		286	487

[1] The2012-13scale fees that the Audit Commissionhas setinclude reductions of up to 40% on 2011-12 fees. These result from savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

[2] Extensions to audit work is the fees charged in relation to our procedures required in addressing objections to the accounts.

[3] For 2012-13, the Audit Commission has replaced the previous schedule of maximum hourly rates with a composite indicative fee for grant certification work. This is based on the actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40% reduction.

[4] For 2012-13, the VFM conclusion work does not have a separate fee allocated to it by the Audit Commission.

[5] Other relates work for the 2011-12 audit and relates tooverruns charged additional workrequired to finalise the audit of the financial statements.

At the time of writing we are working on queries received in relation to the proposed development of Whitchurch Playing Fields for which we have not yet agreed a fee with management.

Appendix 3: Management representation letter

This representation letter is provided in connection with your audit of the financial statements of London Borough of Harrowfor the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of London Borough of Harrow as of 31 March 2013 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework and the Accounts and Audit Regulation 2003 (as amended).

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Accounts and Audit Regulations 2003 (as amended) which give a true and fair view, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures".*
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.[*This appendix has not been included in this report as these are detailed in Appendix 1]*
6. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. We are not aware of events or changes in circumstances occurring during the period which indicates that the carrying amount of fixed assets or may not be recoverable.
8. Except as disclosed in the Statement of Accounts, as at 31 March 2013 there were no significant capital commitments contracted for by the Council.

Appendix 3: Management representation letter

9. *We are satisfied that the holiday pay accrual represents our best estimate of the holiday pay liability as at 31 March 2013.*

10. *We are satisfied that the banking arrangements in place between London Borough of Harrow and West London Waste Authority are deemed to be satisfactory and that no material qualitative or quantitative error arises in the Council's records as a result of control weaknesses identified in the year.*

11. *The methods and models used to determine fair values in the context of the applicable financial reporting framework and Royal Institution of Chartered Surveyors guidance are appropriate and have been applied consistently.*

12. *We confirm that the approach to depreciating material components of dwellings held by the HRA is in accordance with the CIPFA Code of Practice on Local Authority Accounting 2012/13.*

13. *We confirm that in our opinion the bad debt provision policy currently in place is considered to be adequate but not excessive.*

14. *We confirm that the disclosures made in the Statement of Accounts in respect of Heritage assets represent a complete disclosure of the existence of assets which fall within the scope of Heritage assets under The Code of Practice on Local Authority Accounting in the United Kingdom 2012-13, and our most accurate available information on the valuation of these assets.*

15. *We confirm that there are no under-utilised assets and that there are no plans in place to demolish or make any changes to assets which would cause a change in carrying value.*

16. *The annual governance statement is representative, to the best of our knowledge, of the events arising, activities undertaken and performance of the Council in the financial year.*

17. *We are satisfied as to the appropriateness and reliable operation of the new control environment that has been implemented as a result of the closing of account codes which were still live in the prior year.*

18. We consider the organisation has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness.

Appendix 3: Management representation letter

Information provided

19. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

20. All minutes of Council and committee meetings during and since the financial year have been made available to you.

21. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

22. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

23. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

24. We are not aware of any fraud or suspected fraud thataffects the entity or group and involves:

(i) management;

(ii) employees who have significant roles in internal control; or

(iii) others where the fraud could have a material effect on the financial statements.

25. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

26. We are not aware of anyinstances of non-compliance,or suspected non-compliance, with laws, regulations and contractual agreementswhose effects should be considered when preparing financial statements

27. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Appendix 3: Management representation letter

28. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect.

29. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

30. We confirm that:

    - all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
    - all settlements and curtailments have been identified and properly accounted for;
    - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
    - the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
    - the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
    - the amounts included in the financial statements derived from the work of the actuary are appropriate.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the Board of Directors

This page is intentionally left blank

Deloitte.

London Borough of Harrow Pension Fund

Report to the Governance, Audit and Risk Management Committee on the 2012/13 Local Government Pension Fund Audit

Final Report

1

16 September 2013

Contents

Contents

Executive summary

We have pleasure in setting out in this document our report to the Governance, Audit and Risk Management Committee "GARM" of London Borough of Harrow Pension Fund ("the Fund")"for the year ended 31 March 2013 for discussion at the meeting scheduled for 16 September 2013. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2013.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Status	Description	Detail
Completion of the audit		
On satisfactory completion of the outstanding items we anticipate issuing an unmodified audit opinion	We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan. We have substantially completed our audit in accordance with our Audit Plan, which was presented to you prior to the commencement of the audit, subject to the satisfactory completion of the matters set out below: • completion of our procedures around the cash balance; • receipt of signed management representation letter (see Appendix 1); and • update of post balance sheet event review. We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters. At the date of this report, and subject to the satisfactory completion of the outstanding matters referred to above, we expect to issue an unmodified audit opinion.	N/A

Executive summary (continued)

Key findings on audit risks		
We have addressed the risks identified in our planning report	We discuss within Section 1 the results of our work in relation to key audit risks which have been identified as being significant to the 2012/13 accounts, and which were presented in our Audit Plan to the GARM in March 2013, as follows: **Key risks** 1. **Contributions:** The risk surrounding identification, calculation and payment of contributions, due to the complexities surrounding admitted bodies has been satisfactorily addressed through our testing. No issues were noted. 2. **Benefits:**Complexities in the calculation of both benefits in retirement and ill health and death benefits have been reviewed during our testing with no issues identified. 3. **Investments:**The private equity investment reports have been reviewed during our testing and we have identified a corrected adjustment. See discussion below. Derivative financial instruments have also been successfully tested. 4. **Management override of controls:** All testing was completed with satisfactory results.	Section 1

Identified misstatements		
No factual uncorrected misstatements have been identified. We have identified one corrected misstatement above the threshold for reporting to you	Audit materiality was set at £4.4 million (2011/12 £6.3 million). This is a decrease from the £4.8m set out in our audit plan. We report all unadjusted misstatements greater than £220,000 (2011/12: £319,000) to you, as well as any misstatements that are qualitatively material. A misstatement for the amount of £0.5 million was identified in the Pantheon private equity year-end valuation which we wish to report to you. The year-end balance had been rolled forward from the December 2012 valuation by accounting for the cash movements. We obtained the valuation report as at 31 March 2013 directly from the investment manager giving rise to this increase in the private equity valuation. This misstatement was corrected by management. We also identified a deficiency around the disclosure of the investments greater than 5% of net assets and the disclosures around sensitivity analysis of investment risks. The latter has not been corrected by management. There are no identified factual uncorrected misstatements above this level and no qualitatively material misstatements that we wish to bring to your attention, subject to completion of the above procedures.	N/A

Executive summary (continued)

Accounting and internal control systems		
The internal control systems are very strong, however further improvements could be made	We previously reported to you in our report on the 2011/12 audit that we identified two areas for improvement in relation to the internal control systems. These improvements related to the authorisation of journal entries and setting up a new bank account for the pension fund. We are pleased to confirm that our recommendations regarding the journal entries have been addressed although there are still improvements that could be made. However, for the latter, the use of the bank account could be improved further to develop a higher level of governance over the Pension Scheme cash and clearly show that provisions of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 are being met. We have raised two suggestions during the course of this year's audit relating to the segregation of duties around the bank reconciliations and the lack of a pension fund risk register. We note that there is to be a change in personnel in the pensions accounting function. We recommend that the handover process is appropriately conducted to ensure current good practices and maintained.	Section 2

Current accounting and regulatory issues		
	We have included within this report accounting and regulatory issues that affect the pension fund industry, particularly focus areas of the Pensions Regulator (TPR). Although the London Borough of Harrow Pension Fund is not currently regulated by TPR these are guidelines for improving processes and represent best practice in the industry.	Section 3

1. Key audit risks

The results of our audit work on key audit risks are set out below:

Contributions	
Audit risk	Unlike the position in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, in view of the complexity arising from the participation of different employers within the Fund, we have included the identification, calculation and payment of contributions as an area of significant risk.
Deloitte response	We have performed the following testing to address the significant risks around contributions: • reviewed the design and confirmed the implementation of controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly. • we performed test of details to test whether each material income stream was calculated in accordance with the actuarial valuation and schedule of rates. • we developed an expectation based on changes in membership and changes in contribution rates to analytically review the contributions received in the year, the results of which fell within our tolerance level; and • reconciled the membership movements in the year to the Financial Statements, ensuring that these included members from the admitted bodies. All testing was completed with satisfactory results. We note that London Borough of Harrow as the administering authority is not responsible for the calculation of employers' contributions for each of the scheduled and admitted bodies. These are calculated by the payroll departments of the relevant scheduled and admitted bodies. We have therefore performed our testing, where necessary, with the assistance of the individual bodies as necessary.

1. Key audit risks (continued)

Benefits	
Audit risk	Changes were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits which are in addition to the annual increases required by the 1997 Regulation and Pension (Increases) Act 1971.
Deloitte response	The following tests were performed to address the risk around benefits: • we reviewed the design and confirmed the implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing that controls were in force during the year under review; • we obtained a schedule of benefits paid in the form of transfers out, lump sums and death grants and using supporting calculations, we tested whether benefits were in accordance with the appropriate rules; • we performed tests of detail on a sample of benefits paid, by agreement to supporting documentation, to test whether benefits for new pensioners were in all material respects correctly calculated, by reference to their qualifying service, scheme rules and benefit choices made; and • we developed an expectation based on the prior year balance, adjusted for changes in membership numbers and pension increases to analytically review the pension benefits paid in the year. All testing was completed with satisfactory results.

1. Key audit risks (continued)

Investments	
Audit risk	The Fund makes some use of private equity investments and derivative financial instruments. Private equity funds are complex to value and include an element of judgement on the part of the investment manager. Given that these funds form a material balance within the Pension Fund accounts, we have identified the valuation of these funds as a key audit risk. The Fund also makes use of derivatives which can be complex in terms of accounting, measurement and disclosure requirements. The fair values of derivatives held at year-end have an asset position of £0.8 million and a liability position of £3.1 million. This gives a net position of -£2.3 million (2012: £1.6 million).
Deloitte response	The following tests were performed to address the significant risk around investments: • we reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly; • we reconciled the total value of the investments held by the Fund as reported in the Net Assets Statement to independent confirmations received directly from the investment managers; • we have performed a test of detail on a sample basis of quoted investments and compared the value to the quoted price obtained from Bloomberg, Datastream or other third party sources; • we performed an analytical review on the performance of the portfolio; • we carried out sample testing on sales and purchases made in the year; • we reviewed the year end portfolio for compliance with the Statement of Investment Principles (SIP); • we obtained an understanding of the valuation of private equity investments through discussion with the investment manager. The private equity investment manager valuation was obtained for the quarter to 31 December 2012 and this was compared to the audited financial statements for the year ended 31 December 2012 to determine the investment manager's ability to forecast valuations. The percentage difference was extrapolated to the valuation as at 31 March 2013 to determine the possibility of a material misstatement; and • we engaged our internal experts to review the use of derivatives and to recalculate the value of a sample of open contracts. A misstatement for the amount of £0.5 million was identified in the Pantheon private equity year-end valuation. The year-end balance had been rolled forward from the December 2012 valuation by accounting for the cash movements. We obtained the valuation report as at 31March 2013 directly from the investment manager giving rise to this increase in private equity valuation. This misstatement was corrected by management. We identified a deficiency around the disclosures of the investments greater than 5% of the net assets. It was noted that the fund values had been disclosed for all other investment managers whereas the total investment value for Fidelity had been disclosed. This was corrected by management in the financial statements. Another disclosure deficiency was noted which was not corrected as management do not believe it to be material to the financial statements.This is related to insufficient disclosures of the sensitivities to investment risk in line with CIPFA's Code of Practice, intended to assist the users of the financial statements to properly understand the risk of the investments.

1. Key audit risks (continued)

Management override of controls	
Audit risk	We are required by ISA 240 'The auditors' responsibility to consider fraud in an audit of the financial statements' to presume there is a significant risk of management override of the system of internal controls.
Deloitte response	The following tests were performed to address the risk of management override of controls: • we reviewed analysis and supporting documentation for journal entries, key estimates and judgments; • we performed substantive testing on journal entries to confirm that they have a genuine, supportable rationale; • we reviewed ledgers for unusual items and on a test basis investigated the rationale of any such postings; • we reviewed significant management estimates and judgments such as year-end accruals and provisions and consider whether they are reasonable; and • we made enquiries of those charged with governance as part of our planning and detailed audit processes. All testing was completed with satisfactory results.

2. Accounting and internal control systems

Current year control observation

Segregation of duties around bank reconciliations	
Observation	As part of our work around the design and implementation of key controls, we identified that there are insufficient controls around the segregation of duties for bank reconciliations. The bank reconciliations are currently not reviewed and signed off by an independent reviewer.
Recommendation	An employee should be responsible for preparing the bank reconciliations on a regular basis and these should be reviewed and signed off by the Head of Pensions or similar, to ensure that all potential errors are identified and corrected on a timely basis.
Management response	We agree with the above observation and recommendations.

Risk register	
Observation	As part of our audit work around the design and implementation of key controls, we identified that the pension team do not maintain their own risk register.
Recommendation	It is recommended that risks should be recorded in a risk register and should be regularly reviewed to ensure that they are being appropriately monitored and managed. This will promote good governance within the Fund.
Management response	We agree with the above observation and recommendations.

2. Accounting and internal control systems (continued)

Prior year control observations

During the course of our 2011/2012 audit we identified areas for improvement in the internal control systems which are detailed below:

Authorising journals	
Observation	There is no policy for authorising journals before they are posted to the general ledger.
Recommendation	The Officers of the Fund should consider implementing a review process to ensure that all journal entries are reviewed and authorised before they are posted to the general ledger.
Management response	Agreed. From August 2012, a paper file has been maintained of all journals processed into SAP for the pension fund. All journals will be authorised in writing by the Treasury and Pension Fund Manager prior to posting to SAP by another member of the Corporate Finance team.
2012/2013 update	The process around the authorisation of journals continues to be an area of improvement for the Fund. All journals over £20,000 aim to be authorised and over-seen on an ad-hoc basis. Journals are often authorised after they have been posted, and as such the controls around authorising journals are weak. See also the recommendation in the London Borough of Harrow report.

2. Accounting and internal control systems (continued)

Separate bank account	
Observation	Following implementation of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 that apply from 1 April 2011, there is a new requirement for each pension fund to have a separate bank account. This change has been being adopted because it will enable pension fund monies to be clearly ring-fenced from other monies of the local authority, and thus reflects a longstanding Audit Commission view on best practice. We noted that whilst the scheme has set up the account in line with the required timeframe, it has not been used for all transactions within the pension scheme. The current process is that some transactions such as the employers' contributions from Harrow Council continue to be processed through the main bank account with a regular transfer to the pension scheme bank account. This means that at any point in time there may be pension scheme cash within the main Council bank account.
Recommendation	Whilst this process could be considered to comply with the 2009 regulations, we recommend that it is amended so that this account is utilised for all cash transactions regarding the pension scheme, in particular the receipt of contributions. This will give the Fund greater clarity over the transactions undertaken by the scheme, and demonstrate improved governance and compliance with regulations.
Management response	The Fund is now compliant with the regulations concerning pension fund bank accounts. During 2011/12 all pension fund cash movements were processed through Harrow Council bank accounts as discussed in the Report, with monthly (or more frequent) settlements. This approach changed from April 2012 and all contributions from employers other than Harrow Council are now directly banked into the pension fund current account. The IT project to run pension fund BACS transactions for pensions and lump sums against the pension fund bank account has been completed and has been in operation since June 2012. The small value of cheques that are still processed through the Harrow Council account on cost efficiency grounds and contributions from Harrow Council and expenses paid by Harrow Council remain subject to a monthly aggregation and settlement. No further changes are planned to these procedures.
2012/2013 update	Management comments above have been implemented in the year.

3. Current Accounting and Regulatory Issues

Upcoming financial reporting developments

For reference, the following developments in the pension industry may impact the governance arrangements and financial statements of the London Borough of Harrow Pension Fund. Whilst we appreciate that the Local Government Pension Scheme is not regulated by the Pensions Regulator, we consider their guidance to be indicative of what is currently considered to be best practice in the pensions sector.

<table>
<tr><th colspan="2">Pensions Act 2013</th></tr>
<tr><td></td><td>The Pensions Act received Royal Ascent in parliament and hence will come into force from 2015. The key changes of the bill are:

• reform the State Pension system through the introduction of a single-tier pension;
• manage future changes to the State Pension age including bringing forward the increase in State Pension age to 67;
• reform the range of benefits associated with bereavement;
• boost the consolidation of small pension pots;
• introduce a new statutory objective for the Pensions Regulator; and
• strengthen existing legislation relating to occupational pensions.

It is anticipated that LGPS will begin to be regulated by the Pension Regulator as part of this bill from 2015. This will mean that the schemes will need to consider the guidance put in place by the regulator and comply with the best practice advice from 2015.

Further information can be found at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/197840/pensions-bill-ia-summary.pdf</td></tr>
</table>

4. Other matters for communication

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below

Independence	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Fund's policy for the supply of non-audit services or of any apparent breach of that policy. To confirm we have not performed any non-audit services in the year or previous year.
Fees	Our fee for the audit of the pension fund for the year ending 31 March 2013 is £21,000 (2012: £35,000). The 2012-13 scale fees that the Audit Commission has set include reductions of up to 40% on 2011-12 fees. These result from savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.
Relationships	We are required to provide written details of all relationships between us and the audited entity, its trustees and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its trustees and senior management and its affiliatesthat we consider may reasonably be thought to bear on our objectivity and independence and the related safeguards that have been put in place. We can confirm that we are not aware of any such relationships.

5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

Our audit was not designed to identify all matters that may be relevant to London Borough of Harrow Pension Fund and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the London Borough of Harrow, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Chartered Accountants
St Albans
16 September 2013

Appendix 1: Draft representation letter

Deloitte LLP

Our Ref: ***DWB/PJS/2013*** ***Date:***

Dear Sirs

London Borough of Harrow Pension Fund (the "Fund")

This representation letter is provided in connection with your audit of the financial statements of the fundfor the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Fund, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, the financial transactions of the Pension Fund during the year ended 31 March 2013, and the amount and disposition of the fund's asset and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the fund year.

We acknowledge as members of London Borough of Harrow Pension Fund our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Fund and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of Officer and Committee member meetings, have been made available to you.

2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Fund involving:
   (i). management;
   (ii). employees who have significant roles in internal control; or
   (iii). others where the fraud could have a material effect on the financial statements.

5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by members, former members, employers, regulators or others.

6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.

Appendix 1: Draft representation letter (continued)

7. Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Fund. Any significant changes in those values since the balance sheet date have been disclosed to you.

8. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements.

   We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Fund and confirm that we have disclosed in the financial statements all transactions relevant to the Fund and we are not aware of any other such matters required to be disclosed in the financial statements, whether under Statement of Recommended Practice – Financial Reports of Pension Schemes (revised May 2007) ("Pensions SORP 2007"), Code of Audit Practice on Local Authority Accounting in the United Kingdom in 2012/13: based on International Financial Reporting Standards or other regulations.

9. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

10. You have been informed of all changes to the Fund rules during the year and up to the current date.

11. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements.

12. No claims in connection with litigation have been or are expected to be received.

13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

14. There have been no events subsequent to 31 March 2013 which require adjustment of or disclosure in the financial statements or notes thereto.

15. There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

Appendix 1: Draft representation letter (continued)

16. The pension fund accounts and related notes are free from material misstatements. The effect of disclosure deficiencies is immaterial. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.

17. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

18. The Fund has satisfactory title to all assets.

19. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

20. No transactions have been made which are not in the interests of the members of the Fund during the Fund year or subsequently.

21. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

22. All trades in complex financial instruments are in accordance with our risk management policies,have been conducted on an arm's length basis and have been appropriately recorded in the accounting records,including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments(including any embedded derivatives and written options) and other financial instruments has been withheld.

23. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

Appendix 1: Draft representation letter (continued)

24. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2013 is complete, accurate and consistent with the information that is contained within the Accounts.

We confirm that the above representations are made on the basis of adequate enquiries of other officials of the Fund (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.
Yours faithfully

Signed on behalf of London Borough of Harrow Pension Fund

Appendix 1

Schedule of Uncorrected Misstatements

Description	Assets DR / (CR) £	Liabilities DR / CR) £	Equity DR / (CR) £	Income Statement DR / (CR) £
No uncorrected misstatements to note				

Disclosure deficiencies:

#	Disclosure title	Description of the deficiency and explanation of why not adjusted	Amount (if applicable)
1	Sensitivity analysis	This disclosure deficiency was not corrected as management do not believe it to be material to the financial statements. This is related to the insufficient disclosures of the sensitivities to investment risk in line with CIPFA's Code of Practice, intended to assist the users of the financial statements to properly understand the risk of the investments.	Not applicable

This page is intentionally left blank

Pension Fund Annual Report 2012-13

London Borough of Harrow Pension Fund

CONTENTS

1 Introduction

The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the Harrow Council Pension Fund (‘the Pension Fund’) for the financial year to 31 March 2013. This report also explains the administration and management of the Fund, the investment and funding policy objectives, asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Pension Fund is provided by the net assets statement. The actuarial funding level is reported on page ten and in the Statement of the Consulting Actuary.

The Pension Fund Investment Panel is responsible for overseeing the management administration and strategic direction of the Pension Fund. The Panel continuously reviews the Fund’s investment strategy to improve returns within acceptable risk parameters. This in turn minimises the amount the Council and other employers will need to make in contributions to the scheme to meet future liabilities.

Major stock markets rallied over the course of the year albeit with high volatility as fears of financial crisis were replaced by mild optimism that growth was returning to the developed economies. Bonds benefited from central bank purchases and expectations of prolonged low interest rates to touch all time low yields. Inflation in the UK has remained stubbornly above target but is subdued in the most developed economies. The market value of the Fund as at 31 March 2013 was £552.2m compared to £488.9m as at 31 March 2012. The London Borough of Harrow Pension was ranked in the 67th percentile in the Local Authority Annual League Table of investment returns for the year ended March 2013.

Simon George

Director of Finance and Assurance
XX September, 2013

2 Administration of the Fund

The London Borough of Harrow Pension Fund is administered in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Management and Investment of Funds) Regulations 2009. Its purpose is to provide pensions to all the Council's employees with the exception of teaching staff. Also included are certain employees of admitted and scheduled bodies who have gained admittance to the Fund in accordance with the Fund's admittance criteria. The London Borough of Harrow is the administrating employer.

Scheduled Employers

This is a statutorily defined body listed within Local Government Pension Scheme (LGPS) Regulations and has a statutory obligation to participate in the LGPS (e.g. a local authority, a further or higher education establishment).

Admitted Employers

There are two types of admission body:

Community Admission Body – These are typically charities or other not-for-profit public sector bodies providing a public service which has sufficient links with the Scheme Employer to be regarded as having a community of interest.

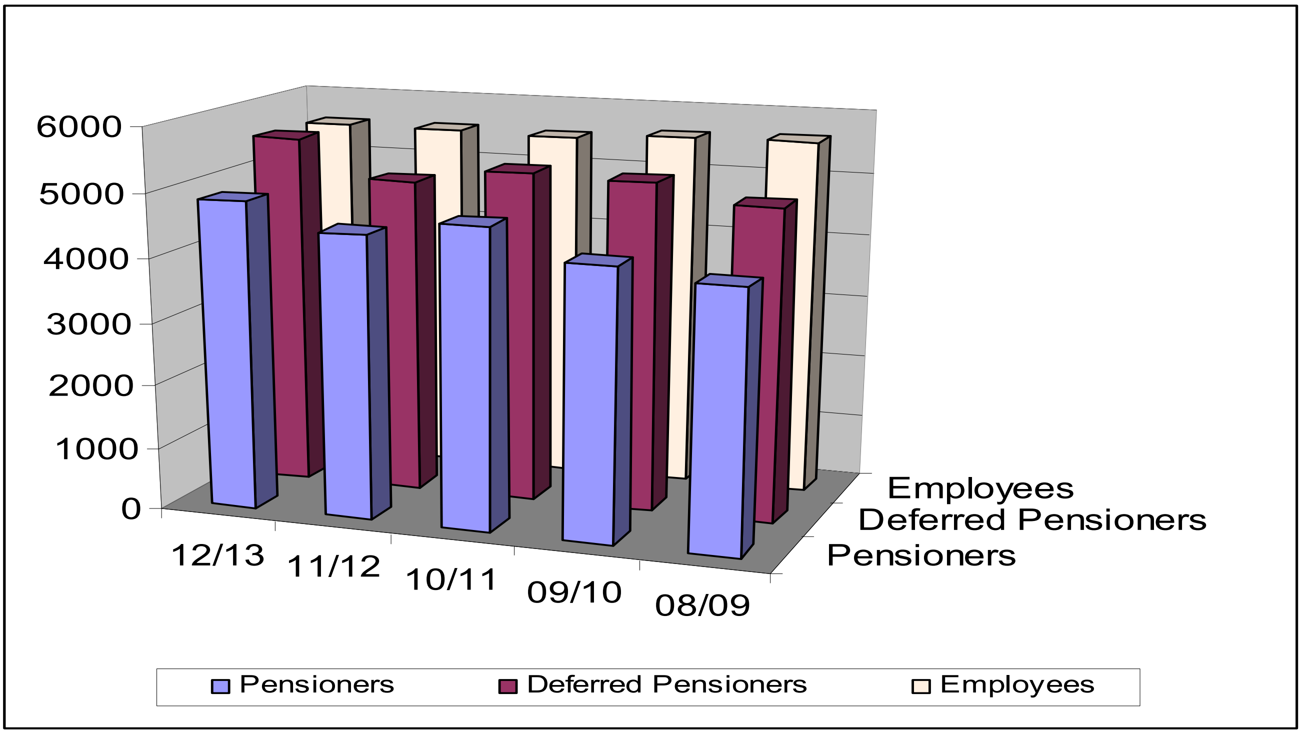
Transferee Admission Body – These are typically private sector companies or charities who will have taken on staff from a local authority as a result of an outsourcing of services.

The scheduled and admitted employers to the fund are listed in the table on the following page.

Membership of the Fund is voluntary. Full-time, part-time and casual employees where there is a mutuality of obligation and who have a contract of more than three months are brought into the Fund automatically, but have the right to "opt out" if they so wish. Casual employees with no mutuality of obligation are not eligible for membership. Contributors to the Fund are contracted out of the State Second Pension.

The Fund is financed by accumulated contributions paid by employees and their employers together with returns from the investment of fund monies. The pension benefits payable out of the Fund are primarily determined by legislation and not by the local authority.

Membership of the Fund



Employer	Status	Actives	Deferred	Pensioners	Total	%
Harrow Council	Scheduled	4338	5446	4613	14397	87.42
North London Collegiate School	Scheduled	62	20	24	106	0.64
Stanmore	Scheduled	92	114	55	261	1.58
Harrow College	Scheduled	157	248	119	524	3.18
Harrisons	Admitted	22	3	0	25	0.15
St Dominics Sixth Form College	Scheduled	54	22	24	100	0.61
Kier	Admitted	0	2	1	3	0.02
Mears	Admitted	34	4	12	50	0.30
Care UK	Admitted	33	10	12	55	0.33
Julius Rutherfoord	Admitted	3	0	1	4	0.02
KGB	Admitted	2	0	0	2	0.01
Capita	Admitted	12	3	5	20	0.12
Granary Kids	Admitted	2	1	0	3	0.02
ContinYou	Admitted	2	0	0	2	0.01
Bentley Wood High School	Scheduled	49	21	0	70	0.43
Canons High School	Scheduled	69	13	0	82	0.50
Harrow High School	Scheduled	85	7	0	92	0.56
Hatch End High School	Scheduled	127	46	4	177	1.07
Nower Hill High School	Scheduled	144	28	1	173	1.05
Park High School	Scheduled	70	14	1	85	0.52
Rooks Heath High School	Scheduled	101	23	1	125	0.76
Quality Heating	Admitted	1	1	0	2	0.01
Linbrook	Admitted	5	0	0	5	0.03
Krishna Avanti	Scheduled	13	0	0	13	0.08
Salvatorian College	Scheduled	76	7	0	83	0.50
Avanti House Free School	Scheduled	9	0	0	9	0.05
	Total:	**5562**	**6033**	**4873**	**16468**	**100.00**

Key Elements of the Fund

The current structure of the fund as it impacts on members is outlined below. The benefit and employee contribution arrangements for the Local Government Pension Schemes will change significantly from April 2014. Benefits accrued up to that date will be protected from the impact of the changes.

Eligibility for Membership - Virtually all employees of relevant employers (who have a contract of more than 3 months) aged under 75 can join the Fund, other than those covered by other statutory schemes (for example, teachers, police officers and fire-fighters). Membership is automatic for all employees (including those of scheduled bodies) other than employees of admitted bodies and those who have opted out in the past.

Employee Contributions – Fund changes effective from 1 April 2008 saw the introduction of banded employee contribution rates according to an employee full time equivalent (FTE) pensionable pay. The bandings effective during the year are shown below:

FTE Pensionable Pay	Contribution Rate
Up to £13,500	5.5%
More than £13,501 and up to £15,800	5.8%
More than £15,801 and up to £20,400	5.9%
More than £20,401 and up to £34,000	6.5%
More than £34,001 and up to £45,500	6.8%
More than £45,501 and up to £85,300	7.2%
More than £85,300	7.5%

Benefits on Retirement – From April 2008 the payment of a pension is calculated at 1/60th of the final year's pay multiplied by the number of years of service, with an option to exchange part of the pension into a tax free lump sum. The calculation of benefits in respect of pre April 2008 pensionable service is based on the accrual rate of 1/80th of the final year's pay for each year of membership plus a lump sum of three times the pension. Actual membership may be enhanced in cases of ill health retirement. Employers may choose to augment the active members' number of years of service (other than on ill health grounds). In all cases, it is possible to exchange part of the pension for a tax free lump sum.

Age of Retirement - Normal retirement date for Fund members is at age 65, subject to:

1. Pension benefits are payable at any age if retirement results from ill health.
2. Members may retire with full accrued benefits from age 55 onwards if their retirement is on redundancy or efficiency grounds.
3. Members who have not reached normal retirement date and to whom ill health or redundancy/efficiency retirement does not apply may elect from age 55 onwards to draw their accrued benefits. Employer consent is required for elections made before age 60, however, benefits may be actuarially reduced.

Benefits on Death in Service - A lump sum death grant is payable, normally equivalent to three years pay. Harrow Pension Fund, as administering authority, has absolute discretion over the distribution of this lump sum among the deceased's family, dependants, personal representatives or nominated beneficiaries. Pensions may also be payable to the member's widow, widower, civil partner, nominated partner and/or children.

Benefits on Death after Retirement - In some circumstances a lump sum death grant is payable, normally equivalent to ten times annual pension less pension paid (post April 2008 retirements). If so, Harrow Pension Fund has absolute discretion over the distribution of this lump sum among the deceased's family, dependants, personal representatives or nominated beneficiaries. Pensions may also be payable to the member's widow, widower, civil partner, nominated partner and/or children.

Cost of Living Increases - Pensions payable to members who retire on ill health grounds and to members' spouses and children are increased in line with the Consumer Price Index. Pensions payable to other members who have reached the age of 55 also benefit from annual inflation proofing. Where a pensioner has a Guaranteed Minimum Pension (relating to membership up to 5 April 1997), some or all of the statutory inflation proofing may be provided by the Department for Work and Pensions.

Extra Benefits - The Fund offers several ways for members to improve benefits:

- Payment of additional periodical payments to increase annual pension;
- A money purchase AVC Fund which is operated with Equitable Life (closed to new members), Clerical Medical or Prudential.

Taxation

UK Tax - The Fund is an exempt approved fund and is therefore not liable to UK tax on capital gains and investment income. Where a taxation agreement exists between this country and another, whereby a proportion of withholding tax deducted from investment income can be recovered, this will be reclaimed, although the amount and timescales vary from one country to another.

Overseas Tax – Tax arrangements outside the UK vary country by country. The Council works with fund managers and custodians to ensure advantage is taken of tax exemption rules and where tax has been deducted that reclaims are filed where permitted. The proportion reclaimable and the timescale involved is country specific.

Transfer Value Calculations -The methodology used in calculating the transfer values is in accordance with the Local Government Pensions Scheme Regulations and is also in line with the guidance received from the Government Actuarial Department.

More Information

For the following publications relating to the Pension Fund: Governance Compliance Statement, Pension Communications Policy and Fund Guides, please see Appendix 1, 2 and 3 respectively. These publications can also be found on the Council website at www.harrow.gov.uk/pensions

For information on joining / leaving the Fund and Fund benefits, please contact the Pensions department, Shared Services at Harrow Council.

The Council office is open from 9:00am to 5:00pm, Monday to Friday. The address is:

Shared Services – Pensions
Harrow Council
3rd Floor South Wing
Civic Centre
Station Road
Harrow
HA1 2XF

Email address: Pension@harrow.gov.uk
Telephone Number: 020 8424 1186.

For pension investments matters please contact the Corporate Finance Section, Treasury and Pensions on 020 8424 1172.

Audit Responsibilities

The Audit Commission is responsible for appointing the auditors to the London Borough of Harrow Pension Fund. For the audit of the 2012/13 accounts, Deloitte LLP have been reappointed.

Custodian

The Custodians for the Pension Fund are JP Morgan and Bank of New York Mellon. Most investments are held within pooled funds who appoint their own custodians.

The Pensions Ombudsman

The Pensions Ombudsman can investigate complaints of maladministration as well as disputes about decisions which have been made about your pension rights at the address below:

The Pensions Ombudsman
11 Belgrave Road
London SW1V 1RV

Tel No. 0207 834 9144
Fax No. 0207 821 0065
Email: enquiries@pensions-ombudsman.org.uk

3 Management and Investments

The Authority has delegated its responsibility for the determining of investment policy and the monitoring of investment performance to the Pension Fund Investment Panel which meets approximately six times a year. The Panel sets guidelines for and assesses the investment decisions of the Fund's investment managers.

As at 31 March 2013, the membership of the Pension Fund Investment Panel was as follows:

Councillor Keith Ferry (Chairman)
Councillor Mano Dharmarajah
Councillor Richard Romain
Councillor Tony Ferrari

Membership of the panel is determined at the Annual Council meeting each May, at the start of the Council's municipal year. A change in the membership of the panel can only be made with the agreement of the Leaders of all political parties or by full Council.

The Pension Fund Investment Panel has the following powers and duties:

- to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- to establish a strategy for the disposition of the Council's Investment in accordance with the law and Council policy; and
- to determine the managers' delegation of powers of management of the Fund.

The Pension Fund Investment Panel receives a quarterly update report on the Fund and individual fund manager's performance.

The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective of minimising the level of employer contribution in order to meet the cost of pension fund benefits as required by statute, subject to an appropriate level of risk (implicit in the target) and liquidity.

The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

The day-to-day management of the Fund's investments as at 31 March 2013 was carried out by the following eight external managers:

Managers	Mandate
BlackRock Investment Management (UK) Limited	Corporate and Index linked Bonds
State Street Global Advisors Limited	UK Equities Passive
Fidelity International	Global Equities
Wellington Management International Limited	Global Equities
Longview Partners Investments	Global Equities
Pantheon Private Equity	Private Equity
Record Currency Management Limited	Passive Currency
Aviva Investors Global Services Limited	UK Property

The property mandate with UBS Global Asset Management (UK) Limited was terminated during the year. Manager fees are mostly paid as a percentage of the value of each mandate. Fees are also calculated based on the value of funds committed (Pantheon) and two mandates have performance related fee (Pantheon and Fidelity).

Investment Adviser

The Panel is advised by independent adviser, Aon Hewitt.

Actuary

The actuarial service is provided by Lorna Tonner of Hymans Robertson LLP.

Actuarial Valuation

An actuarial valuation of the Fund was carried out as at 31 March 2010. The market value of the Fund's assets at the valuation date was £436m and the total accrued liabilities of the Fund were £593m. The Fund deficit was therefore £157m producing a funding level of 73.5%.

To reach the funding level of 100% over a period of 20 years, the common employers' contribution rate is 25.7% of pensionable pay. The Projected Unit method is used to determine this rate. Adjustments have been made to the common rate of employers' contributions to take account of certain circumstances that are peculiar to individual employers.

The main actuarial assumptions used at 31 March 2010 are detailed below:

Assumption	Nominal
Price Inflation (RPI)	3.3%
Pay Increases	4.8% [1% until 31.3.2013]
Gilt based discount rate	4.5%
Funding basis discount rate	6.1%

The next triennial actuarial valuation will be carried out as at 31 March 2013.

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare, maintain and publish a written statement of principles governing their decisions about investments. The Pension Fund has adopted a formal Statement of Investment Principles (please see Appendix 4) which is published on the Council website at www.harrow.gov.uk – Advice & Benefits - Local Government Pension Scheme – Pension Fund Policies / Statements.

The Pension Fund Investment Panel monitor's actual against strategic asset allocations and takes action when appropriate.

Funding Strategy Statement

The 'Funding Strategy Statement' (FSS) is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. The purpose of the FSS is to:

- establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory framework to maintain stable employer contribution rates where possible; and
- take a prudent longer-term view of funding those liabilities.

Please see Appendix 5 for The Pension Fund's 'Funding Strategy Statement' which can also be found on the Council website at www.harrow.gov.uk - Advice & Benefits - Local Government Pension Scheme - Pension Fund Policies/Statements.

Funding Policy

The objectives of the Fund's funding policy are as detailed below:

- to ensure the long-term solvency of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to maximise investment returns for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue; and
- to minimise the degree of short-term change in the level of each employer's contributions.

4 Market performance

Eurozone issues dominated the news flow over the year. The uncertainty in markets eased considerably when the European Central Bank President vowed “to do whatever it takes” to support the Eurozone. However, the turmoil was far from over as Greece and then Cyprus agreed bail out deals. Investors were initially nervous in the build up to the US fiscal cliff deadline, which was averted at the last moment, Subsequently, US budget negotiations failed to reach a solution and automatic budget cuts were triggered at the beginning of March 2013, which appeared to leave markets unmoved. The US Federal Reserve expanded quantitative easing (“QE”) with an indefinite term to support its economy.

US economic date improved especially in the housing and labour markets. In contrast other major economies, especially the Eurozone, were weak with economic data coming in below forecasts. Softer Chinese data and slowing trade volumes underscored weak global growth levels.

The UK economy struggled to achieve growth as the Government continued to address the budget deficit but ended the year on a more positive note. The Bank of England added £50 billion to its QE easing programme, which supported both bond and equity markets. The loss of the UK’s AAA credit rating failed to affect markets.

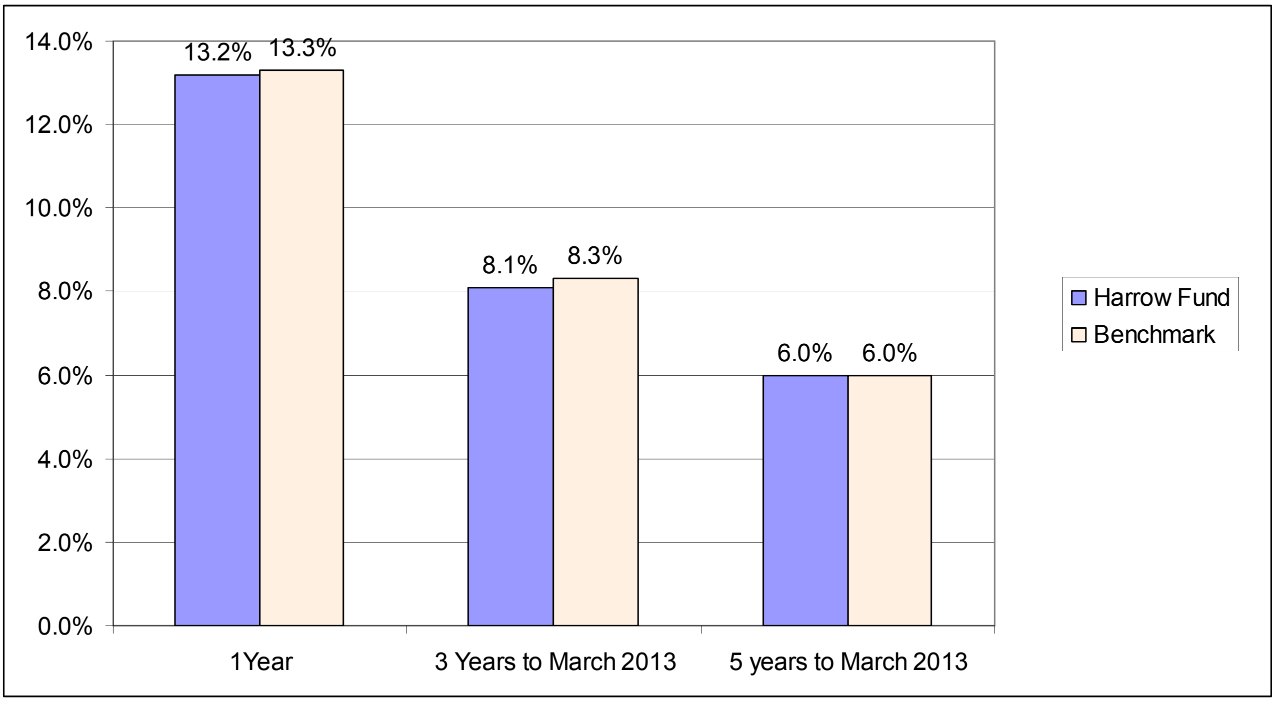
Despite the fragility of the world economy, global equity returns were strong. Japanese equities gained the most (up 24% in local currency) following the promises of an aggressive monetary policy. The US markets gained 14% and reached an all time high due to both QE and growing corporate earnings. The UK and Continental Europe both returned 17% and 16% respectively. Emerging markets were a disappointment and returned 5% in local currency.

For most of the year developed government bond yields continued to fall to record lows generating strong returns for fixed and index linked bonds, especially lower maturities. Longer dated UK gilts and index linked returned 8% and 12% respectively. Spreads on investment grade credit narrowed and sterling credit returned 12%. The fall in yields started to reverse towards the year end and gathered pace in quarter two 2013 as investors became nervous that monetary policy would soon start to be less accommodating, particularly in the US.

The UK commercial property market returned 2.5% in the year with capital values declining.

5 Fund performance

The Committee uses World Market (WM) Performance Services as its independent investment performance measurer. Investment returns over 1, 3 and 5 years is shown below.



Source: World Market Performance Services

The Fund had a good year with all the main asset classes, except property, providing returns in excess of 10%. Returns over all three time periods are strong reflecting recovery from the depths reached in 2008 at the height of the financial crisis.

The fund has moderately underperformed its benchmark over the last three years due to holding cash balances during a period of rising equity and bond markets as protection against volatile equity markets.

The average fund in the local authority universe (as per World Market performance services) returned 13.8% in the year. Harrow was ranked in the 67th percentile in the Local Authority universe as measured by the World Market performance services. The higher allocation to listed equities added 0.4% to the relative return while the performance of the funds equity managers detracted by 1%.

Investment strategy

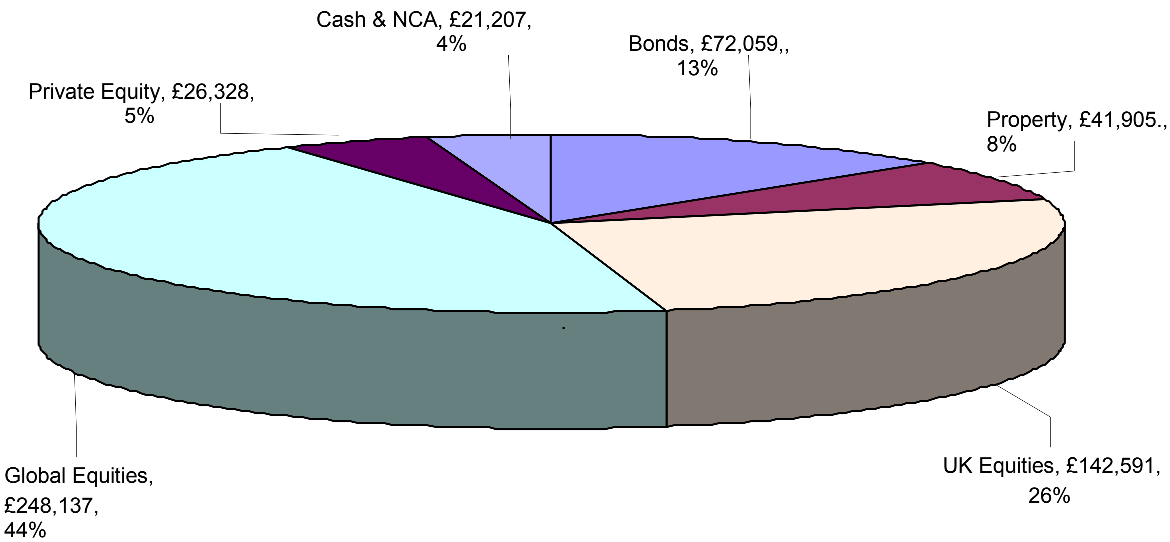
The strategic allocations shown below were approved in March 2013 following the completion of post valuation review. The major changes are a reduction in the allocation to equities (-9%) and a corresponding increase in the allocation to alternative.

The change in allocation was implemented after the year end and involved the appointment of two multi asset class fund managers. The pie chart below shows the actual allocation as at 31st March 2013 and does not include the subsequent investments made in the following financial year in the alternative asset classes.

The Panel aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the fund and the projected asset class returns and volatility. The Panel monitors the continued appropriateness of the strategic allocations in light of changes in the funding level, economic conditions and risk tolerances.

Strategic Asset Allocations 31 March 2013	%
UK Equities	26
Global Equities	36
Fixed and Index Linked Bonds	13
Property	10
Private Equity	5
Alternatives	10
Total	**100**

The actual allocations to asset classes (£'000) are shown in the chart below. The Panel monitors any divergence from strategy and rebalances when appropriate.



Total Value £552,227

Investments held by Fund Managers

	2012-13		2011-12		
	£000	**%**	**£000**	**%**	
State Street Global Advisors	142,591	27%	122,061	26%	UK Equities
Longview Partners	40,109	7%	33,941	7%	Global Equities
Fidelity International	98,872	18%	84,747	18%	Global Equities
Wellington Management	109,156	21%	96,985	21%	Global Equities
Black Rock	72,059	14%	63,492	14%	Bonds
UBS	0	0%	318	0%	Cash
Aviva	41,905	8%	41,343	9%	Property
Pantheon	26,328	5%	23,047	5%	Private Equity
Record Currency	-2,274	0%	1,648	0%	Currency hedge
Total Fund	**528,746**	**100%**	**467,582**	100%	

The above amounts include the investment assets, cash deposits and forward currency contracts included in each mandate.

The only change in the fund manager line-up in the year was the completion of the property transition from UBS to Aviva. Following the strategy review concluded in March 2013 cash balances and realisations from listed equities were used to invest 10% of the fund in two multi asset class mandates managed by Barings Investment management and Standard Life.

The Panel believes in appointing fund managers with clear performance benchmarks that place maximum accountability for performance against that benchmark with the investment manager. Following the manager changes discussed above the Fund has nine investment managers to give diversification of investment style and spread of risk. The Panel will continue to monitor the ability of their Investment Managers to achieve their target returns.

The Record Currency balance comprises net derivative assets of £-2.274m shown under assets (£0.865m) and liabilities (£3.139m), being the value of forward currency contracts comprising the 50% currency hedge on non-sterling investments. The hedge is designed to reduce volatility due to currency movements.

6 Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Chief Financial Officer, i.e., the Director of Finance and Assurance;

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- To approve the statement of accounts.

The Director of Finance and Assurance's Responsibilities

The Director of Finance and Assurance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Director of Finance and Assurance has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code of Practice on Local Authority Accounting;

- Kept proper accounting records which were up to date;

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2013 and its income and expenditure for the year then ended.

Simon George

Director of Finance and Assurance
XX September, 2013

7 London Borough of Harrow Pension Fund Account

Pension Fund Account for the year ended 31st March 2013

2011-12 £000		Notes	**2012-13 £000**
	Contributions and Benefits		
24,725	Contributions receivable	8.2	25,351
2,527	Individual Transfers in from other schemes		1,279
88	Other Income (including Capital cost)		-24
	Less:		
-25,103	Benefits Payable	8.3	-26,716
-1,076	Leavers	8.4	-1,062
-789	Administrative expenses	8.5	-827
372	**Net additions / (withdrawals) from dealings with members**		**-1,999**
	Returns on Investments		
4,948	Investment Income	8.6	4,833
6,951	Change in market value of investments	8.7	60,112
133	Investment management expenses	8.5	339
12,032	**Net returns on investments**		**65,284**
12,404	Net increase in Fund during the year		63,285
476,538	Net assets at start of year		488,942
488,942	**Net assets at end of year**		**552,227**

Net Assets Statement

2011-12 £000		Notes	**2012-13 £000**
	Investment Assets		
464,829	Pooled investment vehicles	8.9	531,020
2,014	Derivative contracts	8.10	865
466,843			**531,885**
	Investment Liabilities		
-366	Derivative contracts	8.10	-3,139
466,477			**528,746**
22,118	Cash deposits	8.7	20,117
488,595	**Net Investment Assets**		**548,863**
674	Current assets	8.12	3,974
-327	Current liabilities	8.12	-610
488,942	**Net assets of the scheme at 31 March 2013**		**552,227**

The accounts summarise the transactions of the Fund and deal with the net assets. The Net Asset Statement does not take account of the obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the actuarial statement included on pages 28 and 29 and these accounts should be read in conjunction with it.

Simon George
Director of Finance and Assurance
XX September, 2013

8 Notes to the Pension Fund Accounts

8.1 Accounting Policies, Judgements and Uncertainties

The accounts have been compiled in accordance with chapter Two of the Statement of Recommended Practice “Financial Reports of Pension Schemes” (revised May 2007) (“the SORP”) and the CIPFA code of practice on local authority accounting in the United Kingdom 2012/13. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

Basis of Preparation - Except where otherwise stated, the accounts have been prepared on an accruals basis.

Investments - These are shown in the accounts at market value, which has been determined as follows:

- All listed investments are quoted at the bid price at the close of business on 31 March of each financial year;
- Unlisted securities are valued having regard to latest dealings, professional valuations, asset values, currency rates and other appropriate financial information adjusted to reflect cash transactions up to 31 March 2013;
- Investments in pooled investment vehicles are stated at the bid value (or single price if relevant) of the latest prices quoted by their respective managers; and
- Derivatives are valued at the appropriate closing exchange rate or the bid spot or forward rates. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments, including derivatives, held at any time during the year, including profits and losses realised on sales of investments during the year. Most investments are in pooled funds where the change in market value will reflect investment income earned by the fund and fees and expenses charged to the fund.

Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on 31 March of each financial year. Investment transactions and income in foreign currencies are accounted for at the spot rate of exchange at the date of transaction.

Cash deposits include highly liquid investments that are readily realisable for known amounts of cash and that are subject to minimal risk of changes in value.

Benefits, Refunds of Contributions and Transfer Values - Benefits payable and refunds of contributions are accounted for in the period in which they are payable.

Transfer values are those sums paid to, or received from, other pension schemes and relate to periods of previous pensionable employment. Transfer values have been included in the accounts on a payments and receipts basis. The transfers can take a considerable time to determine and amounts can vary depending upon the date of settlement.

Investment Income - Dividends and interest on government stocks, loans and deposits have been accounted for on an accrued basis. Foreign income has been converted into sterling at the date of the transaction.

Investment Management and Administration - Regulations permit the Council to charge administration costs to the Pension Fund. A proportion of the relevant Council officers' salaries, including related on-costs, have been charged to the Fund based on estimated time spent on Fund business. The fees of the Fund's investment managers have been accounted for on the basis contained within their respective management agreements. All expenses are accounted for on an accruals basis.

Assumptions made about the future and other major sources of estimation uncertainty

The items in the Net Assets Statement as at 31 March 2013 involving assumptions about the future and major sources of estimation uncertainty for which there is a significant risk of material adjustment to the value disclosed within the next financial year are as follows:

	Uncertainties	**Effect if actual results differ from assumptions**
Unquoted property & private equity investments	There are no publicly listed prices for the Fund's investments in property and private equity and therefore there is a degree of estimation and judgement involved in the valuations used based on recognised professional guidance. Assurance is provided by independent reviews of property valuations and the audit of private equity funds.	Total property and private equity investments disclosed in the accounts amount to £68.2 million. A 10% change in value will result in a change in value of +/- £7 million.
Actuarial present value of promised retirement benefits (Appendix 3)	Estimation of Fund deficit depends on a number of complex judgements relating to the discount rate used, and factors such as projected salary growth and inflation, commutation rates and mortality rates. The Fund actuary provides advice about the assumptions used in calculating the deficit. The effects of changes in individual assumptions can be measured.	A decrease of 0.5% in the discount rate assumption would increase the pension liability by approximately £73 million. An increase of 0.5% in assumed salary or pension inflation would increase the pension liability by approximately £18 million and £54 million respectively. A one year increase in assumed life expectancy would increase the pension liability by approximately £24 million.

Critical judgements in applying accounting policies
The most significant judgements in applying accounting policies are as follows:

Unquoted private equity investments

Private equity investments are valued based on forward looking estimates and judgements made by the general partners (i.e. those controlling the partnerships) to the funds invested in, using guidelines issued by the Private Equity Industry Guidelines Group in the USA (known as the Private Equity Valuation Guidelines) and the International Private Equity and Venture Capital Valuation Guidelines, which have been adopted by almost all venture capital associations, including the BVCA.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits, as disclosed in note 8.14, is prepared by the Fund's actuary, adopting prescribed assumptions as set out in IAS19. These assumptions may differ from those used by the actuary at formal triennial valuations to determine the level of contributions payable by employers. The liability disclosed in note 8.14 is subject to significant variances depending on the assumptions adopted.

8.2 Contributions

2011-12 £000		**2012-13 £000**
	Employers - normal	
15,563	London Borough of Harrow	15,161
2,117	Scheduled Bodies	3,330
660	Admitted Bodies	494
	Members - normal	
5,484	London Borough of Harrow	5,225
686	Scheduled Bodies	1,024
215	Admitted Bodies	117
24,725		**25,351**

8.3 Benefits

2011-12 £000		**2012-13 £000**
	Pensions	
-19,648	London Borough of Harrow	-21,085
-522	Scheduled Bodies	-709
-196	Admitted Bodies	-141
-20,366		**-21,935**
	Commutation of Pensions and Lump Sum Retirement Benefits	
-3,807	London Borough of Harrow	-3,840
-394	Scheduled Bodies	-288
-64	Admitted Bodies	-24
-4,265		**-4,152**
	Lump Sum Death Benefits	
-439	London Borough of Harrow	-611
-33	Scheduled Bodies	-18
-472		-629
-25,103		**-26,716**

8.4 Leavers

2011-12 £000		**2012-13 £000**
-4	Refunds to members	-2
-1,072	Individual transfers to other schemes	-1,060
-1,076		**-1,062**

8.5 Investment Management and Administration Expenses

2011-12 £000		**2012-13 £000**
133	Investment management expenses	339
	Scheme administration	
-676	Harrow Council	-682
-113	Misc. (including Actuary Fees)	-145
-789	**Total Administration Expenses**	**-827**
-656	**Total Expenses**	**-488**

External audit fees of £21,000 (2012: £35,000) were charged in the year.

8.6 Investment Income

2011-12 £000		**2012-13 £000**
4,800	Income from pooled investment	4,628
148	Interest on cash deposits	205
4,948		**4,833**

All investments other than cash are held in pooled investments and only the income that is distributed is included above. Income retained within in pooled funds is reflected within the change in market value of investments.

8.7 Investments

	Value at 01-Apr-12 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	**Value at 31-Mar-13 £000**
Pooled Investment Vehicles					
Property	41,343	11,197	-10,156	-479	**41,905**
Other	423,486	6,869	-3,448	62,208	**489,115**
Derivatives	1,648		-2,305	-1,617	**-2,274**
	466,477	**18,066**	**-15,909**	**60,112**	**528,746**
Cash Deposits	22,118				20,117
	488,595				**548,863**

The change in market values reflects higher valuations for both equities and bonds. Equity markets responded to better news on economic growth while bonds were supported by expectations of prolonged low interest rates and loose monetary policy. £57.229 million of the change in market value was in respect of unrealised net gains.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees, commissions, stamp duty and other fees.

With all investments held through pooled vehicles, the value of sales and purchases is low. No direct transaction costs were incurred during the year. Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately available.

Derivative receipts (£2.3m) are in respect of realised profits on forward foreign exchange trades settled during the period.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

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

8.8 Investments Exceeding 5% of the Total Value of Net Assets

2011-12 £m		**2012-13 £000**
122.1	SSGA MPF UK Equity Index Sub-Fund	142.6
97.0	Wellington Global Pooled Value Equity Portfolio	109.2
84.7	Fidelity Inst Select Global Equities	86.8
50.1	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	57.5
33.9	Longview Partners Invest - Global Pooled Equities FD K Class	40.1
31.7	Aviva Investors UK Real Estate Fund of Funds Open Ended	41.9
419.5		**478.1**

8.9 Pooled Investment Vehicles

2011-12 £000		**2012-13 £000**
41,343	UK Managed Funds - Property	41,905
184,767	UK Managed Funds - Other	214,651
238,719	Overseas Other	274,464
464,829		**531,020**

Details of the nature of the investments held within the pooled vehicles are shown on page 14. No investments were loaned during the year.

8.10 Derivatives

2011-12 £000		2012-13 £000
	Investment Assets	
2,014	Forward Foreign exchange contracts	865
	Investment Liabilities	
-366	Forward Foreign exchange contracts	-3,139
1,648	**Net Derivatives**	**-2,274**

Counterparty	Duration	No. of Contracts	Value at 31-Mar-13 Assets £000	Liabilities £000
Barclays Bank - London	9 days - 4 mths	3	7	-108
Deutsche Bank - London	9 days - 6 mths	7	11	-248
Northern Trust - London	12 days - 6 mths	3	2	-121
Royal Bank of Canada - London	9 days - 7 mths	9	176	-1,321
Standard Chartered	6 mths	1	88	
State Street - London	9 days - 7 mths	4	118	-1,065
Toronto Dominion - Toronto	9 days - 4 mths	7	8	-132
UBS AG London	4 mths - 7 mths	8	12	-84
Westpac - Sydney	7 mths	5	443	-60
		47	865	-3,139

The objective in using derivatives is to reduce risk in the portfolio by entering into forward contracts to mitigate the effect of currency risk from overseas investments held in the portfolio without disturbing the underlying assets. The developed overseas equity portfolio is 50% hedged against the currency risk. The value of the exposure to foreign currencies (including emerging) before hedging is £226 million and the value of hedges is £94 million.

8.11 Additional Voluntary Contributions (AVCs)

Members of the Fund can secure additional pension through making AVCs that are invested separately from those of the pension fund. The administering employer has appointed Prudential and Clerical Medical as its AVC provider. These amounts are not included in the Pension Fund Accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2011-12 £000		2012-13 £000
2,193	Value of AVC Fund at 1 April	2,099
274	Employee contributions	356
81	Investment income and change in market value	107
7	Transfer Values In	0
-456	Benefits paid and transfers out	-351
2,099	**Value of AVC Fund**	**2,211**

8.12 Current Assets & Liabilities

2011-12 £000		**2012-13 £000**
	Current Liabilities	
-58	Unpaid Benefits	-149
-269	Other Unpaid liabilities	-461
-327		**-610**
	Current Assets	
572	Cash balances held by London Borough of Harrow	3,778
0	Contributions due from employers	177
102	Other Current Assets	19
674		**3,974**
347	**Net Current Assets**	**3,364**

8.13 Related Party Transactions

2011-12 £000		**2012-13 £000**
15,563	Employer's pension contribution to the fund	**15,161**
-676	Administration expenses paid to the Council	**-682**
572	Cash in hand held by Council	**3,778**

The fund is required under IAS24 to disclose details of material transactions with related parties.

The Council is a related party to the Pension fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out above. Details of total contributions made in the year are set out in note 8.2 to the accounts.

The Pension Fund bank account has operated a separate bank account since 1st April 2011. However, due to the ease of administration and to avoid any undue cost to the Scheme some transactions continue to be processed through the Council's bank account and as such these balances are settled on a monthly basis.

8.14 Actuarial Value of Retirement Benefits

Disclosure of the year end actuarial value of benefits calculated under IAS 19 assumptions is required by CIPFA's Code of Practice on Local Authority Accounting 2012/13. The IAS 19 valuation is based on prescribed assumptions that differ from those used in the tri-annual valuation that determines the required level of contributions. The outcome of the last tri-annual valuation as at 31 March 2010 is reported on pages 28 and 29.

The actuarial value of benefits and the main assumptions used by the actuary are set out below.

2011-12 £m		**2012-13 £000**
730	Present value of Promised Retirement Benefits	846
2.5%	Inflation/ Pension Increase Rate	2.8%
4.3%	Salary Increase Rate [1% p.a. until 31 March 2015]	4.6%
4.8%	Discount Rate	4.5%
	Mortality assumptions:	
	Longevity at age 65 for current pensioners (years):	
21.6	Men	21.6
23.6	Women	23.6
	Longevity at age 65 for future pensioners (years):	
23.6	Men	23.6
25.9	Women	25.9

The value of the fund as at 31 March 2013 represents 63% of the value of benefits determined under IAS19 assumptions. The deficit is expected to be addressed through a combination of investment returns in excess of the discount rate and additional deficit contributions from Employers.

8.15 Post Balance Sheet Date Events

There have been no events since 31 March 2013 and up to the date when these accounts were authorised that require any adjustment to these accounts.

8.16 Risk Management

The fund's primary long term risk is that the assets will fall short of its liabilities (i.e. promised benefits payable to members). The Pension Fund Investment Panel ("PFIP") is responsible for managing and monitoring risks and ensuring that appropriate risk management processes are in place and operating effectively. The aim of risk management is to limit risk to those that are expected to provide opportunities to add value.

The most significant risks faced by the fund and the procedures in place to manage these risks are described below:

(a) Governance and Regulatory Risks

The failure to exercise good governance and operate in line with regulations can lead to financial as well as reputation risk. These risks are managed through:

- Regular reviews of the Statement of Investment Principles and Funding Strategy Statement that set out the high level objectives of the fund and how these will be achieved.
- Tailored training for members.
- Reviews of the PFIP agenda and papers by Harrow's Legal Department.

(b) Sponsor Risk

The fund is currently in deficit and achieving a fully funded status may require the continued payment of deficit contributions. The Actuary reviews the required level of contributions every three years. To protect the fund and the Administering Employer, bonds and other forms of security are received from Admitted employers.

(c) Investment Risk

The fund is invested in a range of assets classes as detailed on page 14. The predominant asset class is listed equities, which has both; a greater expected return and volatility than the other main asset classes. Potential risks affecting investments include:

Pricing Risk

The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, in the last five years the value of the fund fell by 31% in the 15 months to March 2009 before increasing by 54% in the next 21 months to December 2010. Most of the price changes related to the global value of equities following the banking crisis. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments to include fixed interest and index linked bonds, property, multi assets mandates and private equity. The proportion of the fund invested in listed equities has been reduced by 9% to 62%, which remains a high allocation to one asset class. The investment strategy is reviewed at least once every three years by the Pension Fund Committee and market conditions are reviewed at each meeting to determine if any strategic or tactical action is required.

- Global equities are managed by three active managers to reduce the risk of underperformance against benchmarks. The Investment Advisor provides quarterly reports on the performance and skills of each fund manager to the Pension Fund Committee.

- The benefit liabilities are all sterling based and to reduce the currency risk from non sterling investments, 50% of the overseas currency exposures (£226 million in aggregate at the year-end) are hedged to sterling.

Liquidity Risk

Investments in some asset class's e.g. private equity and property can be illiquid in that they cannot be realised at short notice. Around 12% of Harrow's fund is in illiquid assets. This is deemed low for a scheme that continues to have a positive cashflow. All cash balances are currently on overnight deposit and readily accessible.

Counterparty Risk

The failure by a counterparty, including an investee company, can lead to an investment loss. This risk is mainly managed through wide diversification of counterparties and also through detailed selection of counterparties by external fund managers.

(d) Actuarial risks

The value of the liability for future benefits is impacted by changes in inflation, salary levels, life expectancy and expected future investment returns. Although there are opportunities to use financial market instruments to manage some of these risks, the Pension Fund Committee does not currently believe these to be appropriate. Changes to the benefit structure proposed by the Government will reduce some of these risks. All are monitored through the actuarial valuation process and additional contribution required from employers should deficits arise.

(e) Operational Risk

Operational risk relate to losses (including error and fraud) from failures in internal controls relating to investment managers and internally e.g. administration systems.

Controls at external fund managers are monitored through the receipt of audited annual accounts for each investment fund together with annual assessments of the control environment including reviews of internal controls reports certified by reporting accountants.

Controls within the administering authority are reviewed by Harrow's internal audit team.

9 Statement of the Consulting Actuary

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

Description of funding policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- To ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers or pool of employers;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- To help employers recognise and manage pension liabilities as they accrue;
- To minimise the degree of short-term change in the level of employer's contributions where the Administering Authority considers it reasonable to do so.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 21 years.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £436 million, were sufficient to meet 73.5% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £157 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2011.

9. Statement of the Consulting Actuary (continued)

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	4.8%	1.5%
Price inflation/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11, 2011/12, and 2012/13 reverting to 4.8% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.6 years	23.6 years
Future Pensioners	23.6 years	25.9 years

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London Borough of Harrow, Administering Authority to the Fund.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

L Tonner

Lorna Tonner FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
September 2013

10 Pension Fund Annual Report Opinion

Independent Auditor's Report to the Members of London Borough of Harrow

We have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements which comprise the fund account, the net assets statement and the related notes 8.1 to 8.16. The financial reporting framework that has been applied in their preparation is applicable law and CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of London Borough of Harrow in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's 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 Authority as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Resources and auditor
As explained more fully in the Statement of the Director of Finance and Assurance's Responsibilities, the Director of Finance and Assurance is responsible for the preparation of the pension fund's financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on financial statements

In our opinion the pension fund's financial statements:

- show a true and fair view of the financial transactions of the scheme during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

Paul Schofield (Engagement Lead)
for and on behalf of Deloitte LLP
Appointed Auditor
St Albans, UK
Xx September 2013

Appendix 1

Governance Compliance Statement

London Borough of Harrow Pension Fund

June 2009

Introduction

This is the Governance Compliance Statement of The London Borough of Harrow Pension Fund, administered by Harrow Council, the Administering Authority. The statement provides an overview of Harrow's approach towards the governance of the Pension Fund.

Any enquiries in relation to this Governance Compliance Statement should be sent to:

Linda D'Souza (Service Manager – Shared Services)
Harrow Council London
Shared Services
3rd Floor, South Wing
Civic Centre
Station Road
Harrow
HA1 2XF
TEL: 020 8424 1426
Fax: 0208 424 1196
Email: linda.d'souza@harrow.gov.uk

Regulatory Framework

This compliance statement is required by the provision of regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008.

The provision requires Harrow Council as the Administering Authority to prepare a written statement setting out: -

"… (a) whether the authority delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;

(b) if it does so—

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying".

This statement will be revised and republished following any material change on any of the matters set out above. A current version of the compliance statement will always be available either through the pensions unit at the address on page three, on the intranet under – 'Employment with the Council' – 'Employees Pension' – 'Policy Statements' – 'Governance Compliance Statement'.

Delegated Functions

Harrow Council has delegated its functions to the following:

i) Licensing and General Purposes Committee

ii) Pension Fund Investments Panel

iii) Early Retirement Sub-Committee

iv) Officer Sub – Group

v) Divisional Director Shared Services

vi) Assistant Chief Executive

vii) Chief Officers

Licensing and General Purposes Committee

The Licensing and General Purposes Committee is comprised of fifteen Members representing two different political parties with voting rights. Council Senior Officers attend each meeting.

The Committee meets approximately four times a year and, inter alia, has the following responsibilities:

- Functions relating to local government pensions, etc (Regulations under Sections 7, 12 or 24 of the Superannuation Act 1972 (c.11)[52]).
- The determination of applications under the Local Government Pension Scheme Regulations.

Within its Terms of Reference, the Committee therefore carries out functions such as:

- provide a response to any draft LGPS amendment regulations or other discussion paper relating to the LGPS.
- In some instances, decide to whom a death grant is paid.
- consider policy matters in relation to the pension scheme and the Council's early retirement policy.

Pension Fund Investments Panel

The Pension Fund Investments Panel is comprised of four Members representing two different political parties with voting rights and one Co-optee Member without voting rights. Council Senior Officers attend each meeting and Trade Union representatives of Scheme members (UNISON and GMB) are also invited as observers.

The Panel meets four times a year and have the following responsibilities:

- To administer all matters concerning the Council's pension investments in accordance with the law and Council Compliance.
- To establish a strategy for disposition of the pension investment portfolio.
- To determine the managers' delegation of powers of management of the fund.

Within its Terms of Reference, the Panel therefore carries out functions such as:

- at least once every three months, review the investments made by the Fund Managers and from time to time consider the desirability of continuing or terminating the appointment of the Fund Managers.
- receive actuarial valuations of the Fund.

Early Retirement Sub-Committee

The Early Retirement Sub-Committee is comprised of three Members representing two different political parties with voting rights. Council Senior Officers attend each meeting.

The Sub-Committee meets on an ad-hoc basis and have the following responsibilities:

- To determine applications in respect of Chief Officers where the application has been recommended by the Chief Executive, under regulation 18, regulation 30 and also regulation 19 (on the grounds of redundancy, or in the interests of the efficiency of the service), and where the application was instigated by the Chief Executive in consultation with the Leaders of the political groups.
- To determine all other applications, for early retirements under regulation 18 (Flexible Retirement) & 30 (Early payment of pension) where there is a cost to the pension fund.

Officer Sub – Group

The Officer Sub – Group is comprised of three Officers representing Finance, Legal and HR. Council Senior Officers attend each meeting.

The Sub-Group meets on an ad-hoc basis and have the following responsibilities:

- To determine applications, for early retirements under regulation 19 (redundancy or in the interest of the efficiency of the service). The release of pension benefits must be signed off by the Corporate Director of Finance.

Divisional Director Shared Services

The Divisional Director Shared Services has the following responsibility:

- To determine applications, for early retirements under regulation 18 and regulation 30 where there is no cost to the pension fund.

Assistant Chief Executive

Pension Fund Investment

In respect of the discretionary management arrangements the Assistant Chief Executive has the following responsibilities which in turn have been delegated to the Corporate Director of Finance:

- In the name of the Mayor and Burgesses of Harrow Council and on behalf of the Pension Fund and in consultation with the Fund's managers, to invest in stocks and shares as authorised by the Trustee Investments Act and Pension Fund Regulations, and to authorise the Council's seal to be affixed to stock transfer forms, rights issues and other investment forms.

- To enter into agreements on the terms and conditions on which these investments are made by the Fund's managers.

- To enter into under-writing agreements.

- To monitor the investment decisions of the Fund managers and under the terms of the Local Government Pension (Investment) Regulations 1999 to ensure the need for diversification and stability of investments

Chief Officers

Chief Officers are specifically authorised to take decisions on behalf of the Council or its non-Executive Committees in cases of urgency, using the procedure for non-executive decisions on minor matters or the procedure for urgent non-executive decisions.

Urgent Non-Executive Decisions and Minor Matters

In relation to matters which are the responsibility of a Council Committee, subject to consultation with the Chair of the relevant committee and the nominated members of the two other main political groups or their nominees, Chief Officers shall have the power to act on behalf of the Council in cases of urgency and on minor matters, where the urgent matter is of such a nature that it may be against the Council's interest to delay and where it is not practicable to obtain the approval of the Council Committee. In the event of disagreement between the Members consulted, the matter shall be referred to the Chief Executive who may take the decision after consultation with the Leaders of all political groups or their nominees, and if appropriate, with the statutory officers. The safeguards set out below must be followed.

Safeguards

The procedure must only be used when considered essential to achieving the efficient administration of the service and for urgent matters consideration must be given to whether the matter can wait until the next scheduled meeting or whether the calling of a special meeting can be justified.

All decisions taken by officers under this delegated power must be reported for information to the next meeting of the appropriate committee.

Statement of compliance to guidance

Regulation 31(3)(c) requires LGPS administering authorities to measure their governance arrangements against the principles set out in the statutory guidance. Where compliance does not meet the published standard, there is a requirement under Regulation 31(3)(c) to give, in their governance compliance statement, the reasons for not complying.

<u>Principle A – Structure</u>

a. **The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.**

b. **That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.**

c) **That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.**

d) **That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.**

	Not Compliant*				**Fully Compliant**
a)					√
b)				√	
c)					√
d)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

No formal representation of ex-members (pensioners/deferred members).

Please use this space if you wish to add anything to explain or expand on the ratings given above

Principle B – Representation

a) **That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include :-**

> **i) employing authorities (including non-scheme employers, eg, admitted bodies);**
> **ii) scheme members (including deferred and pensioner scheme members),**
> **iii) where appropriate, independent professional observers, and**
> **iv) expert advisors (on an ad-hoc basis).**

b) **That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.**

	Not Compliant*				**Fully Compliant**
a)				√	
b)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

No formal representation of ex-members (pensioners/deferred members).

Please use this space if you wish to add anything to explain or expand on the ratings given above

Principle C – Selection and role of lay members

a) **That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.**

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

	Not Compliant*				**Fully Compliant**
a)					√
b)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above

<u>Principle D – Voting</u>

a) **The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.**

	Not Compliant*				**Fully Compliant**
a)			√		

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

No formal documentation providing justification for not extending voting rights exists.

Please use this space if you wish to add anything to explain or expand on the ratings given above

Principle E – Training/Facility time/Expenses

a) **That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.**

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken

	Not Compliant*				**Fully Compliant**
a)			√		
b)					√
c)			√		

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) **No formal documentation exists on the policy for training, facility time and expenses.** **No formal training log exists.**

Please use this space if you wish to add anything to explain or expand on the ratings given above

<u>Principle F – Meetings (frequency/quorum)</u>

a) **That an administering authority's main committee or committees meet at least quarterly.**

b) **That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.**

c) **That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented**

	Not Compliant*				**Fully Compliant**
a)					√
b)					√
c)				√	

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

No formal representation of ex-members (pensioners/deferred members).

Please use this space if you wish to add anything to explain or expand on the ratings given above

Principle G – Access

a) **That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.**

	Not Compliant*				**Fully Compliant**
a)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above

Principle H – Scope

a) **That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements**

	Not Compliant*				Fully Compliant
a)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above **All key scheme issues (e.g. the exercise of discretions under the scheme's regulations) are subject to the rigorous supervision and oversight of the main committee.**

Principle I – Publicity

a) **That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.**

	Not Compliant*				**Fully Compliant**
a)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above **The statement is published in various formats to LGPS employers, all types of scheme membership (i.e. actives/pensioners/deferreds), unions and non – LGPS employers.**

Appendix 2

Communications Policy Statement

London Borough of Harrow Pension Fund

September 2009

Contents

Introduction

This is the Communications Policy Statement of the Harrow Council Pension Fund, administered by Harrow Council, the Administering Authority.

The Fund liaises with a number of employers, namely:-

- **Harrow Weald Conservators**
- **North London Collegiate School**
- **St. Dominic's VI Form College**
- **Harrow College**
- **Stanmore College**
- **Supporta Care**
- **Care UK**
- **Harrisons**
- **Hughes Gardner Cleaning and Support Services Ltd.**
- **Kier Group**
- **Hayward Services Ltd**

and approximately 14,350 scheme members (5600 active members, 4550 deferred members and 4200 pensioner members) in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

It is effective from 1 September 2009.

Any enquiries in relation to this Communication Policy Statement should be sent to:
Linda D'Souza - Service Manager – Shared Services
Harrow Council
Shared Services
3rd Floor, South Wing
Civic Centre
Station Road
Harrow
HA1 2XF

TEL: 020 8424 1186 Fax: 0208 424 1196

email: linda.d'souza@harrow.gov.uk

Regulatory Framework

This policy statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended) and subsequently by Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008. The provision requires Harrow Council as the Administering Authority to:

"*….prepare, maintain and publish a written statement setting out their policy concerning communications with:*
(a) members.
(b) representatives of members.
(c) prospective members.
(d) employing authorities."

In addition it specifies that the statement must include information relating to:

"(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;

(b) the format, frequency and method of distributing such information or publicity; and

(c) the promotion of the Scheme to prospective members and their employing authorities."

As a provider of an occupational pension scheme, Harrow Council is already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements were introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *"reasonable period"*. The draft Code of Practice[1] issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

[1] Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005

Responsibilities and Resources

The legal duty for the proper administration of the Harrow Council Pension Fund lies with Harrow Council. Communication material is raised through the Shared Services Pension's Team and validated through the Harrow Communications Unit. The Shared Services Pension's Team write all communications including information published on the Internet/Intranet. The team is also responsible for arranging all forums, pension surgeries, workshops and meetings covered within this statement. The Shared Services Pension's Team report through the recognised organisational unit hierarchical structure, ultimate responsibility for ensuring compliance lies with the Divisional Director – Shared Services.

Printing documentation is either carried out internally through Shared Services or through Harrow's appointed printing contractor.

Communication with key audience groups

Our audience

The Shared Services Pension's Team communicates with a number of stakeholders on an on-going basis. For the purpose of this communication policy statement, the team are considering engagement with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- debit / credit members;
- prospective members;
- scheme employers and admission bodies;
- union representatives;
- Elected Members;
- chief officers
- Shared Services pensions administration staff

In addition there are a number of other stakeholders with whom Harrow Council communicate on a regular basis, such as Her Majesty's Revenue and Customs, Communities & Local Government, Department of Works and Pensions, Pensions Advisory Service, Solicitors, actuaries and other pension providers. Harrow Council has also considered, as part of this policy, how it communicates/engages with these interested parties.

How we communicate

General communication

Harrow Council has set in place a number of initiatives that will assist in moving towards the Government's e-gov agenda. Pension information, for the most part, is delivered through paper based communications. Harrow has put in place alternative communication mediums (e.g. documents in Braille, large print, audio tapes, etc) to ensure that it caters for the needs of special groups. Additionally Harrow utilises Internet/Intranet mediums and is currently investigating, in consultation with Harrow's Audit unit, both email and internet self-service as mediums that will facilitate a gradual move away from paper communications and reduce communication costs.

Within the pension team, staff are responsible for all administration of the Local Government Pension Scheme. Any member of staff within the team can deal with general telephone calls, written correspondence or visitors. Communications of more complicated pension issues are managed amongst the pension's senior management.

Telephony feed is either through a dedicated direct dial number or alternatively directly to the main Harrow Council switchboard and then onward transfer to one of the pension teams' extensions.

Branding

As the Pension Fund is administered by Harrow Council, all literature and communications will conform to the Council's branding policy.

Accessibility

Harrow Council serves a culturally rich and diverse client base and is conscious of the fact that access to information requires varied forms of communication. Any material required in an alternative format or language is managed in line with a specific request. All publications include details of how a request for alternative communication format is requested.

Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

Key communication objectives will, over and above individual communications with members (e.g. notification of scheme benefits, response to an individual enquiries, etc), be managed as detailed below:

- for the LGPS to be used as a tool in the recruitment and retention of employees, and therefore assisting in both Harrow Council and associated bodies becoming employers of choice.
- to better educate and explain to members the benefits of the LGPS.
- to provide the diverse client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- as a result of improved communication, for enquires and complaints to be resolved at the earliest opportunity and to the client's satisfaction.
- In line with the Government's agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.
- to ensure that all stakeholders, whether they be active members, pensioners or Elected Members have sufficient material to hand to inform pension-related judgements.

Method of Communication	***Media***	***Frequency of issue***	***Method of Distribution***	***Audience Group (Active, Deferred, Pensioner or All)***
Scheme Guide	Paper based and through Harrow's Internet/Intranet	At joining and major scheme changes	Post to home address/via scheme employers & online	Active
Newsletters	Paper based and through Harrow's Internet/Intranet	Annually and ad hoc to reflect timely notification of major scheme changes	Post to home address & online	Separately for active, deferred and pensioners
Pension Fund Report and Accounts	Paper based and through Harrow's Internet/Intranet	Annually	Hard copy on request & online	All
Pension Fund Accounts – Summary	Paper based and through Harrow's Internet/Intranet	Annually	Post to home address.& online	Separately for active and deferred
Annual Benefit Statements	Paper based	Annually	Post to home address	Active and deferred
Factsheets	Paper based and through Harrow's Internet/Intranet	Topic specific information sheets	Post to home address & online	Active and deferred
Website –	Electronic	Continually	Loaded for key	All

Harrow Intranet		available	communications	
Pension Surgeries	Face to face	On request	On request	Active
One to one education sessions	Personal interview	On request	On request	All
Question and Answer sessions	Paper based, Harrow Intranet & seminars	Quarterly	Various	Active

Explanation of communications

Scheme Guide - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.
Newsletters - An annual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as European / British pension matters, payroll pay dates/deadlines, a summary of the accounts for the year, contact details, etc.
Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, (e.g. current employer bodies and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.
Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.
Annual Benefit Statements – For active members these include the current value of benefits to 31 March as well as the projected benefits at age 65. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. The annual benefit statement is a combined publication and includes the members state benefits as advised through the Department for Works and Pensions.
For deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.
Fact sheets – These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, death benefits and pension rights on divorce etc.
Harrow Intranet – The Intranet will provide scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.
Harrow website – The website also provides scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.
Pension Surgeries – Pension surgeries provide the opportunity for groups of staff (i.e. 6 or more) to arrange a personal visit, at their place of work, from a member of the team.
One to one education sessions – These sessions offer the individual a confidential interview with a member of the team.
Question and Answer Sessions – Organised on a quarterly basis this gives pension scheme member's the opportunity to quiz the Harrow Pension team on all pension specific matters.

Policy on promotion of the scheme to Prospective Members and their Employing Bodies

Our objectives with regard to communication with prospective members are:

- for the LGPS to be used as a tool in the recruitment of employees, and therefore assisting in both Harrow Council and associated bodies becoming employers of choice.
- to better educate and explain to members the benefits of the LGPS.
- to provide the diverse prospective client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- In line with the Government's agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.
- to ensure that prospective members have sufficient material to hand to inform pension-related judgements.

The Shared Services Pension's Office does not have immediate access to prospective members, however, the benefits of a final salary defined benefit scheme is referenced in job vacancy advertisements. Promotional material and educational visits are provided for employing bodies.

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Overview of the LGPS - Guide	Paper based, DVD and Internet	On commencing employment	Via employers	New employees
Promotional Brochure	Paper based	Annually	Via employers	Existing/New employees
Membership Specific Reminder	Paper based	Annually	Post to home address	Current Non LGPS Harrow Council employees

Explanation of communications

Overview of the LGPS – Guide - A short leaflet that summarises the costs of joining the LGPS and the benefits of doing so. A DVD has also been produced which is sent out with the joining packs. All this information is available on Harrow's Internet pages.
Promotional Brochure – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the scheme and provide guidance on how to join the scheme.
Membership Specific Reminder – Through a combination of individual letter and promotional brochure provide current Harrow Council employees, who have not joined the LGPS, with sufficient information to revisit their earlier decision.

Policy on communication with Employing Bodies

Our objectives with regard to communication with employers are:

- to establish sound working arrangements to assist with a free flow of relevant information.
- Given the increased costings associated with funding a final salary defined benefit scheme, provide the employing bodies with sufficient information to assist them in their planning for future employer contribution rates.
- to provide a database infrastructure that will assist in maintaining an accurate database.
- To provide literature and processes around starters, changes during employment, leavers, retirees thereby ensuring smooth data transfers in relation to all staffing issues.
- to ensure they understand the benefits of being an LGPS employer.
- to assist the employing body in the development of their discretionary policy.

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of issue***	***Method of Distribution***	***Audience Group***
Employers' Guide	Paper based and electronic file format	At joining and updated as necessary	Post , email and via data storage medium	Main contact for all employers
Newsletters	Paper based	Annually	Post & email	Main contact for all employers
Annual employers meeting	Annual meeting with key employing body personnel	Annually	Meeting	Employing body management
Employers' focus groups	Quarterly seminars	Quarterly	Attendance at seminars	All LGPS employees
Harrow Pension Fund Report and Accounts	Paper based	Annually	Post	Employing body
FRS17 report	Paper based and electronic file format.	Annually	Hard copy post and data storage medium.	Employing Body.
Service Level Agreement	Paper based and electronic file format.	Start of admission agreement and revised at contract renewal.	Hard copy post and data storage medium	Admitted Body

Explanation of communications

Employers' Guide - A detailed communication that provides guidance on the employer's duties responsibilities. Assists employer in ensuring that it meets its statutory obligations within the prescribed timescales (e.g. publication of policy on discretions).
Newsletters – A technical briefing document that will include recent changes to the scheme, the impact on Pension Section administration and other relevant information.
Annual Employer's Meeting – A formal seminar style event where the Harrow Pension team provide an annual update and the employing body get to question all aspects of the support arrangements.
Employers' focus groups – Generally workgroup style sessions set up to debate current issues within the LGPS with representatives of all employing bodies.
Harrow Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.
FRS17 Report – This is a national accounting standard that all authorities administering pension funds must follow. FRS17 requires an organisation to account for retirement benefits when it is committed to give them, even if the actual giving will be many years to come.
Service Level Agreement – Document that sets out, alongside the admission agreement, the duties and responsibilities of both parties for the duration of the service contract.

Policy on communication with Union Representatives

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the scheme to union members

- to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the scheme

- to engage in discussions over the future of the scheme and to ensure that Union representatives have full vision and opportunity to respond on all CLG and HMRC consultations

- to harness union communications in a joint venture to explain the benefits of the LGPS to prospective and current members

- to liaise with unions and provide every assistance in supporting union officers in their learning and understanding of the LGPS

Our objectives will be met by providing the following communications:

Method of communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Briefing papers	Paper based and electronic	As and when there are scheme changes	Email or hard copy	All union members of the LGPS
Education sessions	Paper based and electronic	On request or following suggestion of Harrow's Pension's Team	Various	Union representatives
Pension Panel	Reports &	In line with	Notification	Named union

meetings	Meeting	published Panel meeting cycle	through Committee Services	representatives

Explanation of communications

Briefing papers – a briefing that highlights key issues and developments relating to the LGPS and the Fund.
Education sessions – these are education sessions that are available on request for union representatives, [e.g. to improve their understanding of the basic principles of the scheme, or to explain possible changes to policies]
Pension Panel meetings – a formal meeting of Elected Members, attended by Council Senior Officers, Investment Managers, invited Pension specialists and union members.

Policy on communication with Elected Members

Our objectives with regard to communication with Elected Members:

- to ensure that Elected Members receive sufficient briefings/training to allow them to carry out their statutory duties and responsibilities in line with HMRC and LGPS legislation.
- to seek Elected Member approval to the development or amendment of discretionary policies,
- to seek Elected Members approval to formal responses to government consultation in relation to the scheme
- to ensure that Elected Members have sufficient detail in order to make an informed judgement in relation to early retirement cases
- to ensure that Elected Members have full vision of actuarial reports, particularly those that impact on the Harrow Pension Fund.

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Training sessions	Pension seminars	Following member elections or timely briefings to ensure Elected Members are aware of scheme changes.	LGPS specific seminar	All Elected Members.
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All Elected Members
Pension Meetings	Meeting	In line with the published Committee / Panel meeting cycle.	Members elected onto Licensing & General Purposes Committee	All members of the Pension Committee/Panel

			and Pension Panel	
Report and verbal briefing	Meeting	As and when required	Report and verbal briefing	Cabinet
Early Retirement Pension Panel	Meeting or Urgent Action	As and when required.	Report	Panel members

Explanation of communications

Training Sessions – providing a broad overview of the main provisions of the LGPS, and Elected Member's key duties and responsibilities.
Briefing papers – a briefing that highlights key issues and developments to the LGPS .
Pension Meetings – Reports submitted to the Licensing & General Purposes Committee and Pensions Investment Panel.
Report and Verbal Briefing – Occasions when The Cabinet require vision of forthcoming pension changes that could impact on Corporate Priorities or have significant budget implications.
Early Retirement Pension Panel meetings - a formal meeting of elected members, attended by Council Senior officers where Elected Members consider and mage judgement on presented cases.

Policy on communication with Shared Services Pensions Team

Our objectives with regard to communication with pension administration staff are:

- ensure they are aware of changes and proposed changes to the LGPS scheme.
- to provide new and established staff with access to both internal and external training
- through a combination of utilising task management and re-engineering service processes continuously monitor and develop potential for service improvements; readjusting performance measures and targets, where appropriate

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Identify training/development needs as part of IPAD	IPAD documentation	Annual exercise, reviewed at 6 months. Informal bi-monthly meetings	IPAD process	All pensions staff
Staff meetings	Informal briefings	As and when required	By arrangement	All pensions staff
Attendance at external courses	Externally provided	As and when required	By email, paper based	All pensions staff

Explanation of communications

IPAD – Formal staff review process where future training/development needs are identified in relation to the team's strategic priorities.

Staff meetings - Informal training sessions – which provide new and established staff with timely update on changes to pension legislation or processes and an opportunity to discuss such amendments with senior members
Attendance at external courses – to provide more tailored training where it is cost-effective to use external trainers

Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

- to provide key information in a timely manner, ensuring full compliance with the requirements of the Data Protection and Freedom of Information Acts.

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Reports/written response/electronic postings	Various	Reports published annually and 'As and When required' in relation to general enquiries	Various	All Harrow constituents and other interested parties.

Explanation of communications

Reports/written response/electronic postings – Annual reports are published either through established communications (e.g. newsletters) or posted on the Council's Intranet site. Other ad hoc requests are responded to in light of the specific information request and utilising the most appropriate communications medium.

Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our statutory obligations in relation to notifications and consultations
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- to administer the Fund's Additional Voluntary Contribution schemes

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Pension Fund valuation reports	Electronic	Every three years	Via email	Communities & Local

• Revenue & Adjustment (R&A) certificate • Revised R&A certificates • Cessation valuations				Government (CLG), Her Majesty's Revenue and Customs HMRC)/all scheme employers
New admission agreements	Hard copy/electronic format	As new employers are entered into the Fund	Post/electronic submission	CLG/HMRC
Formal resolution of pension disputes	Hard copy or electronic format	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/ the Pensions Ombudsman
Completion of questionnaires	Hard copy or electronic format	As and when required	Via email or post	CLG/HMRC/the Pensions Regulator

Explanation of communications

Pension Fund Valuation Reports – a statutory report issued every three years by the scheme appointed actuary, setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date
New admission agreements – a legal requirement to notify both the Secretary of State and the HMRC of new admitted bodies.
Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute
Completion of questionnaires – Annual Survey

Performance Measurement

The Shared Services Pension's Team already has performance measures set in place and in order to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Communication	***Audience***	***Statutory delivery period***	***Target delivery period***
Scheme booklet	New joiners to the LGPS	Within two months of joining	Within 3 days of joining the LGPS
Annual Benefit Statements as at 31 March	Active members	On request	July each year
Telephone calls	All	Not applicable	All phone calls to be answered within 3 rings
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	Retirement benefits to be issued within 3 working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within working 8 days of relevant paperwork
Transfers in	Joiners/active members	Within two months of request	Within 5 days of receiving relevant paperwork
Issue of forms i.e. expression of wish	Active members	N/A	Within 3 days of joining the LGPS
Changes to scheme rules	Active/deferred and pensioner members, as required	Within two months of the change coming into effect	Within one month of change coming into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within five working days

Quality

Audience	*Method*	*To consider*	*Notes*
Active and deferred members	Paper based survey with annual benefit statements	All services	Client can benchmark against published service targets.
All member types	Assessment against system report	Performance against task management pre-defined performance measures.	One task chosen each quarter from: retirements new starts and transfers in transfers out deferred leavers
All member types	Focus group meeting on half yearly basis	All services and identify improvement areas/new services	Representative group of all member types. To include union representatives.
Employers	Focus Groups	Scheduled / Admitted body specific issues	Regular feedback sessions.

Results

The Pensions office publish, annually, performance against client-agreed targets. Elected Members receive copy of all performance reports through the Committee / Panel reporting cycle.

Review Process

Our communication policy will be reviewed on an annual basis, to ensure it meets audience needs and regulatory requirements. A current version of the policy statement will always be available either through the pension's office, at:

Shared Services
Harrow Council
3rd Floor South Wing
Civic Centre Station Road
Harrow Middlesex HA1 2XF

or on our Internet site under www.harrow.gov.uk – Advice & Benefits – Local Government Pension Scheme

Appendix 3

A brief guide to the Local Government Pension Scheme
Employees in England and Wales – April 2013
Highlights of the Local Government Pension Scheme (LGPS)

The LGPS gives you:

Secure benefits –
the scheme provides you with a future income, independent of share prices and stock market fluctuations.

At a low cost to you –
with tax-efficient savings and lower National Insurance contributions for most people under *State pension age*.

And your employer pays in too –
the scheme is provided by your employer who meets the balance of the cost of providing your benefits in the LGPS.

You can look forward to your retirement with the LGPS with:

A secure pension –
the benefits you get when you retire are based on the length of your membership in the scheme and your final year's pay. The pension you build up during your employment keeps pace with your pay rises. And after you retire, your pension keeps pace with cost of living increases.

Tax-free cash–
you have the option to exchange part of your pension for some tax-free cash on your retirement.

Peace of mind –
your family enjoys financial security, with immediate life cover and a pension for your husband, wife, civil partner or nominated co-habiting partner and eligible children in the event of your death and, if you ever become seriously ill, you could receive immediate ill health benefits.

Early retirement –
you can choose to retire from age 60 and receive your benefits immediately, although they may be reduced for early payment. It's also possible to retire from age 55 and receive your benefits immediately, provided you have your employer's consent or you are made redundant or retired in the interests of business efficiency.

Flexible retirement–
if you reduce your hours or move to a less senior position at or after age 55 you can, provided your employer agrees, draw some or all of the benefits you have built up, helping you ease into retirement, although your benefits may be reduced for early payment.

Options to pay extra –
you can boost your pension by paying more contributions. You get tax relief on these, too.

The scheme

This guide is a short description of the conditions of membership and main scheme benefits that apply if you pay into the LGPS on or after 1 April 2008.

What kind of scheme is it?
The LGPS is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972 and is contracted out of the State Second Pension scheme (S2P). The LGPS is a qualifying scheme under the automatic enrolment provisions of the Pensions Act 2008. The benefits under the LGPS are based on the length of your membership and your final year's pay. It is very secure because the benefits are set out in law.

Who can join?
The LGPS covers local government and other organisations that have chosen to participate in it. To be able to join the LGPS you need to be under age 75 and if you are employed by a designating body, such as a town or parish council, or an ***admission body***, you can only join if your employer nominates you for membership of the scheme. Police officers, operational firefighters and, in general, teachers are not allowed to join.

If you start a job in which you are eligible for membership of the LGPS you will be brought into the scheme, unless your contract of employment is for less than 3 months in which case you can opt to join by completing an application form.

If you are brought into the scheme you have the right to opt out. You cannot complete an opt out form until you have started your employment.

How do I ensure that I have become a member of the LGPS?
On joining the LGPS relevant records will be set up and an official notification of your membership of the LGPS will be sent to you. **You should check your pay slip to make sure that pension contributions are being deducted.**

Can I opt-out of the LGPS and re-join at a later date?
You can leave the LGPS at any time on or after your first day of eligible employment by giving your employer notice in writing, although you will only be entitled to a refund of contributions if you leave the scheme within 3 months of joining. If you opt out of the LGPS before completing three months membership you will be treated as never having been a member. If you opt-out, you can opt back into the scheme provided at that time you are under age 75. You may wish to obtain independent financial advice before you make a decision to opt-out of the LGPS.

If you opt out of the LGPS then:

- on the date your employer is required to comply with the automatic enrolment provisions under the Pensions Act 2008, your employer will **automatically enrol** you back into the LGPS provided at that time you are aged 22 or more and under ***State pension age*** and you earn more than £9440 a year in the job you've opted out from, or

- if on the date your employer is required to comply with the automatic enrolment provisions under the Pensions Act 2008, you are under age 22 or earning £9440 or less a year in the job you opted out from, your employer will **automatically enrol** you back into the LGPS in that job
  - from the day you reach age 22 provided you are earning more than £9440 a year in that job at that time, or
  - from the beginning of the pay period you earn more than £9440 for the first time in that job provided you are aged 22 or more and under ***State pension age*** at that time.

Your employer must notify you if this happens. You would then have the right to opt out of the LGPS.

If you stay opted out your employer will normally **automatically enrol** you back into the LGPS approximately every 3 years from the date they have to comply with the automatic enrolment provisions.

What do I pay?
Your contribution rate depends on how much you are paid but it's currently between 5.5% and 7.5% of your ***pay***. The rate you pay depends on which pay band you fall into.

If you work part-time, your rate will be based on the whole-time pay rate for your job, although you will only pay contributions on the ***pay*** you actually earn.

Here are the pay bands and the rates that apply from April 2013.

If your Whole-Time pay rate is:	You pay a contribution rate of:
Up to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%

The pay band ranges will be increased each April in line with the cost of living.

Do I get tax relief?
As a member of the LGPS, your contributions will attract tax relief at the time they are deducted from your ***pay*** and you will be contracted out of the State Second Pension scheme (S2P). There are restrictions on the amount of tax relief available on pension contributions. If the value of your pension savings increase in any one year by more than the annual allowance of £50,000 you may have to pay a tax charge. Most people will not be affected by the annual allowance.

Whilst you are a member of the LGPS you will, prior to ***State pension age***, pay reduced National Insurance contributions.

Does my employer contribute?

Your employer pays the balance of the cost of providing your benefits in the LGPS. Every three years an independent review is undertaken to calculate how much your employer should contribute to the scheme.

Can I pay more to increase my benefits?
You can pay extra to increase your retirement benefits. You can do this either by paying ***Additional Regular Contributions (ARCs)*** to buy extra LGPS pension or by making payments to the scheme's ***Additional Voluntary Contributions (AVCs)*** arrangement. And you can pay extra to increase your dependant's benefits. Your pension fund can give you more information on these options. Contact details are at the end of this guide.
You are also able to make payments to a personal pension or stakeholder pension or free-standing AVC scheme of your own choice. You may wish to take independent financial advice before you make a decision about paying extra.

Can I transfer pension benefits into the LGPS?
Generally speaking, benefits that you have previously built up in the LGPS or in other pension arrangements can be transferred into the LGPS. An option to transfer must be made within twelve months of joining or such longer period as your employer allows.

What if I'm already receiving an LGPS pension – will it be affected?
If you are re-employed in local government or by an employer who offers you membership of the LGPS you must tell the LGPS fund that pays your pension about your new position, regardless of whether you join the scheme in your new position or not. If you are in receipt of a LGPS ill health pension which is of the type that is stopped if you are in any gainful employment, your pension may be affected and you must inform the employer who awarded you that pension if you take up employment (whether in local government or elsewhere). In either case, a check will then be made to see whether the pension you are being paid should be reduced or stopped.

Changes to the LGPS are planned for 2014, for details see the LGPS 2014 member website at www.lgps2014.org

Retirement
To be entitled to LGPS retirement benefits you have to have at least three months membership, or have transferred other pension rights into the LGPS, or already have a deferred benefit in the LGPS in England or Wales.

When can I retire?
You can retire and receive your LGPS benefits in full once you have reached age 65. The scheme also makes provision for the early payment of your LGPS benefits.

What are my LGPS retirement benefits?
When you retire, you will receive a pension and have the option to take part of your pension as a tax-free lump sum. If you joined the LGPS before 1 April 2008, your standard benefit package will include an automatic tax-free lump sum as described in **The benefits** section.

Can I retire before age 65?
You can elect to retire and receive your LGPS benefits from age 60 onwards. You may be able to voluntarily retire and receive your LGPS benefits from age 55 but only if your employer agrees. Employer's consent to draw benefits before age 60 is an employer discretion. Your employer must set out their policy on this in a published statement.

Are there any penalties for retiring before 65 and drawing immediate benefits?

If you voluntarily retire before age 65 your LGPS benefits, initially calculated as set out in **The benefits** section below, will be reduced to take account of their early payment and the fact that your pension will be payable for longer. However, if you joined the LGPS before 1 October 2006 and would have at least 21 years scheme membership if you stayed in the scheme to age 65 you will:

a) have some protection from the reduction in respect of benefits you build up in the scheme up to 31 March 2016 if you will be 60 by then, or
b) in any other case, have some protection from the reduction in respect of any benefits you've built up in the scheme up to 31 March 2008. Also, if you will be 60 between 1 April 2016 and 31 March 2020, you may have some further protection on a sliding scale in respect of benefits you build up between 1 April 2008 and 31 March 2020 provided your combined age and scheme membership, both in whole years, would be 85 or more by 31 March 2020.

If you voluntarily retire before age 65, or retire on or after age 65, you can defer drawing your benefits but you must draw them before age 75. If you draw your pension after age 65, your benefits will be paid at an increased rate to reflect late payment.

What if I lose my job through redundancy or business efficiency?
If you are aged 55 or over you will be entitled to the immediate unreduced payment of your LGPS benefits.

What happens if I have to retire early due to ill health?
If you have to leave work at any age due to permanent ill health, which has to be certified by an independent occupational health physician appointed by your employer, the scheme provides a tiered ill health retirement package. This could give you benefits, paid straight away, and which could be increased if you are unlikely to be capable of gainful employment within 3 years of leaving.

What if I want to have a gradual move into retirement?
This is known as flexible retirement. From age 55, if you reduce your hours or move to a less senior position, and provided your employer agrees, you can draw some or all of the pension benefits you have built up – helping you ease into retirement. If you take flexible retirement before age 65 your benefits may be reduced to take account of their early payment unless your employer agrees to waive the reduction in whole or in part. You can continue paying into the LGPS on your reduced hours or in your new role, building up further benefits in the scheme. Flexible retirement is at the discretion of your employer and they must set out their policy on this in a published statement.

What if I carry on working after age 65?
If you carry on working after age 65 you will continue to pay into the scheme, building up further benefits. We will pay your pension when you retire, or when you reach the eve of your 75th birthday, or if you take flexible retirement with your employer's consent, whichever occurs first. If you draw your pension after age 65 it will be paid at an increased rate to reflect the fact that it will be paid for a shorter time. Your pension has to be paid by your 75th birthday.

The benefits

How much will my pension be?
Your pension is based on the length of your membership in the scheme and your final year's pay. If you are part-time, your scheme membership will count at its part-time length when working out your pension and your final year's pay is increased to what you would have received had you been full-time. For membership you build up after 31 March 2008 you

receive an annual pension based on 1/60th of your final year's pay. **The examples below** show how benefits based on membership in the LGPS built up after 31 March 2008 are calculated.

What pay is used to calculate retirement benefits?
Your retirement benefits will be calculated on your final year's pay. That is, the ***pay*** due in respect of your final year. If you are part-time, your final year's pay is increased to what you would have received had you been full-time. However, your benefits can be calculated on one of the two previous years' pay if better. Also, if your ***pay*** is reduced, or increases to your ***pay*** are restricted, in your last 10 years of continuous employment with your employer, you may have the option to have your benefits based on the average of any 3 consecutive years' pay in the last 13 years (ending on a 31 March), provided you opt to do so by writing to the pension fund no later than one month before leaving. You cannot make use of this option to use earlier years' pay in working out your benefits if the reduction or restriction to your pay was as a result of the loss of a temporary increase in pay, or resulted from a reduction in your grade in order to take retirement benefits on flexible retirement.

Can I exchange part of my pension for a lump sum?
You can exchange part of your annual pension for a one off tax-free cash payment. You will receive £12 lump sum for each £1 of pension given up. You can take up to 25% of the capital value of your pension benefits as a lump sum providing the total lump sum does not exceed £375,000 (2013/14 figure) less the value of any other pension rights you have in payment. Details of the maximum tax-free cash payment you can take will be given to you shortly before your retirement. It is at that time you need to make a decision.

Example of pension and lump sum option calculation for membership after 31 March 2008.

Full-time employee

On retirement at age 65, a scheme member has 20 years total membership and has final year's pay of £15,000.

Their **annual pension** is:
20 years x 1/60 x £15,000 = **£5,000**

If they decide to give up £1,000 pension for a cash lump sum, then their **reduced annual pension** is:

£5,000 less £1,000 = **£4,000**

And they will get a tax- free lump sum of:
£1,000 x 12 = £12,000

Part-time employee

If the same employee had worked half-time (i.e. 20 years at half-time = 10)

Their **annual pension** would be**:**
10 years x 1/60 x £15,000 = **£2,500**

If they decide to give up £500 pension for a cash lump sum, then their **reduced annual pension** is:

£2,500 less £500 = **£2,000**

And they would get a **tax-free lump sum** of:
£500 x 12 = **£6.000**

If you joined the LGPS before 1 April 2008
Your benefits for membership before 1 April 2008 are calculated differently. For LGPS membership you have built up to 31 March 2008 you receive an annual pension based on 1/80th of your final year's pay **and** an automatic tax-free lump sum of three times your pension. Like the pension, the automatic lump sum is based on your LGPS membership before 1 April 2008 and your final year's pay. You can also exchange part of your pre April 2008 pension for extra lump sum as described earlier.

Taking AVCs as cash
If you pay ***Additional Voluntary Contributions (AVCs)*** via the LGPS you may elect to take up to 100% of the accumulated fund in your AVC account as a tax-free lump sum if you draw it at the same time as your LGPS pension benefits **provided,** when added to the LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund) and the total lump sum does not exceed £375,000 (2013/14 figure) less the value of any other pension rights you have in payment. Details of this option will be given to you shortly before your retirement.

Will my pension increase?
The LGPS provides statutory pension increases. This means that on retiring on or after age 55 your pension will be increased each year in line with the cost of living. Ill health pensions are increased each year in line with the cost of living regardless of age.

Protection for your family

What benefits will be paid if I die?
If you die in service as a member of the LGPS the benefits shown below are payable.

- A lump sum death grant of 3 years pay. If you are part-time, it's 3 years part-time pay.
- Pensions for ***eligible children***.
- A widow's, widower's, civil partner's or, subject to certain qualifying conditions, a nominated co-habiting partner's pension, equal to 1/160th of your final year's pay times the total membership you would have built up in the LGPS to age 65. If you are part-time, membership to age 65 is calculated assuming you had remained part-time through to then. However, a nominated co-habiting partner's pension will be less than this if you have membership in the scheme before 6 April 1988 and you have not opted to pay additional contributions so that it counts towards a nominated co-habiting partner's pension.

If you are part-time and die in service and you have reduced your hours as a result of a condition or illness that, in the opinion of an independent occupational health physician, subsequently results in your death, then such a reduction in your hours is disregarded both in calculating the pay to be used for the lump sum death grant and in calculating the membership for any survivor's and children's pension payable.

If you die after retiring on pension, a widow's, widower's, civil partner's or, subject to certain qualifying conditions, a nominated co-habiting partner's pension and pensions for ***eligible children*** are payable. A widow's or widower's pension is equal to 1/160th of your final year's pay times the total membership your pension is based on unless you marry after retirement in which case it could be less. A civil partner's pension is equal to 1/160th of your final year's pay times the total membership your pension is based on. A nominated co-habiting partner's pension is equal to 1/160th of your final year's pay times your membership in the scheme from 6 April 1988, plus any of your membership before 6 April 1988 for which you have paid additional contributions so that it counts towards a nominated co-habiting partner's pension. A death grant is payable if less than 10 years pension has been paid and you are under age 75 at the date of death. The amount payable would be 10 times your annual pension reduced by any pension already paid to you (ignoring any reduction in your pension as a result of re-employment by an employer offering membership of the LGPS).

A civil partnership is a relationship between two people of the same sex ("civil partners") which is formed when they register as civil partners of each other.

A co-habiting partner is someone you are living with as if you are married or in a civil partnership. To nominate a co-habiting partner for a survivor's pension your relationship has to meet certain conditions laid down by the LGPS. If you wish to make a nomination you can request a form from the Pension Section.

The LGPS allows you to say who you would like any death grant to be paid to by completing an expression of wish form. The scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to. You can find out how to contact the pension fund at the end of this guide.

Leavers without an immediate entitlement to benefits

Refunds of Contributions
If you leave or opt out of the scheme with less than three months total membership, have not brought a transfer into the LGPS and do not already have a deferred benefit in the LGPS in England or Wales, you will normally be able to take a refund of your contributions. There will be a deduction for tax and the cost, if any, of buying you back into the State Second Pension scheme (S2P).

Deferred benefits
If you leave before age 65 and your total membership is three months or more or you have transferred other pension rights into the LGPS, or you already have a deferred benefit in the LGPS in England or Wales, you will be entitled to deferred benefits within the LGPS. Your deferred LGPS benefits will be calculated as described in **The benefits** section using the length of your membership up to the date that you left the scheme. During the period your pension benefits are deferred they will be increased each year in line with the cost of living.

Unless you decide to transfer your deferred benefits to another pension scheme, they will normally be paid at age 65, but:

- they may be put into payment earlier, and in full if, because of ill health, you are permanently incapable of doing the job you were working in when you left the LGPS and you have a reduced likelihood of being capable of any gainful employment within 3 years of applying for the benefit or by age 65, whichever is the earlier; or
- you can, if you wish, elect to receive your deferred benefits early from age 60 onwards; or
- if your former employer agrees, you can elect to receive your deferred benefits from age 55. You must have your former employer's consent to draw your benefits before age 60; or
- you can, if you wish, elect not to draw your deferred benefits at age 65 and defer drawing them till some time later (although they must be paid by age 75).

Benefits paid early, other than on the grounds of permanent ill health, may be reduced to take account of their early payment and the fact that your pension will be paid for longer. Conversely, benefits paid after age 65 will be increased.

If you leave with deferred benefits and you die before they come into payment, a lump sum death grant equal to 5 years' pension will be paid. The LGPS allows you to say who you would like any death grant to be paid to by completing an expression of wish form. This form is available from the pension section on request. The scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to.

A widow’s, widower’s, civil partner’s or, subject to certain qualifying conditions, a nominated co-habiting partner’s pension and pensions for ***eligible children*** will also be payable. A widow’s or widower’s pension is equal to 1/160th of your final year’s pay times the total membership your deferred pension is based on unless you marry after leaving in which case it could be less. A civil partner’s pension is equal to 1/160th of your final year’s pay times the total membership your deferred pension is based on. A nominated co-habiting partner’s pension is equal to 1/160th of your final year’s pay times your membership in the scheme from 6 April 1988, plus any of your membership before 6 April 1988 for which you have paid additional contributions so that it counts towards a nominated co-habiting partner’s pension. To nominate a co-habiting partner for a survivor’s pension your relationship has to meet certain conditions laid down by the LGPS.

You can find out how to contact the pension fund at the end of this guide.

What if I have two or more LGPS jobs?

If you have two or more jobs where you pay into the LGPS at the same time and you leave one (or more) but not all of them, and you are entitled to deferred benefits from the job (or jobs) you have left, you can choose to transfer your deferred benefits to the job you are continuing in. If you are not entitled to deferred benefits from the job (or jobs) you have left, you cannot have a refund of your contributions and you will be able to transfer your benefits to the job you are continuing in. The amount of membership you will be granted in the continuing job will be adjusted to reflect any difference in the whole-time rates of pay between the jobs.

Transferring your benefits

If you leave the scheme and you are entitled to deferred benefits or a refund you can generally transfer the cash equivalent of your pension benefits into a new employer’s scheme (if they are willing and able to accept it), into a personal or stakeholder pension scheme, or into a ‘buy-out’ insurance policy. You cannot transfer your benefits if you leave less than one year before age 65. An option to transfer must be made before age 64 or, if later, within 6 months of leaving. The method of valuing the cash equivalent of your pension rights complies with the requirements of the Pension Schemes Act 1993 and any value quoted is guaranteed for three months.

Alternatively, if you return to employment with an employer participating in the LGPS, then you may elect for the pension rights that you have built up to be added to your new period of membership in the scheme. Such an election must be made within twelve months of re-joining the scheme or such longer period as your employer allows.

Keep in touch – remember to let the pension fund know if you move house.

Help with pension problems

Who can help me if I have a query or complaint?

If you are in any doubt about your benefit entitlements, or have a problem or question about your LGPS membership or benefits, please contact the pension fund**.** They will seek to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible. If your query is about your contribution rate, please contact your employer’s personnel/HR or payroll section so they can explain how they have calculated your contribution rate.

If you are still dissatisfied with any decision made in relation to the scheme you have the right to have your complaint reviewed under the Internal Disputes Resolution Procedure and, as the scheme is well regulated, there are also a number of other regulatory bodies that may be able to assist you.

The various procedures and bodies are:

- **Internal Disputes Resolution Procedure**
  In the first instance you should write to the person nominated by the body who made the decision about which you wish to appeal. You must do this within six months of the date of the notification of the decision or the act or omission about which you are complaining, or such longer period as the nominated person may allow. The nominated person will consider your complaint and notify you of his or her decision. If you are dissatisfied with that person's decision, (or their failure to make a decision), you may apply to the scheme's administering authority to have it reconsidered.

  A leaflet explaining the Internal Disputes Resolution Procedure including relevant time limits is available from the pension fund.

- **The Pensions Advisory Service (TPAS)**
  TPAS is available at any time to assist members and beneficiaries of the scheme in connection with any pensions query they may have or any difficulty which they cannot resolve with the scheme administrator. TPAS can be contacted at:

  11 Belgrave Road
  London
  SW1V 1RB Telephone 0845 601 2923

- **Pensions Ombudsman**
  In cases where a complaint or dispute has not been satisfactorily resolved through the Internal Disputes Resolution Procedure or with the help of TPAS, an application can be made to the Pensions Ombudsman within three years of the event that gave rise to the complaint or dispute. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the scheme or matters of fact or law and his or her decision is final and binding (unless the case is taken to the appropriate court on a point of law). Matters where legal proceedings have already started cannot be investigated by the Pensions Ombudsman. The Pensions Ombudsman can be contacted at:

  11 Belgrave Road
  London
  SW1V 1RB Telephone 0207 630 2200

- **The Pensions Regulator**
  This is the regulator of work based pension schemes. The Pensions Regulator has powers to protect members of work based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. You can contact the Pensions Regulator at:

  Napier House
  Trafalgar Place
  Brighton
  BN1 4DW Telephone 0870 6063636

How can I trace my pension rights?

The Pension Tracing Service holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants) who have lost touch with previous schemes. All occupational and personal pension schemes have to register if the pension scheme has current members contributing to the scheme or people expecting benefits from the scheme. If you need to use this tracing service please write to:

The Pension Tracing Service
The Pension Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA Telephone 0845 6002 537

Don’t forget to keep your pension providers up to date with any change in your home address.

Some terms we use

Additional Regular Contributions (ARCs)

These are extra payments to buy up to £5,000 of extra annual LGPS pension in blocks of £250.

Additional Voluntary Contributions (AVCs)

These are extra payments to increase your future benefits. You can also pay AVCs to provide additional life cover.

All local government pension funds have an AVC arrangement in which you can invest money through an AVC provider, often an insurance company or building society. AVCs are deducted directly from your pay and attract tax relief.

Admission body

This is an employer that chooses to participate in the scheme under an admission agreement. These tend to be employers such as charities and contractors.

Eligible children

Eligible children are your children. They must, at the date of your death:

- be under 18 and be wholly or mainly dependent on you, or
- be aged 18 or over and under 23, be dependent on you, and be in full-time education or undertaking vocational training (although a dependant child who commences full-time education or vocational training after the date of your death may be treated as an eligible child up to age 23), or
- in some cases, a dependant child of any age who is disabled may be classed as an eligible child.

In all cases, the children must have been born before or within a year of your death.

Pay

The pay on which you normally pay pension contributions is your normal salary or wages plus any shift allowance, bonuses, contractual overtime, maternity pay, paternity pay, adoption pay and any other taxable benefit specified in your contract as being pensionable.

You do not pay contributions on any non-contractual overtime, travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, any award of compensation (other than payment representing arrears of pay) made for the purpose of achieving equal pay, nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.

State pension age

This is the earliest age you can receive the state basic pension. State pension age is currently age 65 for men. State pension age for women is currently being increased to be equalised with that for men. The Government has announced that it will speed up the pace of State pension age equalisation for women, so that women’s State pension age will reach 65 by November 2018.

State pension age equalisation timetable for women

Date of Birth	New State Pension Age
Before 6 April 1950	60
6 April 1950 - 5 April 1951	In the range 60 - 61
6 April 1951 - 5 April 1952	In the range 61 - 62
6 April 1952 - 5 April 1953	In the range 62 - 63
6 April 1953 - 5 August 1953	In the range 63 - 64
6 August 1953 - 5 December 1953	In the range 64 - 65

The State pension age will then increase to 66 for both men and women from December 2018 to October 2020.

Increase in State pension age from 65 to 66 for men and women

Date of Birth	New State Pension Age
6 December 1953 - 5 October 1954	In the range 65 - 66
After 5 October 1954	66

Under current legislation the State pension age is due to rise to 67 between 2034 and 2036 and to 68 between 2044 and 2046. However the government has announced plans to revise the legislation so that the date when the State Pension Age rises to 67 is between 2026 and 2028 and that rises above age 67 will be linked to increases in life expectancy.

Further information and disclaimer

This guide is for employees in England or Wales and reflects the provisions of the LGPS and overriding legislation at the time of publication in April 2013.

The Government may make changes to overriding legislation and, after consultation with interested parties, may make changes in the future to the LGPS. **Changes to the LGPS are planned for 2014**, for details see the LGPS 2014 member website at www.lgps2014.org

This guide cannot cover every personal circumstance. For example, it does not cover unenhanced ill health retirement benefits. Nor does it cover rights that apply to a limited number of employees e.g. those whose total pension benefits exceed the lifetime allowance (£1.5 million in 2013/14), those whose pension benefits increase in any tax year by more than the annual allowance (£50,000 in 2013/14), those to whom protected rights apply, those whose rights are subject to a pension sharing order following divorce or dissolution of a civil partnership. In the event of any dispute over your pension benefits the appropriate legislation will prevail. This short guide does not confer any contractual or statutory rights and is provided for information purposes only.

More detailed information about the scheme is available from:

Pensions Section
3rd Floor South Wing
Civic Centre
Station Road
Harrow
HA1 2XF

Email: Pension@harrow.gov.uk Tel: 0208 424 1186 Fax: 0208 424 7520

Appendix 4

LONDON BOROUGH OF HARROW

PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

LONDON BOROUGH OF HARROW PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

CONTENTS

This Statement of Investment Principles has been prepared in consultation with the Fund's investment managers and investment advisor. Fund members and other employing authorities will be given the opportunity to comment on the Statement and the Council will consider their views.

Approved by Harrow Council:

Date June 2013

Introduction

1.1 This is the Statement of Investment Principles (SIP) adopted by Harrow Council (the Council) in relation to the investment of assets of the Council's Pension Fund (the Fund). The Council is the Administering Authority of the Fund and, in that role it has responsibility to ensure the proper management of the Fund.

1.2 This SIP meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("The Regulations") and has been prepared after taking appropriate advice.

1.3 The Council, as administering authority, decides on the investment policies most suitable to meet the liabilities of the Pension Fund and has ultimate responsibility for investment strategy. These powers are exercised on its behalf by the Council's Pension Fund Committee. The Committee monitors investments, including manager performance, on a quarterly basis. Advice is received as required from the officers and the professional advisers. In addition, the Committee requires managers to periodically attend its meeting. The Committee is responsible for monitoring compliance with guidance given by the Secretary of State for Communities and Local Government. No exceptions have been identified.

1.4 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Board is satisfied that the appointed fund managers have sufficient expertise and experience to carry out their role

1.5 The LGPS is established by statute. The Pension Fund is a legally distinct account with contributions made by employees (fixed percentage of earnings) and employers. The primary objective of the Fund is to maximise performance and so minimise the level of employer contributions in order to meet the cost of pension benefits as required by statute. A related objective is to minimise the volatility of employer contribution rates as investment returns vary from year to year.

Investment Objectives

2.1 The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective as set out above, subject to an appropriate level of risk (implicit in the target) and liquidity. Over the long-term, it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

Investment Style

3.1 It is the Council's current policy that external fund managers are employed to administer the Fund's assets. The current structure as set out in the table below was implemented following the DGF manager selection day on 11th February 2013. A decision was made at the most recent Pension Fund Committee meeting on 6th March 2013, to invest 10% of the Fund in two DGFs amounting to £27 million in each of Barings and Standard Life., to be funded by a reduction in Equities together with the use of cash. The assets of the fund are mostly in "growth assets" i.e. those expected to generate additional ('excess') returns over the long term. These include equity, and private equity. The asset allocation also has a small allocation to “cash flow matching” assets, mainly index linked bonds. Corporate bonds, property and active currency provide both diversification and expected returns in excess of liabilities.

The table below shows the asset allocation structure.

Asset Class	Allocation	Range	Approach
UK Equities	26%		Passive
Overseas Equities	36%		Active Global Strategy
Total Equities	62%	58-68%	
Bonds	13% Corporate bonds 10.4% Index Linked gilts 2.6%	11-15%	Active Sterling aggregate benchmark plus gilts
Alternatives:-	10%	8-12%	
Property	10%	8-12%	Active Management
Private Equity	5%	N/A	Active Management
Currency	0%	N/A	
Total	**100%**		

3.2 The above allocations, ranges and the management structure comply with the limits set out in table 1 of The Regulations with the exception that the limit on single insurance contracts has been increased from 25% to the upper limit of 35% to permit investment in a passive UK equity portfolio. This decision will apply until the completion of the next strategic review or if earlier 31st March 2014. The decision to increase the limit complies with The Regulations.

3.3 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with the investment manager. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and also performance related fees.

3.4 The investment strategy is reviewed periodically, with a major review taking place following each triennial actuarial review.

3.5 As of April 2012 cash balances are held in either or both of the two Pension Fund bank accounts; Current and Call account.

3.6 Actual asset allocations are monitored against the above structure and rebalanced as appropriate. The Section 151 officer has delegated authority to undertake a quarterly rebalancing of the equity and bond portfolios should they breach the above ranges. Any rebalancing activity authorised by the Section 151 officer will be reported to the next meeting of the Pension Fund Committee. Rebalancing within the bond portfolio is delegated to the fund manager.

3.7 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through funds, the fund appoints its own custodian.

3.8 A currency hedge equal to 50% on the non sterling equity exposure is maintained.

3.9 The Council does not engage in stock lending activities.

Performance

4.1 Performance targets are set on a three-year rolling basis in relation to the benchmark. The investment managers' performance is reviewed at quarterly and annual intervals by the WM Company who provides independent performance statistics.

Types of Investments

5.1 A management agreement is in place for each fund manager, setting out where relevant, the benchmark, performance target and asset allocation ranges. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with the Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, for example, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.

5.2 The Regulations also specify certain limitations on investments. Principally, these place a limit of 10% of the whole fund in any single holding, or deposits with a single bank or institution, or investments in unlisted securities. The Council does however have discretion to adopt a higher statutory limit in respect of specific investments subject to formal agreement by the Council.

Investment Risk

6.1 Whilst the objective of the Council is to maximise the return on its investments, it recognises that this has to be within certain risk parameters and that no investment is without an element of risk. The Council acknowledges that the predominantly equity based investment strategy may entail risk to contribution stability, particularly due to the short term volatility that equity investments can involve. The longer term nature of the fund and the expected higher longer term returns expected of equity investments over bonds mean, however, that a high equity allocation remains an appropriate strategy for the Fund. Total risk arising from the investment strategy and its implementation is monitored as part of the tri-annual strategy review. Control ranges have been set to aid the monitoring of return and risk targets.

6.2 A policy of diversification for its investments and investment managers helps the Council to mitigate overall risk. Benchmarks and targets against which investment managers are expected to perform are further measures put in place to manage the risks for the fund. Manager performance is monitored quarterly with investigation of any significant deviations from intended strategy.

6.3 The fund has a positive cash flow that enables investment in illiquid asset class's e.g. private equity and property. More than 70% of the fund is invested in equities and bonds that are highly liquid.

6.4 The Council has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling.

6.5 Demographic factors including the uncertainty around longevity / mortality projections (e.g. longer life expectancies) contribute to funding risk. There are limited options currently available to fully mitigate or hedge this risk. The Council monitors liabilities using a specialist service (Club Vita) which provides a comprehensive analysis of the Fund's longevity data to enable them to understand and manage this issue in the most effective way.

The Realisation of Investments

7.1 A realisable (liquid) investment is one that can be readily converted into cash, for example to satisfy payments out of the Fund. The majority of the Fund's assets are highly liquid and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. Assets in the Fund that are considered to be illiquid include property and private equity. As a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

7.2 The Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

Investment Advice

8.1 Professional advice on investment matters is taken from the investment practice of Aon Hewitt. Hymans Robertson provides actuarial services.

Social, Environmental or Ethical

9.1 The extent to which social, environmental and ethical considerations are taken into account in these decisions is left to the discretion of the fund managers. However, the Council expects that the extent to which social, environmental and ethical issues may have a financial impact on the portfolio will be taken into account by the fund managers in the exercise of their delegated duties. The Council expects the fund managers to positively engage and seek to influence companies in which the Fund invests to take account of key social, environmental and ethical considerations.

Exercise of the Rights (including voting rights) attaching to investments

10.1 The Council is an active shareholder and will exercise its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance.

10.2 In practice, the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by the fund manager. The Council encourages its fund managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality. The fund managers provide reports on their voting and engagement activities.

Myners

11.1 The Myners principals codify best practice in investment decision-making. While they are voluntary, pension fund trustees are expected to consider their applicability to their own fund and report on a 'comply or explain' basis how they used them. The Regulations require administering authorities to publish in their Statement of Investment Principles the extent to which they comply with the six new investment principles set out in the Myners report on Institutional Investment. The principles and best practice guidance are attached in Appendix 1.

11.2 The Council do broadly comply with the principles but will continue to examine the requirements of the Myners principles with a view to ensuring greater compliance. Any changes will be reflected in updated versions of the Statement of Investment Principles

Additional Voluntary Contributions (AVC)

12.1 In line with statute, the Council has to appoint AVC providers and the current providers are Clerical Medical and Prudential.

Compliance

13.1 The Council is responsible for monitoring the Fund's overall investment performance and the performance of each manager.

13.2 The Council is responsible for monitoring the qualitative performance of the fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration.

13.3 The Council will regularly review the Scheme's compliance with this Statement of Investment Principles. The Statement is reviewed at least every three years and in addition a revised version is issued in the event of significant change occurring.

Myners Principles:
Defined Benefit Pension Schemes

1 Effective decision-making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Best Principle Guidance

• The board has appropriate skills for, and is run in a way that facilitates, effective decision making.

• There are sufficient internal resources and access to external resources for trustees and boards to make effective decisions.

• It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.

• There is an investment business plan and progress is regularly evaluated.

• Consider remuneration of trustees.

• Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).

2 Clear objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Best Practice Guidance

• Benchmarks and objectives are in place for the funding and investment of the scheme.

• Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.

• Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.

• Consider the strength of the sponsor covenant.

3 Risks and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Best Practice Guidance

• Trustees have a clear policy on willingness to accept underperformance due to market conditions.

• Trustees take into account the risks associated with their liabilities' valuation and management.

• Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.

• Trustees have a legal requirement to establish and operate internal controls.

• Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

4 Performance Assessment

Trustees should arrange for the formal measurement of the performance of investments, investment mangers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Best Practice Guidance

• There is a formal policy and process for assessing individual performance of trustees and managers.

• Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).

• The chairman addresses the results of the performance evaluation.

• State how performance evaluations have been conducted.

• When selecting external advisers take into account relevant factors, including past performance and price.

5 Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents.
A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
Trustees should report periodically to members on the discharge of such responsibilities.

Best Practice Guidance

• Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.

• Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.

• Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.

• Trustees ensure that Investment consultants adopt the ISC's Statement of Practice relating to consultants.

6 Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
Trustees should provide regular communication to members in the form they consider most appropriate.

Best Practice Guidance:

• Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards.

Appendix 5

Funding Strategy Statement

1. Introduction

This is the Funding Strategy Statement (FSS) of the London Borough of Harrow Pension Fund ("the Fund"), which is administered by Harrow Council, London ("the Administering Authority").

It has been reviewed by the Administering Authority in collaboration with the Fund's Actuary, Hymans Robertson, after consultation with the Fund's employers and investment adviser. This revised version replaces the previous FSS and is effective from 29th February 2012.

1.1 Regulatory Framework

Scheme members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level that covers only part of the cost of accruing benefits. Employers currently pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.
The FSS forms part of a framework, which includes:

- The Local Government Pension Scheme Regulations[2] (Regulations 34, 35 and 36 of the Administration Regulations are particularly relevant);
- the Rates and Adjustments Certificate, which can be found appended to the Fund Actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles (SIP).

Operating within this framework, the Fund's Actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, for example when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years, ahead of triennial valuations being carried out; the next full review will fall due to be completed by 31 March 2014. Annex A is updated more frequently to reflect any changes to employers.
The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Julie Alderson in the first instance at julie.alderson@harrow.gov.uk or on tel: 020-8424-1788.

[2] Consisting of The Local Government Pension Scheme (Administration) Regulations 2008, The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 ("the Benefits Regulations"), The Local Government Pension Scheme (Administration) Regulations 2007 ("the Administration Regulations") and The Local Government Pension Scheme (Transitional Pensions) Regulations 2007 ("the Transitional Regulations").

2. Purpose

2.1 Purpose of the FSS

The purpose of the FSS is:

- "to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities."

These objectives are desirable individually, but may be mutually conflicting.
This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.
The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers or pool of employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to minimise the degree of short-term change in the level of employer's contributions where the Administering Authority considers it reasonable to do so.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a contribution reduction, if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's Actuary is required by the regulations to report the *Common Contribution Rate*[3], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

The Fund's Actuary is also required to adjust the Common Contribution Rate for circumstances that are deemed "peculiar" to an individual employer[4]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer or pool together with individual past service adjustments according to employer (or pool) -specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.8.

Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It also identifies which employers' contributions have been pooled with others.

Any costs of early retirements other than on the grounds of ill-health must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision where requested by the Administering Authority).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

The Fund's Actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund Actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund Actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

[3] See Regulation 36 (5) of the Benefits Regulations
[4] See Regulation 36 (7) of the Benefits Regulations

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

Where an admission agreement for an admission body, that is not a Transferee Admission Body and with no guarantor, is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

3.3 Ongoing Funding Basis

(a) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the CLUBVITA’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1% pa minimum underpin to future reductions in mortality rates.

The combined effect of the above changes from the 2007 valuation approach is to add around one year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

(b) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. The investment return assumption makes allowance for an anticipated out-performance of returns from equities relative to Government bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken.

For the purpose of the triennial funding valuation at 31 March 2010 and setting contribution rates effective from 1 April 2011, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than the return available from investing in government bonds at the time of the valuation (this is the same as that used at the 2007 valuation). The long term in this context would be 20 to 30 years or more. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, an asset out-performance assumption (AOA) of 1.6% per annum is within a range that would be considered acceptable for the purposes of the funding valuation.

<u>(c) Salary growth</u>

Pay for public sector employees will be frozen by Government until 2012, with a flat increase of £250 being applied to all those earning less than £21,000 pa. Although this “pay freeze” does not officially apply to local government employers, it has been suggested that they are expected to show similar restraint in respect of pay awards. Based on an analysis of the membership in LGPS funds, the average expected increase in pensionable pay across all employees should be around 1% pa for the next couple of years. Therefore the salary increase assumption at the 2010 valuation has been set to 1% pa for 2010/11, 2011/12 and 2012/13 in the expectation that pay growth will be limited until March 2013. After this point, the assumption will revert back to RPI plus 1.0% p.a. This is lower than the assumption adopted at the 2007 valuation of RPI plus 1.5% p.a.

<u>(d) Pension increases</u>

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in deferment and in payment. This proposed change has been allowed for in the valuation calculations as at 31 March 2010.

At the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. For the 2010 valuation, this market-derived rate has been adjusted downwards by 0.5% pa to allow for the “formula effect” of the difference between RPI and CPI. Basing pension increases on CPI rather than RPI will serve to reduce the value placed on the Fund’s liabilities.

<u>(e) General</u>

The same financial assumptions are adopted for all employers for whom the ongoing basis is deemed to be appropriate. All employers have the same asset allocation as described in Section 3.6.

The demographic assumptions vary by type of member and so reflect the different membership profiles of employers.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up

to meet future benefit payments in respect of future service. For the 2010 valuation, the future service rate has been calculated separately for all the employers although employers within a pool will pay the contribution rate applicable to the pool as a whole.
Where it is considered appropriate to do so, the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a lower discount rate (most usually for Admission Bodies in the circumstances outlined in 3.2).
The approach used to calculate the employer's future service contribution rate depends on whether or not new entrants are being admitted in line with the approach described below. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one-year control period.
If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not admit new entrants

Where Admission Bodies have closed the scheme to new entrants, this is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.
To give more long-term stability to such employers' contributions, the *Attained Age* funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.
Both funding methods are described in the Actuary's report on the valuation.
Both future service rates include an allowance for expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.
The combined effect of these adjustments for individual employers applied by the Fund Actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, part-time/full-time, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;

- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers, unless the circumstances dictate otherwise.

The Fund Actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Fund's Actuary apportions the assets of the whole Fund between the employers (or pools of employers) at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer (or pool of employers). This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund Actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Solvency Issues and Target Funding Levels

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind,

there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

- capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation")
- the pooling of contributions amongst employers with similar characteristics
- the use of extended deficit recovery periods
- the phasing in of contribution increases / decreases

3.7.2 Stabilisation

There can be occasions when, despite the deployment of contribution smoothing mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.
The more secure the employer, the more emphasis can be placed on stability of employer contributions without jeopardising the Administering Authority's commitment to prudent stewardship of the Fund. For the most secure, long term employers an explicit stabilisation overlay based on a risk-based, stochastic valuation approach is used.

For less secure and shorter term employers (principally, but not exclusively, the admission bodies) it is generally not possible to achieve the same degree of stability in employer contribution rates without compromising on prudent stewardship.

In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes to +0.25% / -2% of employers' contributions per annum for the six years from 1 April 2008, for employers where the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach.

Circumstances in which eligibility for stabilisation will be reviewed

- The Administering Authority may review an employer's eligibility for stabilisation at any time in the event of significant changes in the employer's membership (due for example to redundancies or outsourcing) or if there is a significant change in the Administering Authority's assessment of an employer's security. Possible actions may include increases in contributions expressed as a percentage of pay or revised deficit contributions expressed as monetary amounts.
- Stabilisation rules and eligibility may be reviewed at any time in the event of changes to scheme benefits. Changes in scheme benefits may arise because of changes in regulations or other events that have a material impact (such as the change with effect from 22 June 2010 from RPI to CPI for increases to pensions in payment).

- The stabilisation rules and eligibility criteria will be reviewed no later than at the 31 March 2013 valuation, with any changes in contribution strategy taking effect from 1 April 2014. The review will take into account factors including, but not necessarily restricted to, market conditions (the long-term risk-based analysis will be recalibrated to market conditions as at 31 March 2013), the Administering Authority's assessment of employer's security and the maturity of each employer's membership profile.

Setting the parameters of the stabilisation overlay

The parameters for the stabilisation overlay have been determined by carrying out an asset liability modelling exercise. This allows for the future uncertainty in investment returns, interest rates and inflation using a stochastic modelling technique. The actuary tested the contribution stabilisation rules to ensure that they were compatible with the current investment strategy. The actuary has advised the Administering Authority that the stabilisation overlay for secure long term employers satisfies the requirement for the funding strategy to take a prudent longer-term view.

The actuarial modelling discloses that there is only around a 60% chance of the Fund having a funding level of at least 100% on an ongoing basis after 18 years, and this is slightly lower if stabilisation is applied. The actuary believes that there is a sufficiently high likelihood of achieving the long term funding objective (a funding level of 100% on a sufficiently prudent basis) where contributions are paid at the stabilised rate over a longer period.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are therefore paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The list of employers whose rates have been stabilised is set out in Annex A.

The Fund currently has a net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates. However, this net cash inflow is reducing over time and so should be kept under review.

The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation forms part of the consultation undertaken with the FSS.

3.7.3 Deficit Recovery Periods

The Administering Authority instructs the Actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies with tax raising powers	A period to be agreed with each employer not exceeding 20 years.
Community Admission Bodies with funding guarantees	A period to be agreed with each employer not exceeding 20 years.
Transferee Admission Bodies	The period from the start of the revised contributions to the end of the employer's contract or the date when it is expected that all employee members will have left active membership of the Fund, if earlier.
Academies	A period to be agreed with each employer not exceeding 20 years. Any recovery period in excess of 7 years will only be applicable for as long as the academy or Department of Education does not give notice of exiting its status. On receiving 7 years notice of exiting academy status, the outstanding deficit be spread over the remainder of the notice period.
Community Admission Bodies that are closed to new entrants e.g. Bus Companies, whose admission agreements continue after last active member retires	A period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers
All other types of employer	A period equivalent to the expected future working lifetime of the remaining scheme members

This maximum period is used in calculating each employer's minimum contributions. Employers may opt to pay higher regular contributions than these minimum rates.
The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for the 2010 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.4 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contributions.
However, to help meet the stability requirement, employers may prefer not to take such reductions.

3.7.5 Phasing in of Contribution Rises

Any contribution rate rises will be subject to the 'stabilisation mechanism' set out in Section 3.7.2. Transferee Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises by phasing in the rise in contributions over a period of up to seven years.

3.7.6 Phasing in of Contribution Reductions

Any contribution reductions will be subject to the 'stabilisation mechanism' set out in Section 3.7.2. Transferee Admission Bodies can take the reduction with immediate effect.

3.7.7 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period than other employers or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.
However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.8 Smaller Employers

The Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.
Transferee Admission Bodies are ineligible for pooling.
Smaller employers may choose to Pool funds in future – As stated above. Transferee Admission Bodies are not eligible for pooling.

Employers who are eligible for pooling at the 2010 valuation have consented to participate in the pool.

3.8 Admission Bodies ceasing

Admission Agreements for Transferee Admission Bodies are assumed to expire at the end of the contract.
Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.
If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund Actuary to carry out a special valuation under Regulation 38 of the Administration Regulations to determine whether there is any deficit.
The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

(a) For Transferee Admission Bodies, the assumptions would usually be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For non Transferee Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the Actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

(c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements

The Actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. All employers, irrespective of whether or not they are pooled, incur additional costs whenever an employee retires "early" (see below) with no reduction to their benefit or receives an enhanced pension on retirement. The current costs of these are specified in the latest early retirement manual from Hymans Robertson. Annex A indicates which employers pay additional lump sums into the Fund.
The additional costs of premature retirement are calculated by reference to these ages.

3.9.2 Ill health monitoring

The number of ill health retirements is carefully monitored against the assumptions included in the valuation.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.
The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2010, the proportion held in equities and property was 86% of the total Fund assets.
The investment strategy of lowest risk would be one which provides cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.
The lowest risk strategy is not necessarily likely to be the most cost-effective strategy in the long-term.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from a liability matching strategy. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund, the security of members' benefits and the secure nature of most employers' covenants.
The same investment strategy is followed for all employers. The Administering Authority does not have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The funding basis adopts an asset outperformance assumption of 1.6% per annum over and above the redemption yield on index-linked gilts. Both the Fund's Actuary and its investment adviser consider that the funding basis does conform to the requirement to take a "prudent longer-term" approach to funding, based on the Fund's current investment strategy.
The Administering Authority is aware that in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of the outperformance target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

4.3 Balance between Risk and Reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

4.4 Inter-valuation Monitoring of Funding Position

The Fund is subject to an actuarial valuation every 3 years, which reviews assets and liabilities and assesses the funding level. Between these valuations the Administering Authority monitors investment performance on a quarterly basis. It reports back to employers by annual reports.

5. Key Risks and Controls

5.1 Types of Risk

The Administering Authority has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.Short term (quarterly) investment monitoring analyses market performance. This gives an early warning of contribution rises ahead. In the short term, volatility is damped down by stability measures on contributions. However, if underperformance is sustained over a period, contributions would rise by more. Analyse progress at three yearly valuations for all employers.
Inappropriate long-term investment strategy	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.
Fall in risk-free returns on Government bonds, leading to a rise in value placed on liabilities	Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark	Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.
Actual pay and price inflation significantly more than anticipated	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Some investment in index-linked bonds also helps to mitigate this risk. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises. Incorporate a stabilisation mechanism for employers where appropriate.

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Ill health retirements significantly more than anticipated	Monitoring of each employer's ill health experience on an ongoing basis. The

	employer may be charged additional contributions if this exceeds the ill health assumption built in.
Pensioners living longer	Set mortality assumptions with some allowance for future increases in life expectancy. Sensitivity analysis in triennial valuation calculations helps employers understand the potential impact of life expectancy. Fund Actuary monitors combined experience of around 50 LGPS funds to look for early warnings of lower pension amounts ceasing than assumed in funding. Administering Authority encourages any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.
Deteriorating patterns of early retirements	Employers are allocated the extra capital cost of non ill health retirements following each individual decision and may be required to make a capital payment. Employer ill health retirement experience is monitored.

5.4 Regulatory

Risk	**Summary of Control Mechanisms**
Changes to LGPS regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees or effect of tiered contribution rates with effect from 1 April 2008	The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself. It considers all consultation papers issued by the DCLG and comments where appropriate. The results of the Hutton review are not expected to affect the Fund until after the 2013 valuation, and so will be incorporated at that time. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions. The Administering Authority will consult employers where it considers that it is appropriate.
Changes to national pension requirements and/or HM Revenue & Customs rules	

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	The Administering Authority monitors membership movements on a quarterly basis. The Actuary may be instructed to consider revising the Rates and Adjustments certificate to increase an employer's contributions (under Regulation 38 of the Administration Regulations) between triennial valuations
Administering Authority not advised of an employer closing to new entrants.	
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Transferee Admission contracts to inform it of forthcoming changes. It also operates a diary system to alert it to the forthcoming termination of Transferee Admission Agreements.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • Seeking a funding guarantee from another scheme employer, or external body, wherever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. • Vetting prospective employers before admission. • Where permitted and appropriate under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.

Annex A: Employers' Contributions, Spreading and Phasing Periods

The Common Rate of Contribution payable by each employing authority under regulation 36(4)(a) of the Administration Regulations for the period 1 April 2011 to 31 March 2014 is 25.7% of pensionable pay (as defined in Appendix B).

Individual Adjustments are required under regulation 36(4)(b) of the Administration Regulations for the period 1 April 2011 to 31 March 2014 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

Employer code	Employer name	Contributions currently being paid in 2010/11	Minimum Contributions for the Year Ending		
			31 March 2012	31 March 2013	31 March 2014
1	London Borough of Harrow	18.6%	18.85%	19.10%	19.35%
2	North London Collegiate School	18.6%	18.85%	19.10%	19.35%
5	Stanmore College	18.6%	18.85%	19.10%	19.35%
7	Harrow College	18.6%	18.85%	19.10%	19.35%
8	Employer 8	18.6%	18.85%	19.10%	19.35%
10	Harrisons Catering	21.6%	22.50% *	22.50% *	22.50% *
11	St Dominic's Sixth Form College	18.6%	18.85%	19.10%	19.35%
16	Vaughan F&M School	18.6%	18.85%	19.10%	19.35%
18	Kier Support Services	18.1%	19.90% *	19.90% *	19.90% *
19	Mears Care Ltd	20.0%	20.00% *	20.00% *	20.00% *
20	Care UK	19.5%	22.30% *	22.30% *	22.30% *

* Early retirement strain payments are in addition

Further comments

ill health liability insurance
Note that, if an employer has ill health liability insurance in place with a suitable insurer and provides satisfactory evidence to the administering authority, then their Minimum Total Contribution Rate may be reduced by their insurance premium, for the period the insurance is in place.

Stabilisation
The following employers have had their contribution rates stabilised following a separate modelling exercise that I [the Actuary] carried out on their behalf:

- London Borough of Harrow
- North London Collegiate School
- Stanmore College
- Harrow College
- Employer 8
- St. Dominic's Sixth Form College
- Vaughan F&M School

Annex B: Responsibilities of Key Parties

The Administering Authority should:

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund's Actuary;
- prepare and maintain a FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the Fund's performance and funding and amend FSS/SIP.

The Individual Employer should:

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the Actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; excess ill health early retirements if appropriate;
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding; and
- comply with the valuation timetable where required and respond to communications as necessary to complete the process.

The Fund Actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS;
- agree a timetable for the valuation process with the Administering Authority to provide timely advice and results; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

This page is intentionally left blank

REPORT FOR: GOVERNANCE, AUDIT & RISK MANAGEMENT COMMITTEE

Date of Meeting:	16th September 2013
Subject:	**Annual Governance Statement 2012/13**
Responsible Officer:	Simon George, Director of Finance & Assurance
Exempt:	No
Enclosures:	Annual Governance Statement 2012/13 – Appendix 1 AGS Action Plan 2012/13 – Appendix 2 Corporate Management Assurance Statement – Appendix 3

Section 1 – Summary and Recommendations

This report sets out the Council's Annual Governance Statement (AGS) for 2012/13 required to meet the requirements of the Accounts and Audit Regulations 2011 and the action plan developed to address the governance gaps identified by the annual governance review process.

Recommendations:
The Committee is requested to:

1) Approve the 2012/13 AGS (Appendix 1);

2) Note the actions to be taken to address governance gaps identified by the annual governance review process (AGS Action Plan Appendix 2).

3) Note the Corporate Management Assurance Statement (Appendix 3)

Reason: (For recommendations)

Harrow COUNCIL
LONDON

To confirm the Council's approach to Corporate Governance and demonstrate our commitment to uphold the highest standards of integrity, openness and accountability. To comply with the requirements of the CIPFA/SOLACE guidance which constitutes 'proper practice' under the Accounts and Audit Regulations 2011.

Section 2 – Report

Introduction

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

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

2.3 The Council has approved and adopted a corporate governance framework and a Code of Corporate Governance , which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* The Annual Governance Statement explains how the Council has complied with the framework/code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement of internal control (Annual Governance Statement).

Annual Governance Statement

2.4 Each year the Council undertakes a robust review of its governance arrangements to ensure the delivery of good governance within a local government framework and current good practice. The purpose of the review is to provide assurance that governance arrangements are adequate and operating effectively and to identify action required to ensure effective governance in the future.

2.5 Internal Audit co-ordinates the annual review compiling evidence/sources of assurance provided by members of the Corporate Governance Working Group into an evidence table that is used as a basis for the preparation of a draft AGS which is reviewed and agreed by the Corporate Governance Group.

2.6 The Annual Governance Statement is prepared on behalf of the Leader of the Council and Chief Executive and has been signed-off by them both. It was submitted in draft to the Governance, Audit and Risk Management (GARM) Committee on 22/07/13 for consideration and review and included with the draft annual accounts to meet the statutory requirement of the Accounts and Audit Regulations 2011 which requires authorities to “conduct a review at least once in a year of the effectiveness of its system of internal control”

2.7 The committees’ attention is specifically drawn to paragraphs 7.4 and 9.4 both of which have been enhanced/updated since the draft AGS was presented in July.

2.8 The AGS Action Plan details the 16 non-significant and the 1 significant governance gap identified by the annual governance review process and the action agreed to address these gaps. Updates will be presented to the GARM Committee throughout the year to enable progress to be monitored.

Management Assurance

2.9 A management assurance process has been in place at the Council since 2005/06. During 2012/13 this process was reviewed by the Corporate Governance Group and realigned with the Corporate Risk Register. The new process collates assurance provided by senior managers on the key controls in place to manage the authority’s most significant (red) risks contained in the Corporate Risk Register.

2.10 The Corporate Management Assurance Statement (Appendix 3) summaries the results of the management assurance exercise, has been signed off by the Chief Executive and reflected in the Annual Governance Statement.

Financial Implications

2.11 Financial implications have been addressed, where relevant, in the main body of the report.

Risk Management Implications

2.12 The work of internal audit supports the management of risks across the council.

Corporate Priorities

2.13 Internal Audit contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Section 3 - Statutory Officer Clearance

Name: Simon George Date: 06/09/13.	√	Chief Financial Officer
Name: Hugh Peart…… Date: 06/09/13 …	√	Monitoring Officer

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit,
Tel:0208 424 1420

Background Papers: None.

If appropriate, does the report include the following considerations?

1.	Consultation	YES / NO
2.	Corporate Priorities	YES / NO

ANNUAL GOVERNANCE STATEMENT 2012/13

1. Scope of Responsibility

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

1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk i.e. it is responsible for ensuring a sound system of governance.

1.3 The Council has approved and adopted a Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government'.* The code has been taken into account in drafting our constitution and a copy can be obtained from Harrow Council, Civic Centre, Station Road, Harrow, Middlesex HA1 2XF or from our website at: http://www.harrow.gov.uk/downloads/file/8017/part_5k-code_on_corporate_governance. The Code is reviewed and updated annually. This statement explains how the Council has complied with the code and the governance framework and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 in relation to the publication of this Annual Governance Statement.

2. The Purpose of the Governance Framework

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

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

2.3 The governance framework has been in place at Harrow Council for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

3. The Governance Framework

3.1 The key elements of Harrow's governance framework are set out in our Code of Corporate Governance. A brief description of them is contained in the following paragraphs.

3.2 The Council's Corporate Plan 2012/13 sets out the vision for the Council. The plan was underpinned by engagement with the community including (for example) in depth consultation about the future of adult social care services, engagement on the development of a master plan for the Heart of Harrow and a programme of "Lets Talk" events.

3.3 The Corporate Plan sets out the following four Corporate Priorities:

- Supporting and protecting people who are most in need,
- Keeping neighbourhoods clean, green and safe,
- United and involved communities, and
- Supporting our town centre, our local shopping centres and businesses.

.

3.4 The vision and priorities are reviewed annually. In addition a further fifteen outcomes have been agreed as part of the Corporate Priorities for 2013/14 which build on these priorities as detailed in the Corporate Plan 2013-2015 and agreed in February 2013.

3.5 Harrow Council works in partnership with many different organisations to deliver the best outcomes for our community. The constitution for the Harrow Strategic Partnership identifies the role of the partnership as a conduit for change to improve the social, economic, environmental, health, education, and community safety needs of the communities of Harrow. The Partnership priorities are reviewed regularly and currently include:

- Public Service Integration and Joint Service Delivery
- Building Community Capacity
- Health
- Worklessness/Welfare

3.6 The Council has adopted a Commissioning Model which places emphasis on monitoring and evaluating the quality of the service provided (the "review" stage of the cycle) and on gathering the views of service users in the "understand" phase of the cycle.

3.7 Directorates set out their evidence through Commissioning Panels (October 2011 for 2012/13) the output of which was published as part of the budget cycle. The Commissioning Panel Guidance asks how community engagement/customer research helped shape the proposals being put forward.

3.8 The authority strives to deliver best value for money to its residents by improving performance and minimising costs. A wide range of value for money (vfm) benchmarking information is used within the authority and work is undertaken with each directorate on cost and performance benchmarking as part of the planning and improvement cycle. This enables each directorate to understand where costs are high and feeds into service plans. Understanding of vfm strengths and weaknesses has been fundamental in Harrow's efficiency drive and its transformation programme. Each directorate is required to identify efficiencies and value for money improvements as part of their commissioning plans, agreed through the Commissioning Panels.

3.9 Allocation of Responsibilities of the Executive and the individual members are set out in the Council's Constitution. Minutes of all decisions made by the Executive and individual Executive members are available on the intranet and internet and records are maintained by Legal & Governance Services. The Council's Constitution includes details of Director responsibility, committee terms of reference and details of the statutory obligations (Chief Executive, Corporate Directors of Children's, Adult Social Services, Corporate Finance and Director of Legal and Governance Services).

3.10 Delegations are reviewed and approved annually. Matters specifically reserved for council and cabinet are reviewed and updated in accordance with legislation when issued. Delegations were last reviewed and approved by the Council on 23 May 2013.

3.11 A scrutiny function is in place which comprises an overview and scrutiny committee, a performance and finance sub committee, a health and social care sub committee and lead scrutiny councillors for:

- Health
- Community, Health and Wellbeing
- Children and Families
- Environment and Enterprise
- Corporate Resources

The function is driven by the need to hold the council and our partners to account both for their policy direction and performance and the establishment of the performance and finance sub committee is a key component in ensuring that the function is focused on the issues of the greatest importance to the council. The lead members ensure that expertise to tackle particular areas of service delivery is maintained, and fed into the work programme of the committees.

3.12 Standards of behaviour for members and staff are defined in their respective Codes of Conduct which are available on the intranet and used as a basis for training. Additionally the Council have established Standards Committee webpages which provide greater detail to the public on Member conduct generally.

3.13 The Council has a duty to manage its risks effectively and this is achieved through a consistent corporate process in a hierarchical series of risk registers. The Council's Risk Management Strategy identifies and allocates risk management roles and responsibilities of council members, officers and partners. The strategy was last updated in October 2011 and will be reviewed and updated during 2013/14. The Corporate risk register is reviewed by the Corporate Strategy Board on a quarterly basis. All Directorates have risk registers and these are reviewed by Directorate Management Teams regularly and the Improvement Boards quarterly. In 2011/12 a risk appetite statement was developed and approved by the Executive in accordance with best practice and this was updated in 2012/13. The statement outlines the nature and the extent of the significant risks the Council is willing to take to achieve its corporate priorities and is the means by which the Council seeks to ensure that these risks are properly and fully disclosed to Council stakeholders.

3.14 A Corporate Anti-fraud Policy and Corruption Strategy is maintained by the Council's Corporate Anti-fraud team.

3.15 The role of the Chief Financial Officer (CFO) was filled by an interim member of staff during the majority of the 2012/13 financial year and filled on a permanent basis in March 2013. However throughout this period the authority's financial management arrangements have conformed with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The CFO reports operationally to the Corporate Director of Resources and has direct access to the Chief Executive The authority's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit. The Head of Internal Audit is a middle manager with extensive internal audit experience who has regular and open engagement with the Leadership Team and the Audit Committee.

3.16 The role of the Statutory Monitoring Officer is to report on likely contravention of any enactment or rule of law and the Statutory Monitoring Officer provisions are contained in Part 3 of the Constitution. Effective arrangements are in place to discharge the monitoring officer function via the Director of Legal and Governance Services. Similarly the arrangements for the discharge of the Head of Paid Service is covered in the constitution and this role is fulfilled by the Chief Executive.

3.17 The Governance, Audit and Risk Management (GARM) Committee undertake the core functions of an audit committee as identified in CIPFA's Guidance *Audit Committees – Practical Guidance for Local Authorities.* Its terms of reference encompass the review and monitoring role of a range of risk related services, including monitoring performance on corporate governance generally. The GARM Committee is independent of the executive and scrutiny functions.

3.18 A whistleblowing policy exists and was last reviewed in July 2011. It is accessible on the intranet, covered in the Staff Handbook and referenced in the staff induction checklist. A complaints procedure is also in place and is available on the Harrow Council website (How to make a complaint). A review of complaints, including the number and reason for complaints, the timescales for resolution and the actions taken as a result forms part of the quarterly directorate Improvement Board reports.

3.19 A Member Development Programme is in place that includes mandatory training on their statutory role. Access is available to all members via e-learning. During 2012-13 the Member Development Programme was assessed under the Member Charter Mark process and an improvement report completed as well as an evidence file of current programme achievements and feedback. This work is leading to improvements in the Member Development programme and in member induction. Directorate Learning and Development Plans for staff are produced annually and ensure the 'golden thread' between the Council's vision and objectives, through to Service Planning and individual objectives for staff. For 2012/13 a new Corporate development programme was designed and began delivery with a new programme being rolled out quarterly. This has led to an improved attendance at corporate training events.

3.20 The Council's Involvement Tracker seeks residents' opinions on a wide range of service and community issues, the Council's Residents' Panel provides for structured engagement and Service User Groups are in place in some Directorates for example, Neighbourhood Champions and Park User Groups in Environment and Enterprise. Harrow's Community Involvement Toolkit provides practical advice and guidance including how to engage "seldom heard" groups and a consultation portal is used to co-ordinate consultation activity across the Council. In 2013/14 the corporate responsibility for consultation has moved to the Council's Communications team, which will enable a greater consistency on the approach and delivery of communications.

4. Review of Effectiveness

4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have the responsibility for the development and maintenance of the governance environment, assurance provided by managers via the annual Management Assurance process, the Corporate Governance Group, the Corporate Governance Working Group, the Internal Audit annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.

4.2 The effectiveness of the governance framework has been evaluated by:

- Undertaking an annual review of governance arrangements in place against the Council's governance framework as reflected in the Code of Corporate Governance;
- Considering the Head of Internal Audit's overall annual opinion on the adequacy and effectiveness of the authority's control environment;
- Undertaking an annual management assurance exercise to obtain assurance on the operation of key controls in place to manage the authority's highest corporate risks;
- Review of the overall assessment and the draft Annual Governance Statement by the Corporate Governance Group, the Corporate Strategy Board and the Governance, Audit & Risk Management Committee;

4.3 The results of the key elements of the evaluation of effectiveness are summarised in the following paragraphs.

5. Annual Review of Governance

5.1 The process employed for the annual review of governance was reviewed against new CPIFA guidance '*delivering good governance in Local Government 2012 Edition (published in November 2012)* and revised accordingly.

5.2 The process involves demonstrating compliance with the principles of good governance through the identification of systems, processes and documentation that provides evidence of compliance with the authority's governance framework. The process is undertaken by the Corporate Governance Working Group.

5.3 The aim of the governance review is to demonstrate that the authority's governance arrangements are adequate and working effectively in practice and, where gaps in governance are identified that will impact on the authority's achievement of its objectives, that appropriate action is taken to improve governance in the future. To this end an action plan has been agreed as part of the annual review process which will be monitored throughout the coming year by the Corporate Governance Group and the Governance, Audit & Risk Management Committee.

6. Head of Internal Audit's Opinion

6.1 Internal Audit provide assurance to the Council on internal control and risk mitigation through the delivery of an agreed audit plan and a series of follow-up reviews which culminates in the provision of an overall audit opinion on the Council's control environment annually. The overall opinion is formulated from elements agreed as part of the Internal Audit Strategy.

6.3 The overall audit opinion for the Council's control environment for 2012/13 was assessed as "good". The detailed report setting out the reasoning behind this assessment was considered by the Governance, Audit and Risk Management Committee (GARM) in July 2013.

7. Management Assurance

7.1 A management assurance process has been in place at the Council since 2005/06. During 2012/13 this process was reviewed by the Corporate Governance Group and realigned with the Corporate Risk Register. The new process collates assurance provided by senior managers on the key controls in place to manage the authority's most significant (red) risks contained in the Corporate Risk Register.

7.2 The 155 key controls identified to manage the 17 red corporate risks were assessed by managers and assurance provided on whether they were operating throughout the year and effective in either reducing or managing the risk. Evidence was provided to support the assurance given.

7.3 Assurance was provided that 141 (91%) of the identified key controls were operating, 42 (30%) of which were effective in reducing corporate risks and 99 (70%) were effective in managing the corporate risks. Of the 17 corporate risks in scope the risk rating of 6 improved during the year, 7 remained the same and 4 deteriorated.

7.4 A number of factors impacted on 4 risks that deteriorated during the year including staffing levels, the change in the political make-up of the Council and resident satisfaction levels. However there is not always a direct correlation between controls being in place and operating and an improvement in the level of risk as factors external to the Council, over which it has limited control, may also have an impact on the level of risk e.g. the economic environment; government policy; legislation.

.

8. Declaration (Part I)

8.1 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Corporate Governance Group and the Governance, Audit & Risk Management Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions are outlined below.

9. Significant Governance Issues

9.1 The review process for 2012/13 has identified 19 minor and 1 significant governance gaps of which 7 where carried forward from 2011/12.

9.2 A number of minor gaps identified relate to the need to review the following existing policies and procedures; Contract Procedure Rules; Corporate Anti-fraud policy; Risk Management Strategy; Whistleblowing Policy; Data Quality Procedures to ensure that they are up to date and cover new legislation/requirements.

9.3 Two of the minor gaps were previously considered significant and have now been down graded to minor as action has been taken to reduce the risks.

9.4 Only 1 significant governance gap has been identified which relates to the PSN Code of Connection which the Council is required to comply with to enable connection to Government systems via the PSN (Public Services Network). An application to stay connected was rejected on the basis that the scope, which covered the secure part of the network, was too narrow. The application is due to be re-submitted before mid October 2013 covering the whole network and work is underway to resolve known issues. If the application is rejected again and access to PSN is denied this will impact on the Council's ability to provide Housing and Council Tax Benefits, Blue Badges and the work of the Corporate Anti-fraud Team.

9.5 This is an issue impacting on a number of Councils across London and has been formally raised with London Councils.

9.6 An action plan has been agreed as part of this process to address the gaps identified to further enhance our governance arrangements.

10. Declaration (Part II)

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

Signed:	....
Councillor Thaya Idaikkadar	**Michael Lockwood**
Leader of the Council	**Chief Executive**
Date: 4/9/2013	**Date:** 06/09/13

This page is intentionally left blank

Appendix 2

2012/13 AGS Action Plan

AG Ref	Significance	Gap Identified	Agreed Action	Responsible Officer	Timescale
1.5	NS	Inconsistency in the existence of agreed quality standards in key service areas.	Assessment of the materiality of the inconsistency and whether a Corporate policy will add benefit.	Susan Dixson – Head of Internal Audit	Feb 2014
1.7	NS	Corporate Procurement Strategy in place covers 2009 – 2012 and a lack of a Corporate Contract Management Policy.	Corporate Procurement Strategy to be updated. Council wide contract management approach to be developed.	Terry Brewer – Divisional Director Commercial, Contracts & Procurement	Sept 2014
2.2	NS	Contract Procedure Rules not regularly reviewed – last reviewed/updated 2009.	CPRs to be reviewed in 2013.	Terry Brewer – Divisional Director Commercial, Contracts & Procurement	Dec 2013
3.2	NS	Corporate Anti-fraud Policy not up to date (c/f 11/12 3.4).	Already reviewed and updated – to be approved by GARM and included in the constitution.	Justin Phillips _ Service Manager CAFT	Jan 2014
3.6	NS	During 2012/13 it was identified that a standard's complaint had not been referred in a timely manner.	Reporting lines will be reviewed for such cases to ensure that changes in structures do not in future impinge on the timeliness of complaints being passed to the Standards Committee.	Simon George – Director of Finance & Assurance	Sept 2013
4.8	NS	Risk Management Strategy annual review overdue – last reviewed/updated October 2011.	To reviewed and updated.	Susan Dixson – Head of Internal Audit	Dec 2013
4.8	NS	Loss of risk management expertise.	Plan to be developed to maintain core elements of risk management.	Susan Dixson – Head of Internal Audit	Sept 2013
4.9	NS	Whistleblowing Policy in place for staff but is not made available to members of the public, partners or contractors.	Policy to be reviewed and updated.	Hugh Peart – Director of Legal & Governance Services	Dec 2013

2012/13 AGS Action Plan

5.3	NS	The Council's Training & Development Plan does not specifically cover governance training.	An e-learning tool is currently being developed.	Lesley Clarke – Organisational Development Manager	Nov 2013
7.2		BC team unable to confirm that all Divisions have up to date BC plans.	Exercise currently underway to develop/update BC plans across the Council.	Kan Grover - Service Manager - Emergency Planning & Business Continuity	Nov 2013
7.2	NS	Harrow IT Business Continuity/Disaster Recovery Plan not finalised – user acceptance testing delayed until Q1 13/14 not complete. (in part c/f 11/12 GF7)	User acceptance testing has been completed except for the SRM (Procurement) element of SAP as a new remote access disaster recovery solution is currently being developed. Once implemented this will be tested.	Rahim St John - Head of Business Transformation Partnership	Dec 2013
7.6	NS	The council can not demonstrate it applies policies and procedures consistently and there are no mechanisms in place to check this based on risk. Implementation of new policy compliance software due Q1 13/14 has been delayed. (c/f 11/12 3.35)	Procurement process at contract negotiation stage – ironing out technical details – if satisfactory will proceed with purchase and be in place by end of year.	Tony Monachello - Service Manager, Information Management	March 2014
7.9	S	Application to the PSN Code of Connection (Government Connection) has been rejected on the basis that the scope, which only covered the secure part of the network, was too narrow.	Re-submission covering the whole network	Rahim St John - Head of Business Transformation Partnership	Oct 2013
7.10	NS	The council can not currently demonstrate it is reducing the number, severity, or both, of security incidents – raised	To be monitored over the year on a quarterly basis as part of the Breaches Register and Incident Management Procedure. Reported to	Tony Monachello - Service Manager, Information Management	March 2014

2012/13 AGS Action Plan

		awareness & introduction of improved reporting has increased the level of incidents reported in the short term.	the Resources Improvement Board. Historic data will enable comparison.		
c/f 3.7	NS	Directorate/Service Specific schemes of delegation covering HR/service specific responsibilities not consistently in place across the Council.	Review of delegations in the 2013/14 IA Plan.	Susan Dixson – Head of Internal Audit	Dec 2013
c/f 3.34	NS	Data Quality Procedures not up to date.	Internal Audit to undertake a review of the procedures.	Susan Dixson – Head of Internal Audit/Alex Dewsnap - Divisional Director Strategic Commissioning	Jan 2014
c/f 13.11	NS	Resources Workforce Strategy not finalised.	To be finalised.	Tom Whiting	Nov 2013
c/f 16.5	NS	No separate bank account for WLWA (raised by External Auditors in August 2012. Plans are in place for a separate bank account from April 2014. The External Auditors are not overly concerned, and the Director of Finance and Assurance has agreed to produce a separate working paper for the External Auditors to provide additional assurance.	Separate Bank Account from April 2014	WLWA Treasurer	April 2014
c/f 16.6	NS	Formal Financial Procedure to be drafted as part of new Financial Procedure Rules to cover the removal of ledger codes from the	To be drafted.	Hasina Shah	Dec 2013

2012/13 AGS Action Plan

		chart of accounts (caused on issue in the draft financial statement for 2011/12).			

Corporate Management Assurance Statement 2012/13

1. A management assurance process has been in place at the Council since 2005/06. During 2012/13 this process was reviewed by the Corporate Governance Group and realigned with the Corporate Risk Register. The new process collates assurance provided by senior managers on the key controls in place to manage the authority's most significant (red) risks contained in the Corporate Risk Register.

2. This Corporate Assurance Statement summaries the results of the management assurance exercise. The 155 key controls identified to manage the 17 red corporate risks were assessed by managers and assurance provided on whether they were operating throughout the year and effective in either reducing or managing the risk. Evidence was provided to support the assurance given.

3. Assurance was provided that 141 (91%) of the identified key controls were operating, 42 (30%) of which were effective in reducing corporate risks and 101 (70%) were effective in managing the corporate risks. Of the 17 corporate risks in scope the risk rating of 6 improved during the year, 7 remained the same and 4 deteriorated.

4. A number of factors impacted on the 4 risks that deteriorated during the year including staffing levels, the change in the political make-up of the Council and resident satisfaction levels. However there is not always a direct correlation between controls being in place and operating and an improvement in the level of risk as factors external to the Council, over which it has limited control, may also have an impact on the level of risk e.g. the economic environment; government policy; legislation.

Sign-off

I confirm that the Corporate Management Assurance Statement is a fair reflection of the level of key controls in place to mitigate the Council's most significance risks during the financial year 2012/13 and is supported by individual self assessments provided by the Council's senior managers:

Signature: ……………………………………………………………
(Michael Lockwood)

Title: …Chief Executive………

Date: 06\09\13

CORPORATE MANAGEMENT ASSURANCE STATEMENT 2012/13

Corporate Risk No	Description	No Key Controls	No Operating	No Not Operating / Limited assurance	Effective in managing or reducing risk	No of further controls planned	Risk Rating Q1	Risk Rating Q4	Improved / Same / Deteriorated
1	Failure to deliver warmer homes	5	5	0	Reducing	3	C2	D3	I
3	Failure to deliver a balanced budget and MTFS for years 13/14 & 14/15	13	13	0	Reducing	0	C2	C3	I
5	There is a successful legal challenge to a Council decision	11	9	2 (L)	Managing	0	C2	C2	S
6	Deteriorating industrial relations	7	7	0	Managing	2	B2	B2	S
7	Failure to achieve a culture in the organisation that supports the council's vision and priorities	8	8	0	Reducing	3	B2	C2	I
8	Ineffective partnership working in local health reorganisation impacts on vision	5	3	2 (L)	Managing	0	B2	B2	S
11	The council inadequately prepares for welfare reform	14	14	0	Managing	1	C2	C2	S
12	There is a high-profile service failure in relation to a vulnerable client of person (childrens)	10	10	0	Managing	3	C1	C1	S
12	There is a high-profile service failure in relation to a vulnerable client or person (chw – adults)	6	6	0	Reducing	2	C1	D1	I
13	Business continuity/disaster recovery not resilient	8	6	1 1(L)	Managing	4	D1	C1	D
14	Inadequate emergency planning (ep) in place to deal with major incidents	10	10	0	Managing	2	D1	C1	D
15	Insufficient school places (primary and special) for projected numbers	13	13	0	Managing	2	C2	C2	S
16	There is damage to the reputation of the council and failure to involve and engage with the community/service users	12	11	1 (L)	Managing	1	D2	B2	D
17	The transformation programme is not successfully delivered and fails to reduce medium to long term financial pressures	8	7	1 (L)	Reducing	1	B2	C2	I
18	Inadequate H&S management system to ensure appropriate asset management and to meet duty of care obligations	10	9	1	Managing	8	C2	C2	S
19	Political interface not optimised	7	7	0	Managing	1	D2	C2	D
20	Lack of commitment to climate change and to reducing carbon emissions	8	3	4 1 (L)	Reducing	0	C2	E3	I
	TOTALS	**155**	**141**	**6** **8 (L)**		**33**			

REPORT FOR: **GOVERNANCE, AUDIT & RISK MANAGEMENT COMMITTEE**

Date of Meeting:	16th September 2013
Subject:	**GARMC TERMS OF REFERENCE AND LEAD MEMBERS**
Responsible Officer:	Simon George, Director of Finance & Assurance
Exempt:	No
Enclosures:	GARMC Terms of Reference– Appendix 1 Lead Members Table – Appendix 2

Section 1 – Summary and Recommendations

This report sets out the Governance Audit and Risk Management Committee's current Terms of Reference and the requirement to appoint Lead Members.

Recommendations:

The Committee is requested to:

1) Review the GARMC Terms of Reference (Appendix 1) and propose any changes to full Council in due course;

2) Consider the incorporation of definitions to clarify the Committee's role;

3) To appoint appropriate Lead Members to monitor, review and update on specific areas of the Committee's remit.

Reason: (For recommendations)

To ensure that the Committee's Terms of Reference is up to date and clear and to meet the requirements of the Terms of Reference to appoint Lead Members.

Harrow COUNCIL
LONDON

Section 2 – Report

Terms of Reference

2.1 At the July 2013 meeting of the GARMC the Chair requested that the Committee's Terms of Reference (Appendix 1) be brought to the next meeting for review.

2.2 The Chair has requested that clarification of the terms used in the Terms of Reference be added to assist the Committee in fulfilling its responsibilities. The following definition of terms are suggested:

- To review = to assess/evaluate
- To scrutinise = to examine in detail
- To consider = to think about
- To monitor = an ongoing check

Lead Members

2.3 The GARMC Terms of Reference requires the Committee to appoint and maintain appropriate Lead Members from the committee to monitor, review and update on specific areas of the Committee's remit. Given recent changes to the GARMC membership the Chair has asked that volunteers be requested to fulfil this requirement.

2.4 A table is attached (Appendix 2) that lists the specialist areas and the relevant officer contacts to assist with the process. Space is provided to enable members to indicate a 1st and 2nd choice of specialist area.

Financial Implications

2.5 Financial implications have been addressed, where relevant, in the main body of the report.

Risk Management Implications

2.6 The work of the GARM Committee supports the management of risks across the council.

Corporate Priorities

2.7 The GARM Committee contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Section 3 - Statutory Officer Clearance

Name: Simon George Date: 06/09/13..	√	Chief Financial Officer
Name: Hugh Peart…… Date: 06/09/13 …	√	Monitoring Officer

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit,
Tel:0208 424 1420

Background Papers: None.

If appropriate, does the report include the following considerations?

1.	Consultation	YES / NO
2.	Corporate Priorities	YES / NO

This page is intentionally left blank

GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE

The Governance Audit and Risk Management Committee has the following powers and duties:

a) To ensure that the Council's governance framework is in line with current guidance and best practice
b) To review the Council's governance framework and annual improvement plan and monitor progress
c) To review the Council's risk management strategy and monitor progress on risk management
d) To monitor the Council's insurance arrangements
e) To review the Council's emergency planning and business continuity arrangements and monitor progress on emergency planning and business continuity
f) To review the Council's Health and Safety arrangements and monitor progress on Health and Safety
g) To approve the financial statements of the authority, in particular:
   - The outcome of reviews of the effectiveness of the internal control arrangements including internal audit
   - Changes in and compliance with accounting policies and practices
   - Unadjusted mis-statements in the financial statements
   - Major judgemental areas
   - Significant adjustments resulting from the audit
   - Any relevant issues raised in the external auditor's report to those charged with governance
   - The Annual Governance Statement prior to sign-off
h) To review the Treasury Management strategy and monitor progress on treasury management in accordance with CIPFA codes of practice
i) To monitor compliance with internal controls
j) To consider matters arising from External Audit work which are required to be communicated to those charged with governance under the Statement of Auditing Standards (**ISA260**)
k) To receive and consider the Annual Audit and Inspection Letter (or equivalent) and make recommendations as appropriate
l) To scrutinise/comment on the Internal Audit three year strategic plan and annual plan
m) To monitor progress against the Internal Audit plan and receive summaries of audit work completed and key recommendations
n) To consider all individual Internal Audit reports on a regular basis
o) To scrutinise/comment on the External Audit plan and fees
p) To monitor progress against the External Audit plan and receive summaries of audit work completed and key recommendations
q) To consider individual External Audit reports and inspection reports carried out by external agencies as appropriate and at the request of the Committee.
r) To review the management response to audit and regulatory recommendations and progress on implementation of recommendations
s) To recommend action where audit and regulatory recommendations are not being implemented
t) To monitor on a regular basis the Council's approach to tackling fraud and

corruption and promote an anti-fraud culture

u) To consider the appointment of co-opted members and review the adequacy of meeting frequencies in response to the Committee’s remit

v) To appoint and maintain appropriate Lead Members from the Committee to monitor, review and update on specific areas of the Committee’s remit.

GOVERNANCE AUDIT AND RISK MANAGEMENT COMMITTEE

Lead Members and Officer Contacts @ September 2013

Specialist Area	Lead Members	Officer Contact	Officer Contact No.
Emergency Planning & Business Continuity	1st Choice	Kan Grover	020 8424 1362
	2nd Choice		
Anti-Fraud	1st Choice	Justin Phillips	0208 424 1609
	2nd Choice		
Health & Safety	1st Choice	Mark Riordan	0208 420 9343
	2nd Choice		
Internal Audit	1st Choice	Susan Dixson	0208 424 1420
	2nd Choice		
Governance	1st Choice	Susan Dixson	020 8424 1420
	2nd Choice		
Risk Management	1st Choice	Susan Dixson	020 8424 1420
	2nd Choice		
Insurance	1st Choice	Karen Vickery	0208 424 1995
	2nd Choice		
Information Management	1st Choice	Tony Monachello	0208 424 7609
	2nd Choice		

Treasury Management	1st Choice	George Bruce	0208 424 1170
	2nd Choice		
Finance	1st Choice	Hasina Shah	0208 424 1573
	2nd Choice		

REPORT FOR: **Governance, Audit a[nd Risk] Management Committee**

Date:	**16 September 2013**
Subject:	**Treasury Management Self Assessment Training Action Plan**
Responsible Officer:	**Simon George, Director of Finance and Assurance**
Portfolio Holder:	**Councillor Thaya Idaikkadar (Leader and Portfolio Holder for Business Transformation and Communications, Finance, Performance, Customer Services and Corporate Services, Property and Major Contracts)**
Exempt:	**No**
Enclosures:	**Appendix 2 - Self Assessment Form**

Section 1 – Summary and Recommendations

Members participated in a self assessment training session considering the effectiveness of scrutiny of treasury management activity. The comments and action plans are attached for agreement.

.

Recommendation

To confirm the actions taken and which of the suggested options is preferred.

Reason

To improve the effectiveness of scrutiny of treasury activity.

.

Section 2 - Report

1. Prior to the July 2013 GARMC, the Committee Members participated in a training session using a self assessment form considering the effectiveness of the scrutiny of treasury management activity. The comments and proposed action plans discussed at the meeting have been added to the form (appendix 2) and an implementation plan for these actions set out in appendix 1.

2. GARMC is asked to confirm the actions taken (appendix 1) and in some cases (2, 4, and 8) agreed which of the suggested options is preferred.

Financial Implications

3. There are no direct financial implications from the issues being discussed.

Performance Issues

4. The actions point relate to the effectiveness of the scrutiny of treasury activity.

Environmental Impact

5. There is no environmental impact.

Risk Management Implications

6. This paper considers options to improve the scrutiny of treasury activity and is therefore mainly concerned with risk management.

   Risk included on Directorate risk register? Yes. Separate risk register in place? No

Equalities implications

7. There is no direct equalities impact.

Corporate Priorities

8. This report deals with Treasury Management activity, which underpins the delivery of the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Simon George	√	Chief Financial Officer
Date: 5 September 2013		

Section 4: Contact details and background papers

Contact: George Bruce (Treasury & Pension Fund Manager) tel: 020-8424-1170)

Background Papers: None

Appendix 1

Action Points

Action Plan	Actions Taken
1. A summary of legislation and regulation impacting on treasury to be included in future reports to GARMC.	A summary will be attached to the three annual reports.
2. Consider a separate risk register for treasury risks. Treasury risk's require a higher profile and greater prominence within the overall risk register	It is suggested that a risk register is drafted and GARMC discusses whether these are significant enough to warrant monitoring by the Committee. Should GARMC adopt a risk register this will be considered for incorporation into the overall Council risk management process.
3. Include a clearer reference to strategy in the annual report.	An overview of the strategy for the year will be included in the mid year and annual out-turn reports.
4. Member's would prefer greater transparency of the reviews undertaken by the Treasury Management Group.	The Treasury Management Group meets monthly and transparency could be achieved by either: Including the TMG remit within each GARMC report, or Including a summary of the matters discussed and action points from TMG meetings, or Circulating the action points from meetings to GARMC Members, or Circulating the Meeting reports and action points to GARMC members.
5. Include regular (at least annual) training sessions.	Members will be asked to suggest topics for training
6. Members' would welcome an annual opportunity to meet with Sector, possibly an invite to join one of quarterly meetings.	Sector will participate in the annual training and an open invitation will be made to attend one of the quarterly officer meetings.
7. Internal Audit reports should be circulated as information items to Members	This will be actioned.
8. Members to provide an annual report to Council on scrutiny activities.	Will this be verbal or written?

This page is intentionally left blank

Effective Scrutiny of Treasury Management

Self-assessment by members responsible for the scrutiny of treasury management

The CIPFA Treasury Management Code 2009 requires public service organisations to nominate a body to be responsible for the scrutiny of treasury management strategy and policies. This is a relatively new responsibility for many organisations and to undertake this role effectively the nominated committee will require support, training and guidance.

Effective scrutiny is important. As well as demonstrating compliance with the Code, the scrutiny is an important part of ensuring effective governance of treasury management.

- It helps develop a better understanding of the treasury risks faced by the organisation.
- It helps ensure better decision making on strategy & policy matters.
- It improves accountability and transparency.
- It improves knowledge and understanding of treasury matters amongst the members of the governing body.

This self-assessment has been designed to support the development of effective scrutiny. There are a number of ways that it can be used, including:

- Self-assessment by the committee responsible for undertaking the scrutiny.
- Self-assessment by the responsible committee with additional input from the audit committee (where the audit committee doesn't undertake this function directly).
- Review as part of an internal audit of treasury management.
- Review by the treasury officers / finance team responsible for reporting to the committee.

Completed by GARMC on 22 July 2013

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments / examples	Action plan for improvement or development
Clearly defined responsibility					
Has the organisation nominated a committee to be responsible for scrutiny in compliance with the CIPFA Code of Practice?	Yes - GARMC				
Has the committee responsible for scrutiny appropriate and up to date terms of reference outlining its role in relation to treasury management?	Yes – see the attached extract from powers and duties			"To review the Treasury Management strategy and monitor progress on treasury management in accordance with CIPFA codes of practice"	
Knowledge & training					
Do those responsible for scrutiny have an appropriate level of knowledge of the following areas:					
• Regulatory requirements			Partly, but difficult to remember.	Although reference made to regulations at 2012 training and within reports, they are not comprehensive	A summary of the legislation and regulations should be included as an appendix to the periodic reports.
• Treasury risks			Officers provide good updates and Members understand the overall framework.	Risk is referred to in the annual treasury management strategy but less so in other reports.	Consider a separate risk register for treasury risks.

• The organisation's treasury management strategy			Although scrutinised annually by GARMC, it losses focus during the year.	See annual strategy.	Include a clearer reference to strategy in the annual report.
• The organisation's policies and procedures in relation to treasury management.		Members' are not aware of exact delegated roles e.g. TMG		The overall policy is reported to GARMC, but the adequacy of procedures is reviewed by TMG and Internal Audit.	Members' would prefer greater transparency of the reviews undertaken by the Treasury Management Group.
Have committee members been provided with training on their role?	Yes.		Members would welcome increased training.	Last September 2012. Approximately annual training.	Include regular (at least annual) training session.

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments / examples	Action plan for improvement or development
Support for effective scrutiny					
Has adequate time been made on the committee agenda to allow sufficient scrutiny to take place?			Although time is not constrained, Members questioned the effectiveness of scrutiny.	Three annual treasury reports to GARMC.	
Have reports and briefings been provided in good time to committee members?	Yes.			In accordance with normal Council time frames.	
Have reports and briefings been presented to the committee with adequate explanations and minimal jargon.	Yes and when relevant,				

	officers explain.				
Coverage of the required areas					
During the past year has the committee undertaken scrutiny in the following areas:					
• Reviewed adequacy of policy and procedures			Detailed procedures not reviewed by GARMC.		Members' would prefer greater transparency of the reviews undertaken by the Treasury Management Group.
• Received regular briefings on performance, issues and trends affecting treasury management	Yes.				
• Reviewed the organisation's risk profile and treasury risks	Yes				The risk register requires a higher profile and greater prominence within the overall risk register.
• Reviewed the role of external advisors		As no costs are incurred, the Committee is less concerned with monitoring Sector.			Members would welcome an annual opportunity to meet with Sector, possibly an invite to join one of the quarterly meetings arranged by officers.
• Reviewed assurances on treasury management, including internal audit reports and management reports.	Yes.				Internal Audit reports should be distributed as information items to Members.
Aspects of delivering effective scrutiny	**Yes**	**No**	**Partly**	**Comments /**	**Action plan for improvement or**

				examples	development
During the past year has the committee scrutinised how effectively other council bodies are performing their roles? e.g. does the committee know if the nominated body responsible for implementation and monitoring (clause 3 in the code of practice) has carried this role out satisfactorily?		GARMC is not informed of the work undertaken by TMG.			Members' would prefer greater transparency of the reviews undertaken by the Treasury Management Group.
Quality of Scrutiny					
Is the committee able to demonstrate its effectiveness in providing scrutiny in any of the following ways?					
• Questioning and constructive challenge	There is a role for every Member to probe and challenge.				
• Recommendations for additional actions	Yes.				
• Ensuring that adequate plans are in place to provide assurance	Previous consultation on changes to investment policy.				
• Follow up of recommendations or action plans	Assurance from Internal Audit combined with active	N/A			

	monitoring of follow up actions.				
• Providing a report to full council on the scrutiny undertaken		Members would prefer an annual report to Council.			Unclear whether the annual report should be written or verbal.
• Other examples					

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments / examples	Action plan for improvement or development
Impact of Scrutiny					
Is the committee able to demonstrate the impact of undertaking scrutiny? Examples might include: • Improvements in internal controls as a result of scrutiny of policies and procedures. • Improvements made to reports to make them more understandable • Members of full council are more able to understand the risks shaping the organisation's treasury strategy	Yes.			S 151 Officers attends meetings. Council / cabinet followed its recommendation. Improved disclosure of Prudential Limits.	

Overall Comments and Action Points

1. Discussion at GARMC is good natured, robust and not politically driven.
2. GARMC is comfortable that it is carrying out its delegated duties but has found areas for improvement.
3. Action points:

   To discuss reporting format to Council.
   Minutes and action points from TMG to be circulated to GARMC Members.
   A summary of relevant legislation and regulations to be attached to future reports.
   Consideration to be given to a separate treasury risk register or greater profile of treasury within the overall risk register.
   Clearer reference to strategy in periodic reports.
   Internal Audit reports to be circulated to Members for information.
   Training in treasury to be provided at least annually
   Members should be invited to meet annually with Sector

Completed by: Governance and Risk Management Committee Date: 22 July 2013

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank