Governance, Audit, Risk Management and Standards Committee AGENDA

DATE: Tuesday 22 July 2014

TIME: 7.30 pm

VENUE: Committee Room
Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chairman: Councillor Antonio Weiss

Councillors:

Ghazanfar Ali	Barry Macleod-Cullinane
Nitin Parekh	Amir Moshenson
Primesh Patel	Bharat Thakker

Reserve Members:

1. Kiran Ramchandani	1. Kantilal Rabadia
2. Jeff Anderson	2. Pritesh Patel
3. Kairul Kareema Marikar	3. Chris Mote
4. Ms Pamela Fitzpatrick	

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. 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.

2. 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.

3. APPOINTMENT OF VICE-CHAIRMAN

To consider the appointment of a Vice-Chairman to the Panel for the Municipal Year 2014/15.

4. MEMBERSHIP OF ASSESSMENT AND HEARING REVIEW SUB-COMMITTEES (Pages 1 - 2)

To consider the establishment of and appointment of Members to the Sub-Committees of this Committee for the Municipal Year 2014/15.

[NOTE 1: Members are asked to note that subsidiary body memberships must be determined in accordance with the Local Government and Housing Act 1989 and regulations made thereunder. Therefore, whilst the Committee has to confirm the membership of its Sub-Committees to comply with the Local Government Act 1972, the actual nominations of named Councillors are decided by each group, from within the membership of that group. It is not open to the Committee to seek to change or to delay the nominations duly made by a group. It is only if there is a failure to make a nomination or to act in due time that the Committee may seek to consider the matter further].

5. MINUTES (Pages 3 - 10)

That the minutes of the meeting held on 2 April 2014 be taken as read and signed as a correct record.

6. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order notice of them was received and there be a time limit of 15 minutes.

[The deadline for receipt of public questions is 3.00 pm, 17 July 2014. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

7. 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).

8. DEPUTATIONS

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

9. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS (Pages 11 - 36)

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

10. DRAFT STATEMENT OF ACCOUNTS 2013-14 (Pages 37 - 286)

Report of the Director of Finance and Assurance

11. CORPORATE ANTI-FRAUD TEAM YEAR END REPORT 2013-14 & CORPORATE ANTI-FRAUD TEAM FINAL SERVICE PLAN 2014-15 (To Follow)

Report of the Director of Finance and Assurance

12. CORPORATE ANTI-FRAUD POLICY REVIEW (To Follow)

Report of the Director of Finance and Assurance

13. DRAFT ANNUAL GOVERNANCE STATEMENT 2013/14 (Pages 287 - 300)

Report of the Director of Finance and Assurance

14. INTERNAL AUDIT YEAR END REPORT 2013/14 (Pages 301 - 362)

Report of the Director of Finance and Assurance

15. INTERNAL AUDIT PLAN 2014/15 (Pages 363 - 374)

Report of the Director of Finance and Assurance

16. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

17. EXCLUSION OF THE 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
18.	Corporate 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

18. CORPORATE RISK REGISTER (Pages 375 - 396)

Report of the Director of Finance and Assurance

* DATA PROTECTION ACT NOTICE

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

GOVERNANCE, AUDIT AND RISK MANAGEMENT STANDARDS SUB-COMMITTEES

ASSESSMENT AND HEARING REVIEW SUB-COMMITTEES (3) – (Pool of Members) (Non-Proportional)

(To be selected from the following nominees)

	Independent Persons	Labour	Conservative
	(1) Chairman	**(1)**	**(1)**
I. Members	**Mr James Coyle**	**Margaret Davine**	**Richard Almond**
	Dr John Kirkland	**Mitzi Green**	**Manji Kara**
	Mr Derek John Lawrence	**Graham Henson**	**Paul Osborn**
	(Vacancy)	**Jerry Miles**	**Norman Stevenson**
		Phillip O'Dell	**Bharat Thakker**

Membership Rules

(1) The membership of the Assessment and Review Sub-Committees will be three persons (comprising one Independent Persons and one Elected Member from each of the main political parties);

(2) the quorum for the Sub-Committees is 3;

(3) the Sub-Committees shall be chaired by the Independent Person;

(4) Members attending a Panel be required to vote on a local determination and not be permitted to abstain.

Terms of Reference

The Assessment Sub-Committee has the following powers and duties:

(a) To receive a referral from the Monitoring Officer in respect of allegations that a member or co-opted member of the Authority has failed, or may have failed, to comply with the Authority's Code of Conduct in circumstances where the Monitoring Officer has not exercised his/her delegation to decide:

i. To filter out a complaint as being vexatious and/or outside the Code of Conduct; or
ii. To investigate a complaint

(b) Upon receipt of a referral from the Monitoring Officer, the Sub-Committee shall make an assessment of the allegation and shall decide whether the complaint should be filtered out/an investigation should take place in respect of each allegation in accordance with the terms of the referral.

(c) To decide whether a complaint shall proceed to the Hearing Sub-Committee in circumstances where the complaint has been investigated and the investigating officer has concluded that the member complained about has not breached the Code of Conduct.

(d) The Sub-Committee shall state its reasons for that decision.

The Hearing Review Sub-Committee has the following powers and duties

(a) To consider allegations referred to it following investigation that a member or coopted member has failed to comply with the Council's Code of Conduct for Councillors

(b) To determine whether or not there has been a breach of the Code of Conduct taking into account the findings and conclusions of the investigation report.

(c) If the Sub-Committee decides that there has been a breach of the Code of Conduct, to decide that no sanction should be imposed or to impose one of the following sanctions:

  i. Report its findings to Council for information and place them on the Council's website;

  ii. Inform the Group Leader (or in the case of an independent member, Council) of its recommendation that a member be removed from any or all Committees or Sub-Committees, or outside body appointments;

  iii. Inform the Group Leader of any recommendations that the member be removed from the Cabinet, or removed from particular portfolio responsibilities;

  iv. Remove the member from outside body appointments;

  v. Instruct the MO to arrange training for the member;

  vi. Where the breach involves inappropriate use of facilities, withdraw such facilities provided to the member by the Council, such as a computer, website and/or email and internet access; or

  vii. Exclude the member from the Council's offices or other premises, with the exception of meeting rooms necessary for attending Council, Committee and Sub-Committee meetings; or

  viii. Censure the member for the breach, in which case the MO will be asked to write to the Member and a press report will be issued.

GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE

MINUTES

2 APRIL 2014

Chairman: † Councillor Richard Romain

Councillors:

* * Kam Chana (2)
* * Mano Dharmarajah
* * Tony Ferrari (1)
* * Kairul Kareema Marikar
* * Amir Moshenson
* * Varsha Parmar
* * Sachin Shah (Vice-Chairman in the Chair)

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

[Paul Schofield, Sybil Muller and Rimit Shah attended as representatives of Deloitte, the Council's Auditors.]

273. Attendance by Reserve Members

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

Ordinary Member	Reserve Member
Councillor Richard Romain	Councillor Tony Ferrari
Councillor Chris Mote	Councillor Kam Chana

274. Declarations of Interest

RESOLVED: To note that the following interests were declared:

<u>Agenda Item 7 – References from Cabinet and Agenda Item 10 – Risk Based Verification</u>

Councillor Tony Ferrari declared a non-pecuniary interest in that as the Portfolio Holder for Finance and Performance, the decisions reported on fell within his remit. He would remain in the room whilst the matters were considered.

275. Minutes

RESOLVED: That the minutes of the meeting held on 19 December 2013 be taken as read and signed as a correct record.

276. Public Questions, Petitions & Deputations

RESOLVED: To note that no public questions were put or petitions or deputations received at this meeting.

RESOLVED ITEMS

277. Reference from Cabinet Meeting - 13 February 2014 - Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2014/15

The Committee received a Reference from Cabinet on the Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2014-15 Report, with a request to review and comment on the report.

The Director of Finance and Assurance informed the Committee that Harrow's Treasury Manager had secured the best return on cash deposits for any London Borough. The Chair congratulated both the current and previous Managers for their achievement, noting that they had had the support and input of the Committee in doing so.

The Chair further noted that this report had come to the Committee following its submission to Cabinet and Council, and requested that it come first to this Committee in advance of its submission elsewhere, in order that the Committee's views could be noted and recorded.

RESOLVED: That

(1) the Reference from Cabinet be noted;

(2) next year's Treasury Management Report should be considered by Governance, Audit and Management Committee prior to its submission to Cabinet and Council.

278. Reference from Cabinet - 13 February 2014 - Final Revenue Budget 2014/15 and Medium Term Financial Strategy (MTFS) 2014/15 to 2016/17

The Committee received a Reference from Cabinet on Appendix 7 to the Final Revenue Budget 2014-15 and Medium Term Financial Strategy 2014-15 to

2016-17 Report, with a request to consider and monitor the Budget Risk Register.

The Director of Finance and Assurance informed the Committee that the Budget Risk Register comprised 32 separate risks and proposed mitigation measures. In his view all risks were covered.

Members discussed whether the assessed level of risk was too high in respect of certain categories, and to what degree it was possible to predict the impact of welfare reform policies and the expected level of parking revenue.

The Chair commented that the figures quoted for Contingencies were incorrect. The Director of Finance and Assurance agreed to amend the figures and circulate a correct version.

RESOLVED: That the Reference from Cabinet be noted.

279. Information Report - Audit Plan 2013-14

The Committee received the report of the Director of Finance and Assurance with the Accounts Audit Opinion Plan 2013-14 and the Pension Fund Annual Report Audit Plan 2013-14 appended.

Paul Schofield of Deloitte informed the Committee that, following a tender exercise, the successful bidders for public audit functions had been named as KPMG, BDO and Ernst and Young. Deloitte would continue as the Council's auditors for the current and next municipal year, but after that a new auditor would be appointed to Harrow by the Audit Commission.

Sybil Muller of Deloitte outlined the contents of the Accounts Audit Plan, and highlighted key features, including:

- changes in the statement of accounts;
- significant audit risks;
- the value for money conclusion
- fraud: responsibilities and representations;
- management override controls;
- the timetable;
- independence and fees.

In response to a query from the Chair. It was confirmed that the capital overspend was no longer considered to pose a significant risk, particularly as a result of work following the overspend at Whitmore High School.

Rimit Shah of Deloitte outlined the Pension Audit Plan and highlighted key features, including:

- the reduction in investment in equities;
- the appointment of two, new fund managers;
- unquoted investments present a more challenging audit
- independence and fees.

He was unable to answer questions on the current balance of the fund in respect of recent draw downs as the audit work had not yet begun but was at the planning stage.

Members requested clarification on the following matters:

- property valuation in respect of risk, and comparison with other authorities;
- localisation of business rates;
- the Council's pension fund, expenses and liabilities.

The Chair thanked the staff of Deloitte for their reports and attendance, and proposed that the Pension Fund Annual Report Audit Plan should be referred to the next meeting of the Pension Fund Committee.

RESOLVED: That

(1) the 2013-14 Accounts Audit Opinion Plan and Pension Fund Annual Report Audit Plan be noted;

(2) the Grants Certification Report for 2012-13 be noted;

(3) the Auditors' decision to remove 'capital overspend' from the stated significant risks be noted;

(4) the Pension Fund Annual Report Audit Plan be referred to the first meeting of the Pension Fund Committee in the new municipal year.

280. Information Report - Corporate Anti-Fraud Team Draft Fraud Service Plan 2014-15

The Committee received the report of the Director of Finance and Assurance which set out the draft Fraud Service Plan 2014-15, and contained two information reports from the Audit Commission.

An officer explained that, in drafting the Plan, officers considered existing evidence, statutory responsibilities, and nationally identified areas of risk.

He then updated the Committee on the work and outcomes of the Anti-Fraud Week, which had taken place for the first time in Harrow during 2013. Some Committee Members had been involved in the various exercises, and they described their experiences, which they all considered had been worthwhile. The officer answered questions on the following:

- how target offenders were identified and selected;

- the role of partner agencies and the scope of their involvement;

- establishing the criteria for worthwhile prosecution;

- the potential and criteria for recovering losses, particularly in respect of 'proceeds of crime' cases.

The officer also described the information sharing carried out across London boroughs, which assisted in focussing on targets, and identifying serial offenders.

RESOLVED: That the report be noted.

281. Information Report - Risk Based Verification

The Committee received the report of the Head of Collections and Benefits which provided information on the policy and monitoring processes for risk based verification.

An officer informed the Committee that the scheme would be implemented from April, and she outlined the expected benefits and savings. Existing validation processes would continue alongside the system verification for the first 4 months, which would allow monitoring by comparison and assurance that the system was working.

The Chair concluded that the process would allow targetting of resources and was a positive step forward.

RESOLVED: That the report be noted.

282. Draft Internal Audit Plan 2014-15

The Committee received the report of the Director of Finance and Assurance which set out the draft Internal Audit Plan and the process used to develop the draft Plan.

An officer described the drivers, considerations and consultation involved in drafting the Plan and invited comments.

RESOLVED: That the report be noted.

283. Information Report - Governance Update

The Committee received the report of the Director of Finance and Assurance which outlined progress against the Council's Annual Governance Statement (AGS) Action Plan for 2012/13, developed to address the governance gaps identified by the annual governance review process.

An officer informed the Committee that 14 of the 19 actions had been completed, 2 were in progress, and 3 were outstanding. The outstanding items would be carried over to the next Action Plan.

Members commended the officer on the structure and clarity of the report.

RESOLVED: That the report be noted.

284. 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 items for the reasons set out below:

Item	Title	Reason
15.	Corporate 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).
10.	Risk Based Verification – Appendix 1	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

285. Corporate Risk Register

The Committee received the report of the Director of Finance and Assurance which set out the Council's current Corporate Risk Register to facilitate the monitoring of progress on risk management in accordance with their Terms of Reference.

An officer drew Members' attention to the highest risk items, and the cross referencing of items to directorate risk registers. She clarified the overlap between the strategic appetite for risk and the operational tolerance for risk.

Members considered whether some risk assessments were rated too highly, as certain incidents had already taken place but had not resulted in worst case scenarios. In response to a Member's view that some risks were overstated, the Director of Finance and Assurance agreed this was possible, but had resulted from the nature of analysis within the organisation. In respect of contingency plans he considered it would be possible to take different decisions going forward.

RESOLVED: That the report be noted.

286. Item 10 - Appendix A

RESOLVED: That the appendix to Item 10 'Risk Based Verification' be noted.

287. Vote of Thanks

The Chair observed that this was the last meeting in this municipal year of the Governance, Audit and Risk Management Committee. There had been four different chairs during the life of the administration, and he wanted to thank all four for their service. In particular, he wanted to thank Councillor Richard Romain for his many years of service to the Council and those Committees on which he had served.

He himself had served as Chair, Vice-Chair and as the Portfolio Holder with responsibility for governance, and he wanted to thank officers for their hard work in serving the Committee. In particular, he named the Head of Technical Finance and Accountancy who had provided training and information to support him in his role, along with the Head of Internal Audit, the Corporate Anti-Fraud Service Manager, the Treasury and Pensions Manager, the Corporate Director of Resources, and the three S151 officers who had served during the term. He also thanked members for their contribution to the Committee, which he believed had shown strength and purpose in holding the executive to account on governance and risk management.

(Note: The meeting, having commenced at 7.35 pm, closed at 9.15 pm).

(Signed) COUNCILLOR SACHIN SHAH
Vice-Chairman in the Chair

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LONDON BOROUGH OF HARROW

GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS Committee – 22 JULY 2014

REFERENCE FROM CABINET - 26 JUNE 2014

12. Treasury Management Outturn 2013/14

RESOLVED: That the outturn position for treasury management activities for 2013/14 be noted, and the report be referred to the Governance, Audit, Risk Management and Standards Committee for review.

Reason for Decision: To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance. To be informed of treasury management activities and performance.

Alternative Options Considered and Rejected: As set out in the report.

FOR CONSIDERATION

Background Documents:
Cabinet Minutes – 26 June 2014

Contact Officer:
Daksha Ghelani, Senior Democratic Services Officer
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REPORT FOR: **CABINET**

Date of Meeting:	26 June 2014
Subject:	Treasury Management Outturn 2013/14
Key Decision:	No
Responsible Officer:	Simon George, Director of Finance and Assurance
Portfolio Holder:	Councillor Sachin Shah, Portfolio Holder for Finance and Major Contracts
Exempt:	No
Decision subject to Call-in:	No
Wards affected:	All
Enclosures:	Appendix 1 - Prudential Indicators Appendix 2 – New Investments Undertaken During 2013-14 Appendix 3 - Economic Background Appendix 4 – Counterparty policy Appendix 5 – Legislation and Regulations Impacting on Treasury Management Appendix 6 – Treasury Management Delegations and Responsibilities

Section 1 – Summary and Recommendations

This report sets out the summary of treasury management activities for 2013/14

Recommendations:

(a) Note the outturn position for treasury management activities for 2013/14.

(b) Refer this report to the Governance, Audit, Risk Management and Standards Committee for review.

Reasons: (For recommendation)

(a) To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.

(b) To keep Cabinet Members informed of treasury management activities and performance.

Section 2 – Report

1. INTRODUCTION

1.1 Background

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

   "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

   The Council has adopted this definition.

2. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may

involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

4. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and Treasury Management Code of Practice to set Treasury and Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5. The Act, the Codes and subsequent Investment Guidance (2010) requires the Council to set out its Treasury Strategy for Borrowing and to prepare an Annual Investment Strategy that establishes the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. In 2011 CIPFA updated both their Code of Practice and Prudential Code and, in 2013 issued revised guidance notes. At the request of the former Governance, Audit and Risk Management Committee a summary of the relevant legislation, regulations and guidance is included as Appendix 5.

6. The budget for each financial year includes the revenue costs that flow from capital financing decisions. Under the Code of Practice, increases in capital expenditure should be limited to a level whereby increases in charges to revenue from:-
   - increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
   - any increases in running costs from new capital projects

   are affordable within the projected income of the Council for the foreseeable future.

7. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

8. The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.2 Reporting Requirements

9. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

   Prudential and treasury indicators and treasury strategy - The first, and most important report covers:
   - the capital plans (including prudential indicators);
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and identifying whether the treasury strategy is meeting the objectives or whether any policies require revision.

An annual treasury report (this report) – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Cabinet and Governance, Audit, Risk Management and Standards Committee.

10. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and treasury management practices to the Section 151 officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which consists of the Head of Technical Finance and Accountancy and the Treasury and Pension Fund Manager, to monitor the treasury management activity and market conditions. Copies of reports received by the TMG are provided to all the Members of Governance, Audit, Risk Management and Standards Committee.

11. Further details of responsibilities are given in Appendix 6.

1.3 Matters covered in report

12. This main matters covered in the report are:

- Treasury management outturn
- Treasury position as at 31 March 2014,
- Borrowing outturn
- Investment outturn
- Compliance with treasury limits and Prudential Indicators.
- Economic background

1.4 Options considered

13. For the reasons discussed above no options other than those recommended were considered.

2. TREASURY MANAGEMENT OUTTURN

14. There was a favourable variance of £0.9m on the revised capital financing budget of £19.9m as detailed below:-

	Latest Budget	Outturn	Variation	
	£000	£000	£000	%
Cost of Borrowing	8,231	8,266	35	0.4%
Investment Income	-1,597	-1,822	-225	-14.1%
Minimum Revenue Provision	13,234	12,508	-726	-5.5%
Total	**19,868**	**18,952**	**-916**	**-4.5%**

The favourable outcome arose due to:

(a) Borrowing – gross borrowing costs are slightly above budget whilst the costs allocated to the HRA are slightly below budget producing a net variance of £35,000.
(b) Income - the average rate of interest earned was 1.34%. This rate compares favourably with three months LIBOR of 0.52% and the Council's peer group of other London boroughs. The budget was based on an interest rate of 1.7% and, whilst the actual rate earned of 1.34% was lower, higher average balances (£150m compared to a budget assumption of approximately £105m) provided the opportunity to realise more investment income than estimated.
(c) MRP - The favourable variance results from project slippage on completion timetables

15. The returns from the investment portfolio are benchmarked by the treasury management adviser, Capita. At the end of the year the weighted average return of the investment portfolio calculated by Capita at 1.11% exceeded both their risk adjusted model portfolio (0.92%) and the average of other London boroughs (0.79%). Similar results were achieved at the end of each of the previous three quarters in the year.

3. TREASURY POSITION AS AT 31 MARCH 2014

16. The Council's debt and investment position at the beginning and the end of the year was as follows:

	31 March 2014	**Average Rate at 31 March 2014**	**Average Life**	31 March 2013	Average Rate at 31 March 2013	Average Life
	£m	**%**	**Years**	£m	%	Years
Fixed Rate Borrowing						
Public Works Loan Board (PWLB)	218.5	4.09	37.2	218.5	4.09	38.2
Market	121.8	4.58	36.1	131.8	4.65	34.4
Total Debt	**340.3**	**4.26**	**36.8**	**350.3**	**4.30**	36.8
Investments:						
In-House	130.8	1.11	174 days	103.2	2.14	276 days
Total Investments	**130.8**			**103.2**		

The above analysis assumes loans structured as LOBOs (see paragraph 19 below for definition and further details) mature at the end of the contractual period. If the first date at which the lender can reset interest rates was used as the maturity date, the average life for market loans would be 1.7 years and for the whole debt portfolio 24.5 years.

4. BORROWING OUTTURN

17. Total long term debt of £340.3m at the end of March 2014 is made up £121.8m market loans and £218.5m from the PWLB.

18. There was no additional borrowing during the year and the only repayment a sum of £10m repaid to Dexia Credit on 31 March 2014. The table below sets out the borrowing maturity profile.

	31st March 2014		31st March 2013	
	£m	**%**	£m	%
Under 12 Months	6.0	1.7	10.0	2.9
12 Months and under 24 Months			6.0	1.7
24 Months and within 5 years	20.0	5.9	10.0	2.8
5 years and within 10 years	17.0	5.0	27.0	7.7
10 years and above	297.3	87.4	297.3	84.9
Total	**340.3**	**100.0**	350.3	100.0

19. In aggregate there are £83.8m of Lender Option Borrower Option (LOBO) structured loans shown in the table above as having maturities of between 36 and 64 years. The lenders are permitted to reset interest rates five years after the loan is drawn and either semi-annually or annually thereafter. Should interest rates on these loans increase, the Council has the option to repay at no cost. The table below restates the maturity profile by including LOBO loans at their first interest reset date.

	31st March 2014	
	£m	**%**
Under 12 Months	69.8	20.5
12 Months and under 24 Months	20.0	5.9
24 Months and within 5 years	20.0	5.9
5 years and within 10 years	17.0	5.0
10 years and above	213.5	62.7
Total	**340.3**	**100.0**

20. The approach to funding capital expenditure, as discussed in the February 2013 strategy and subsequently, is to use internal funds wherever possible in recognition of the unfavourable gap between investment returns and borrowing costs. Consideration continues to be given as to the cost and benefits of the premature repayment of debt and the premium which would be incurred. However, in view of the cost and the estimated future requirements of the capital programme, which could necessitate further borrowings, it was not felt to be appropriate to make any premature repayments during 2013-14.

5. INVESTMENT OUTTURN

21. The Bank of England base rate has remained at 0.5% since March 2009 while 7 day and 3 month Libid rates continued to decline ending the year at 0.34% and 0.36% respectively making investing over short terms unattractive. Despite these

unattractive rates the investment portfolio achieved an average return of 1.34% in the year through concentrating investments with the two part UK Government owned banks that offered superior returns.

22. The Council manages its investments in-house and invests with the institutions listed in the Council's approved lending list. The treasury strategy permits investments for a range of periods from overnight to three years, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. Further details of the credit quality of counterparties are given in Appendix 4.

23. The investment portfolio is mostly (72%) invested with two banks, Lloyds / HBOS (42%) and RBS (30%). The counterparty policy permits 50% to be invested in each of these banks.

24. Advantage has been taken of the available limits with Lloyds and RBS. Not only did they offer higher interest rates than the other UK banks but the longer permitted maturities also enhanced returns.

25. As at 31 March 2014 the investment portfolio is invested over a spread of maturities up to three years. At the year end £22m matures in more than 12 months taking advantage of the longer term rates available. This is just below the maximum (£25m) permitted by the strategy. These deposits yield between 1.1% and 1.6%, somewhat higher than one year deposits which yield around 1% and very short term of under 0.5%. A listing of new investments of 3 months or more in the year is included in Appendix 2.

26. The table below sets out the investment balances as at 31 March 2014.

	31st March 2014		31st March 2013	
	£m	**%**	£m	%
Specified Investments				
Banks & Building Societies	0.0	0.0	0.1	0.1
Money Market Funds	1.6	1.2	0.0	0.0
Non –Specified Investments				
Banks & Building Soc.	129.2	98.8	103.1	99.9
Total	**130.8**	**100.0**	103.2	100.0

Included in the above balances are funds of £11.9 million invested on behalf of the West London Waste Authority and Pension Fund balances of £1.7 million. Most pension fund cash balances are held in separate banks accounts in the name of the fund. In aggregate 11% of interest earned is allocated both to the WLWA and to internal funds (schools, housing, insurance etc).

6. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

27. The prudential framework for local authority capital investment was introduced through the Local Government Act 2003. The prudential system provides a flexible framework approach within which capital assets can be procured, managed, maintained and developed. Under this framework, individual authorities are responsible for deciding the level of their affordable borrowing for the Council's

capital investment plans that is demonstrated to be affordable, prudent and sustainable.

28. The Act and the supporting regulations require the Council to have regard to the Prudential Code and to set Prudential Indicators for the next three years. The indicators for 2013/14 were approved by the Cabinet on 14 February 2013. During the financial year the Council operated within the treasury limits and Prudential Indicators as shown in Appendix 1.

7. MINIMUM REVENUE PROVISION (MRP)

29. Under the statutory regulations a Minimum Revenue Provision is made each year to repay the outstanding debt on assets. This is calculated by spreading the capital expenditure over the useful life of the asset as detailed in the strategy.

8. ECONOMIC BACKGROUND

30. The Council has engaged Capita Asset Services, Treasury Solutions as its external treasury management adviser. Appendix 3 comprises a commentary on the UK and Global economies as prepared during April 2014.

9. IMPLICATIONS OF THE RECOMMENDATIONS

31. Since the recommendations are asking the Cabinet only to note the position on treasury management activities and are not seeking any decisions they have no implications for the Council’s resources and costs.

32. The recommendations do not affect the Council’s staffing / workforce and have no equalities or community safety impact.

10. LEGAL IMPLICATIONS

33. The report has been reviewed by the Legal Department and comments received are incorporated into the report.

11. FINANCIAL IMPLICATIONS

34. Financial matters are integral to the report.

12. PERFORMANCE ISSUES

35. The Council meets the requirements of the CIPFA Code of Practice for Treasury Management and therefore is able to demonstrate best practices for the Treasury Management function.

36. As part of the Code the Council must agree a series of prudential indicators and measure its performance against them. These indicators and performance are detailed in Appendix 1. In most cases performance has been in accordance with the indicators and, where it has not, explanations are provided.

13. ENVIRONMENTAL IMPACT

37. There are no direct environmental impacts.

14. RISK MANAGEMENT IMPLICATIONS

38. The identification, monitoring and control of risk are central to the achievement of the treasury objectives. Potential risks are identified, mitigated and monitored in accordance with treasury practice notes approved by the Treasury Management Group.

Risk included on Directorate risk register? Yes
Separate risk register in place? No

15. EQUALITIES IMPLICATIONS

39. There is no direct equalities impact.

16. CORPORATE PRIORITIES

40. This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Simon George Date: 23 May 2014	x	Chief Financial Officer
Name: Linda Cohen Date: 20 May 2014	x	on behalf of the Monitoring Officer

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap Date: 22 May 2014	x	Divisional Director Strategic Commissioning

Section 5 – Environmental Impact Officer Clearance

Name: Venetia Reid-Baptiste Date: 20 May 2014	x	on behalf Corporate Director (Environment & Enterprise)

Ward Councillors notified:	**NO – all wards affected**

Section 6 - Contact Details and Background Papers

Contact: Ian Talbot (Treasury and Pension Fund Manager) Tel: 020-8424-1450 / Email: ian.talbot@harrow.gov.uk

Background Papers: None

Call-In Waived by the Chairman of Overview and Scrutiny Committee	**NOT APPLICABLE** *[Decisions for noting are not subject to Call-in]*

APPENDIX 1

PRUDENTIAL INDICATORS 2013/14 OUTTURN

Table 1 - Capital Expenditure and Funding

	2012/13	2013/14	2013/14
	Actual	Revised	Actual
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	24,288	85,095	29,022
HRA	7,554	8,390	6,261
TOTAL Expenditure	**31,842**	**93,485**	**35,283**
Funding:-			
Grants	7,389	37,553	9,468
Capital Receipts and Contributions	5,157	4,117	4,536
Revenue Financing	8,068	8,932	6,689
Total Funding	**20,614**	**50,602**	**20,693**
Borrowing to Fund the Capital Programme	**11,228**	**42,883**	**14,590**
Total new Borrowing	**11,228**	**42,883**	**14,590**

The above table summarises actual and revised capital expenditure plans and the sources of funding. The funding excludes the Minimum Revenue Provision (depreciation on General Fund assets) which offsets the need for external borrowing. Further detail and explanations are contained within the Revenue and Capital Outturn report.

The General Fund capital expenditure of £29m is lower than the revised programme resulting in a variance of £56m. The slippage totalling to £35m will be carried forward into 2014-15.

From an affordability perspective, which is the treasury consideration, the reduction in expenditure has impacted favourably on interest income. The majority of HRA's capital expenditure of £6.2 million is funded from revenue sources.

Table 2 - Ratio of Financing Costs to Net Revenue Stream

	2012/13	2013/14	2013/14
	Actual	Approved	Actual
	%	%	%
Ratio of financing costs to net revenue stream			
Non - HRA	11.55	12.51	11.66
HRA	47.76	47.67	35.74

These ratios consider the affordability of capital expenditure by comparing interest costs and depreciation with net revenues. A ratio that increases indicates that capital costs take a larger share of resources.

Both ratios are below that approved in the strategy and lower than those projected mid year indicating an improved position.

Table 3 - Incremental Impact of Capital Investment Decisions

	2012/13	2013/14	2013/14
	Actual	Approved	Actual
	£	£	£
Incremental impact of capital investment decisions			
Increase in Council Tax (Band D) per annum	17.20	20.59	28.45
Increase in average housing rent per week	16.11	-2.39	-11.59

The incremental ratios identify the impact of the cost of debt and depreciation (MRP) applicable to new capital borrowing on council taxes and rents.

The capital expenditure and commitments to be funded from Council Tax remained as agreed in the original Treasury Management Strategy Statement but a lower level of capital receipts than expected has adversely affected the above ratio.

Table 4 - Borrowing and Capital Financing Requirement

	2012/13	2013/14	2013/14
	Actual	Approved	Actual
	£'000	£'000	£'000
Capital Financing Requirement	401,292	414,101	401,252
Gross borrowing	369,216	360,357	361,775
Under borrowing	**32,076**	**53,744**	**39,477**
Net borrowing requirement			
brought forward 1 April	294,681	274,232	273,284
carried forward 31 March	273,284	280,908	230,942
In year borrowing requirement	**-21,397**	**6,676**	**-42,342**

The first three indicators are designed to highlight borrowing in advance of need.

The net borrowing requirement looks at the change in debt less investment balances. The decrease of £42m is due mainly to an increase in investment balances partly reflecting a slippage on the capital programme and grants received in advance for schools.

Table 5 - Capital Financing Requirement

	2012/13	2013/14	2013/14
	Actual	Approved	Actual
	£'000	£'000	£'000
Capital Financing Requirement as at 31 March			
Non – HRA	251,718	264,487	251,714
HRA	149,574	149,614	149,538
Total	**401,292**	**414,101**	**401,252**
Annual change in CFR			
Non – HRA	-1,681	12,699	-4
HRA	-27	40	-36
Total	**-1,708**	**12,739**	**-40**

The Capital Financing Requirement is the historic outstanding capital expenditure that has not been allocated to revenue. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure that is funded from borrowing increases the CFR. The value of finance leases is included. The CFR value is greater than the outstanding borrowing (including finance leases) of £362 million, indicating the level of cash generated by revenue balances.

Table 6 - Borrowing and Investment Limits

	2012/13	2013/14	2013/14
	Actual	**Approved**	**Actual**
	£m	**£m**	**£m**
Authorised Limit for external debt			
Borrowing and finance leases	372	414	362
Operational Boundary for external debt			
Borrowing	350	352	340
Other long term liabilities	22	23	22
Total	372	375	362
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing	350	352	340
Upper limit for variable rate exposure			
Net principal re variable rate borrowing	0	0	0
Upper limit for principal sums invested over 364 days	25	25	22

The approved operational boundary for debt is based on actual debt at the start of the year plus the net projected capital expenditure in the year. The authorised limit is based on CFR balances and includes an allowance for delayed capital receipts. Total borrowing has been within both limits during the year. Investments with greater than 12 months to maturity at 31 March are £22m but had been equal to the limit of £25m for much of the year.

APPENDIX 2

NEW INVESTMENTS UNDERTAKEN FOR PERIODS OF OVER 3 MONTHS

Counterparty	Date invested	Period	Principal (£m)	Interest rate (%)
Lloyds TSB	3 April 2013	1 year	5.0	1.10
Lloyds TSB	18 April 2013	1 year	5.0	1.10
Ignis Asset Management	30 April 2013	Unrestricted	10.0	Variable
Lloyds TSB	2 May 2013	1 year	5.0	1.10
Insight Liquidity Funds	16 May 2013	Unrestricted	10.0	Variable
Bank of Scotland	16 May 2013	1 year	5.0	1.05
Lloyds TSB	4 July 2013	1 year	5.0	1.01
Royal Bank of Scotland	20 August 2013	2 years	5.0	1.16
Lloyds TSB	17 October 2013	1 year	10.0	0.98
Royal Bank of Scotland	28 January 2014	3 years	5.0	1.62
Lloyds TSB	29 January 2014	1 year	5.0	0.95

APPENDIX 3

ECONOMIC BACKGROUND - SUMMARY

- After strong UK GDP growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013 [April to December], it appears that strong growth will continue into 2014 as forward surveys are very encouraging. There are also positive indications that recovery is starting to broaden away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster towards the threshold of 7%, set by the MPC last August, before it said it would consider any increases in Bank Rate. In the February 2014 Inflation Report, the MPC therefore broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of indicators. Accordingly, markets are expecting a first increase around the end of 2014, though recent comments from MPC members have emphasised they would want to see strong growth well established, and an increase in labour productivity / real incomes, before they would consider raising Bank Rate.
- Also encouraging has been the sharp fall in inflation (CPI), reaching 1.7% in February: forward indications are that inflation will continue to be subdued. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19.
- The Federal Reserve has continued with its monthly $10bn reductions in asset purchases which started in December; asset purchases have now fallen from $85bn to $55bn and are expected to stop by the end of 2014, providing strong economic growth continues this year.
- **Interest Rate forecast**

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%
5yr PWLB rate	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.70%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.50%
25yr PWLB rate	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.90%	5.00%	5.00%	5.10%	5.10%	5.10%
50yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%	5.20%

Capita Asset Services undertook a review of its interest rate forecasts in February, after the Bank of England's latest quarterly Inflation Report. This latest forecast now includes a first increase in Bank Rate in quarter 4 of 2015 (previously quarter 2 of 2016), and reflects greater caution as to the speed with which the MPC will start increasing Bank Rate than the current [March 2014] expectations of financial markets.

Summary outlook

- Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy was that wage inflation had been significantly below CPI inflation, so disposable income and living standards were being eroded, (although income tax cuts had ameliorated this to some extent). However, the recent fall in inflation has narrowed the gap between wage increases and inflation and this gap could narrow even more during this year, especially if there is also a recovery in growth in labour productivity (leading to significant increases in pay rates). With regard to the US, the main world economy, it faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although labour force participation rates remain lower than ideal.

- As for the Eurozone, concerns subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

APPENDIX 4

COUNTERPARTY POLICY

The Council's criteria for an institution to become a counterparty are:

Specified Investments

These are sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the lender has the right to be repaid within 364 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. The instruments and credit criteria to be used are set out in the table below.

Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – other LAs	Local Authority issue	In-house
Term deposits – banks and building societies	AA- Long Term F1+Short-term 2 Support AA- Viability UK or AAA Sovereign	In-house
Money Market Funds	AAA	In-house

Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as Specified above). They normally offer the prospect of higher returns but carry a higher risk. The identification and rationale supporting the selection of these other investments are set out below.

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks and building societies	A Long Term F1 Short-term 1 Support A Viability UK or AAA Sovereign	In-house	50%	3 months
Callable Deposits	A Long Term F1 Short term 1 Support	In-house	20%	3 months
UK nationalised Banks [Lloyds / HBOS]	F1 Short-term 1 Support	In-house	50%	36 months
UK nationalised Banks [RBS]	F2 Short-term 1 Support	In-house	50%	36 months
Enhanced Cash Funds	AAA	In-house	25% (maximum £10 million per fund)	Minimum monthly redemption

LEGISLATION AND REGULATION IMPACTING ON TREASURY MANAGEMENT

The following items numbered 1 - 4 show the sequence of legislation and regulation impacting on the treasury management function. The sequence begins with primary legislation, moves through Government guidance and Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice and finishes with implementation through the Council's own Treasury Management Practices.

1. Local Government Act 2003

Link below

Local Government Act 2003

Below is a summary of the provisions in the Act dealing with treasury management.

In addition, the Secretary of State is empowered to define the provisions through further regulations and guidance which he has subsequently done through statutory instruments, Department of Communities and Local Government Guidance and CIPFA codes of practice.

Power to borrow

The Council has the power to borrow for purposes relevant to its functions and for normal treasury management purposes – for example, to refinance existing debt.

Control of borrowing

The main borrowing control is the duty not to breach the prudential and national limits as described below.
The Council is free to seek loans from any source but is prohibited from borrowing in foreign currencies without the consent of Treasury, since adverse exchange rate movements could leave it owing more than it had borrowed.
All of the Council's revenues serve as security for its borrowing. The mortgaging of property is prohibited.
It is unlawful for the Council to 'securitise', that is, to sell future revenue streams such as housing rents for immediate lump-sums.

Affordable borrowing limit

The legislation imposes a broad duty for the Council to determine and keep under review the amount it can afford to borrow. The Secretary of State has subsequently defined this duty in more detail through the Prudential Code produced by CIPFA, which lays down the practical rules for deciding whether borrowing is affordable.

It is for the Council (at a meeting of the full Council) to set its own 'prudential' limit in accordance with these rules, subject only to the scrutiny of its external auditor. The

Council is then free to borrow up to that limit without Government consent. The Council is free to vary the limit during the year, if there is good reason.

Requirements in other legislation for the Council to balance its revenue budget prevents the long-term financing of revenue expenditure by borrowing.
However the legislation does confer limited capacity to borrow short-term for revenue needs in the interests of cash-flow management and forseeable requirements for temporary revenue borrowing are allowed for when borrowing limits are set by the Council.

The Council is allowed extra flexibility in the event of unforeseen needs, by being allowed to increase borrowing limits by the amounts of any payments which are due in the year but have not yet been received.

Imposition of borrowing limits

The Government has retained reserve power to impose 'longstop' limits for national economic reasons on all local authorities' borrowing and these would override authorities' self-determined prudential limits. Since this power has not yet been used the potential impact on the Council is not known.

Credit arrangements

Credit arrangements (eg property leasing, PFI and hire purchase) are treated like borrowing and the affordability assessment must take account not only of borrowing but also of credit arrangements. In addition, any national limit imposed under the reserve powers would apply to both borrowing and credit.

Power to invest

The Council has the power to invest, not only for any purpose relevant to its functions but also for the purpose of the prudential management of its financial affairs.

2. Department for Communities and Local Government Investment Guidance (March 2010)

The Local Government Act 2003 requires a local authority "…..to have regard (a) to such guidance as the Secretary of State may issue………….." and the current guidance became operative on 1 April 2010.

The Guidance recommends that for each financial year the Council should prepare at least one investment Strategy to be approved before the start of the year. The Strategy must cover:

- **Investment security –**
  Investments should be managed prudently with security and liquidity being considered ahead of yield
  Potential counterparties should be recognised as "specified" and "non-specified" with investment limits being defined to reflect the status of each counterparty

- **Investment risk**

  Procedures should be established for monitoring, assessing and mitigating the risk of loss of invested sums and for ensuring that such sums are readily accessible for expenditure whenever needed.

  The use of credit ratings and other risk assessment processes should be explained

  The use of external advisers should be monitored

  The training requirements for treasury management staff should be reviewed and addressed

  Specific policies should be stated as regards borrowing money in advance of need

- **Investment Liquidity**

  The Strategy should set out procedures for determining the maximum periods for which funds may prudently be committed

The Strategy should be approved by the full Council and made available to the public free of charge. Subject to full Council approval, or approved delegations, the Strategy can be revised during the year.

3. Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA 2011)

The primary requirements of the Code are:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

4. The Prudential Code for Capital Finance in Local Authorities (CIPFA 2011)

Compliance with the objectives of the Code by the Council should ensure that:

- Capital expenditure plans are affordable in terms of their implications on Council Tax and housing rents
- External borrowing and other long term liabilities are within prudent and sustainable levels
- Treasury management decisions are taken in accordance with good professional practice

As part of the two codes of practice above the Council is required to:

- agree a series of prudential indicators against which performance is measured
- produce Treasury Management Practice Notes for officers which set out how treasury management policies and objectives are to be achieved and activities controlled.

TREASURY MANAGEMENT DELEGATIONS AND RESPONSIBILITIES

The respective roles of the Cabinet, Governance, Audit, Risk Management and Standards Committee, the Section 151 officer, the Treasury Management Group and the Treasury Team are summarised below. Further details are set out in the Treasury Practice Notes.

The main responsibilities and delegations in respect of treasury activities are:

Council

Council will approve the annual treasury strategy, including borrowing and investment strategies. In doing so Council will establish and communicate their appetite for risk within treasury management having regard to the Prudential Code

Cabinet

Cabinet will recommend to Council the annual treasury strategy, including borrowing and investment strategies and receive a half-year report and annual out-turn report on treasury activities.

Cabinet also approves revenue budgets, including those for treasury activities.

Governance, Audit, Risk Management and Standards Committee

Responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Section 151 Officer

Council has delegated responsibility for the implementation and monitoring of treasury management decisions to the Section 151 Officer to act in accordance with approved policy and practices. In particular, the Sector 151 Officer:

- Approves all new borrowing, investment counterparties and limits and changes to the bank mandate,
- Chairs the Treasury Management Group ("TMG"), and
- Approves the selection of treasury advisor and agrees terms of appointment.

Treasury Management Group

Monitors the treasury activity against approved strategy, policy, practices and market conditions.

Approves changes to treasury management practices and procedures.

Reviews the performance of the treasury management function using benchmarking data on borrowing and investment provided by the Council's treasury management adviser.

Monitors the performance of the appointed treasury management adviser and recommends any necessary actions.

Ensures the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

Monitors the adequacy of internal audit reviews and the implementation of audit recommendations.

Treasury and Pension Fund Manager

Has responsibility for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Policy Statement and CIPFA's 'Standard of Professional Practice on Treasury Management'.

Treasury Team

Undertakes day to day treasury investment and borrowing activity in accordance with strategy, policy, practices and procedures and recommends changes to these to the TMG.

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REPORT FOR:	**Governance, Audit, Risk Management and Standards Committee (GARMS)**
Date:	22 July 2014
Subject:	**INFORMATION REPORT** Draft Statement of Accounts 2013-14
Responsible Officer:	Simon George, Director of Finance & Assurance
Exempt:	No
Enclosures:	Appendix 1: Draft Statement of Accounts 2013-14 Appendix 2: Draft Pension Fund Annual Report 2013-14

Section 1 – Summary and Recommendations

The Accounts and Audit (England) Regulations 2011, specifically require authorities to prepare a Statement of Accounts in accordance with proper practices. These require that the Accounts are prepared by 30 June and approved and published by 30 September in the relevant year. This report provides the Committee with the opportunity to see the draft Statement of Accounts and Pension Fund Annual Report for 2013-14.

Recommendations:

The Committee is asked to consider and note the draft Statement of Accounts and Pension Fund Annual Report for 2013-14.

Reason:
To keep the Committee informed of the planned work.

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 Council's accounts for 2013-14 are now closed subject to any audit adjustments. We have met the statutory requirement of providing a comprehensive set of accounts to the Auditor.

2. The detailed annual audit commenced on 7th July with completion expected during August. Members are reminded that GARMS meeting is scheduled for the 17th of September 2014. The accounts are due to be signed off by the external auditor by the statutory deadline of end of September. The Committee will receive a report from the external auditor in September at the conclusion of the annual audit.

3. Public Inspection of the accounts will take place between 28th July 2014 and 22nd August 2014.

Financial Implications

3. There are no direct financial implications arising from this report.

Equalities Implications

4. There are no equalities implications.

Corporate Priorities

5. The Statement of Accounts provides assurance that the Council has managed and delivered its finances in accordance with its approved plans and budget.

Section 3 – Statutory Officer Clearance

Name: Simon George	√	Chief Financial Officer
Date: 9th July 2014		

Section 4 - Contact Details and Background Papers

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

Background Papers: None

Statement of Accounts

2013 - 2014

Harrow COUNCIL LONDON

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London Borough of Harrow
Statement of Accounts
2013 - 2014

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1 Explanatory Foreword

Message from the Director of Finance and Assurance

As the Council's statutory Chief Finance Officer, I have pleasure in writing the Explanatory Foreword to Harrow Council's Statement of Accounts for 2013-14. The Foreword provides an analysis of Council performance during the year, an explanation of the financial results and balances included in the Statement of Accounts and an overview of how the Council intends to achieve its long-term objectives.

The Council, along with the rest of local government, experienced a marked reduction in funding as a result of the local government finance settlement 2013-14. The Council responded to the funding cut by carrying out a major transformation programme, including a major restructure of the Finance and Assurance Division.

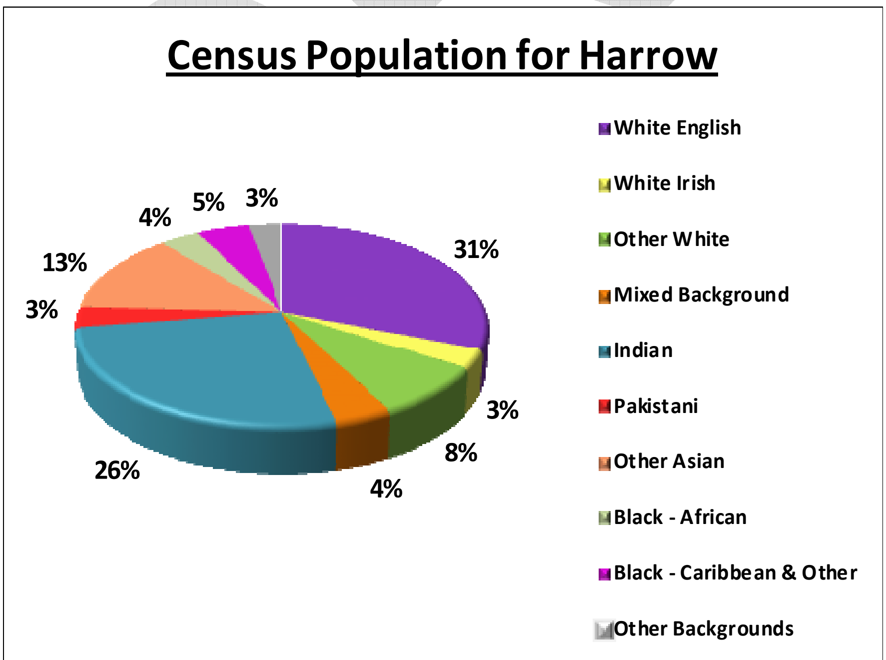
Despite the restructure, good standards of financial management and governance have been maintained. The budget outturn for 2013-14 is well within budget and the financial standing of the Council is robust.

The Council is now well placed to meet the challenge of the further significant funding cuts announced by the Government from 2015-16, as well as a continued increase in demand for Council services.

This report includes the following sections:

1. An Introduction to Harrow
2. Review of the year including Financial Performance of the Council
3. Outlook for the Future
4. Explanation of the Financial Statements
5. Receipt of Further Information
6. Acknowledgements

AN INTRODUCTION TO HARROW



Harrow is the 12th largest London Borough in terms of geographical area with a population of approximately 242,400. One fifth of the borough is composed of parkland and open spaces, creating a green belt equivalent to eight Hyde Parks. The overall crime rate is much lower compared to the London average. Harrow has a strong entrepreneurial tradition with over 10,000 businesses located in the borough. Harrow is the most ethnically diverse borough in London.

Key Facts about the Council

Harrow Council provides a range of services to the local community. Its vision and priorities are directed by the political leadership and implemented by the Corporate Strategy Board (CSB).

Harrow, in common with the majority of authorities in England operates a 'Leader and Cabinet' model as its political management structure. This means that a councillor is elected Leader of the Executive (Cabinet) by the authority. The Leader has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions.

Organisation Structure

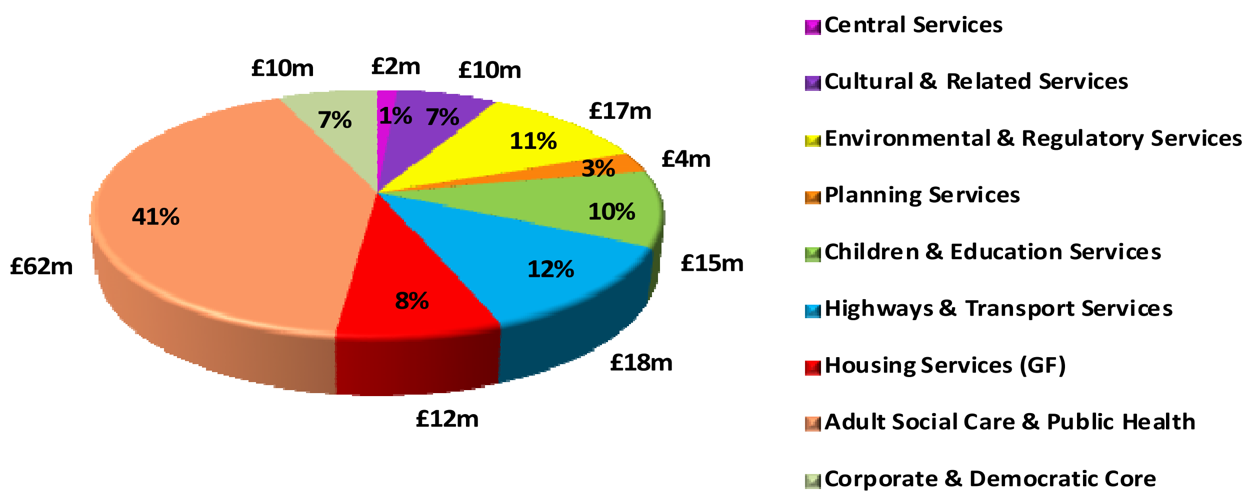
The CSB is comprised of the Council's most senior officers, the Interim Head of Paid Service and three Corporate Directors, myself as Director of Finance and Assurance (the Section 151 Officer) and the Monitoring Officer.

The CSB manages the delivery of Council services, improvements and future plans for Harrow. It provides managerial leadership and supports the elected Members in developing strategies and reviewing the Council's effectiveness of providing value for money services to the public.

The Head of Paid Service and Corporate Directors lead four directorates and the main divisions within the directorates are set out below:-

Community, Health and Wellbeing • Adult Social Care • Community and Culture • Public Health • Housing	**Children's and Families** • Targeted Services • Special Education Needs • Commissioning and Schools • Early Intervention Services
Environment and Enterprise • Environmental Services • Highways and Open Spaces • Business Development • Planning Services • Economic Development and Research	**Resources** • Revenues and Benefits • Information Technology • Finance and Assurance • Commercial and Procurement • Human Resources • Legal and Governance

Services Provided



REVIEW OF THE YEAR

Corporate Plan and Medium Term Financial Strategy

The Corporate Plan sets out the strategies that the Council will use to achieve its vision and corporate priorities. The Council's vision is:

Working Together: Our Harrow, Our Community

This vision is underpinned by four corporate priorities:

1. Supporting and protecting people who are most in need,
2. Keeping Neighbourhoods Clean, Green and Safe,
3. United and Involved Communities, and
4. Supporting our town centre, our local shopping centres and businesses

Key issues that influenced Medium Term Financial Strategy

The 2013-14 Medium Term Financial Strategy (MTFS) was influenced and framed by the need to make reductions in expenditure resulting from Government reforms. These reforms significantly reduce the level of funding received by the Council from Central Government. The budget of £181.1m was approved at the Council meeting on 28th February 2013 which included investment in services of £10m and savings of £22.4m. I have taken a view of key issues that have influenced the council in setting the MTFS as detailed below:

Government Funding

- The Government's austerity measures continue to reduce the resources available to the Council. A 28% cut to the Council's controllable costs over the 4 years to 2014-15, some £62m in Harrow's case from 2010/11 levels of expenditure, is required. This has since increased by £13m to £75m as a result of adverse moves in grant funding and the impact of Welfare Reform making Harrow one of the lowest funded councils in London.

Government Reforms

- Localism and Decentralisation – the last few years have seen changes to the roles and responsibilities of local government including the transfer of the Public Health function, included in these accounts for the first time this year.
- Central Government has changed the way local government is funded allowing local authorities to retain a proportion of business rates generated in their area.
- The Welfare Reform Act has been introduced aiming to reduce the cost of welfare to the Government by around £25bn per year.
- From 1 April 2013 the responsibility for the Council Tax Support Scheme was transferred to the Council but with a 10% reduction in budget meaning Harrow had to save £3.8m to be able to fund the scheme in year one.
- The small business rate relief scheme will be extended for one year from April 2014 and business rates increase will be capped at 2% from April 2014. Every retail business in England in premises with a rateable value of up to £50,000 will get a business rates discount worth £1,000.
- The Care Bill to be implemented from 2015-16 will have major impact on Adult Social Care Services in terms of how these are delivered and funded.

Social

- The 2011 Census data shows there has been a 15% increase in Harrow's population in the last 10 years with the biggest growth being in the birth rate with a 33% increase in 0-4 year olds increasing the demand for both school and nursery places. For people aged over 80 years old the census showed an estimated increase of 1000 people impacting on the demand for Council services.

2013 Achievements:

Harrow is well positioned to meet the challenges that influenced the preparation of the MTFS. In the past few years Harrow has successfully reduced expenditure by £45m by:

- Identifying efficiencies;
- Adopting a more commercial approach to contracting and procurement;
- Taking advantage of new technologies; and
- Introducing new and innovative ways of service delivery.

The Council's key achievements over the last year are summarised by corporate priority below:

Supporting and protecting people who are most in need

- National recognition was gained for Harrow's model for delivering autism awareness training to health and social care professionals, which was published as a case study of best practice in the Government's latest Autism Strategy.
- My Community ePurse was launched to support users of Adult Services manage their personal budget.
- Although the level of homelessness remains low compared to other London boroughs, it has risen by over 50% compared to the prior year.
- A New Youth Justice Plan supporting first time entrants to the Youth Justice System saw a 30% reduction in repeat offending year on year.
- The Council is the second best local authority in achieving 98.4% participation in education or training for vulnerable and disadvantaged groups of young people aged 16-17.

Keeping neighbourhoods clean, green and safe

- Total crime down in the borough including residential burglary, supporting the Borough Commanders ambition to make Harrow the Safest Borough in London.
- Runner up for Outstanding Achievement in Road Safety Education, Training & Publicity.
- Residual household waste has reduced by around 24% and the recycling for household waste has increased by 4% over the last year.

United and involved communities

- Cross Borough Libraries and leisure management contracts commenced, the first of their kind in London.
- Favourable Ofsted inspection achieved in Adult Community and Family Learning.
- 17 extra Reception classes opened as part of the programme of school expansion.
- Level of good and outstanding schools (92%) among best in England. However, there is a need to improve Key Stage 4 results for some ethnic groups and to raise the level at Early Years Foundation Stage.

Supporting our town centre, our local shopping centres and businesses

- Awards for supporting SMEs and Best Small Business Friendly Council for procurement.
- 762 businesses were supported by the Council during the year.
- 203 residents supported to find work through innovative schemes such as Xcite programmes and apprenticeship schemes. This partly contributes to the drop in unemployment rate by 21.8% in 2013-14 to 2,934.
- The proportion of working age population claiming jobseekers allowance is only 1.84% compared to 2.98% for London and the unemployment is also lower at 6.5% compared to 8.69% for London.
- Affordable Housing Options approved and delivered 95 houses and 50 council houses were freed through Grant2Move scheme.

Efficient and Effective Organisation

- Winning a national award for the best customer service centre, beating competition from the private sector.
- Time taken to process benefit claims and change events was 8.53 days which is lower than the set target of 11 days.
- The overall debt collection improved as the proportion of total sundry debt collected increased by 10% over the year and the collection rate for Council tax exceeded the target by 1.5%.
- The average staff sickness day per full time equivalent was 9.54 days.

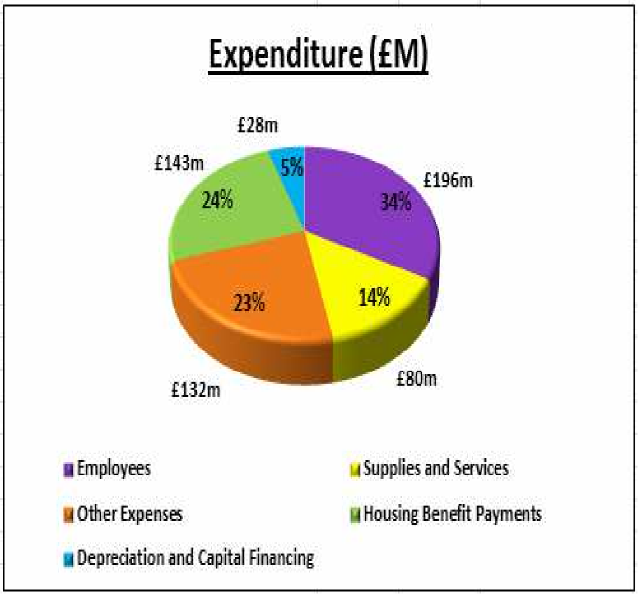
Summary of the 2013-14 Financial Performance of the Council

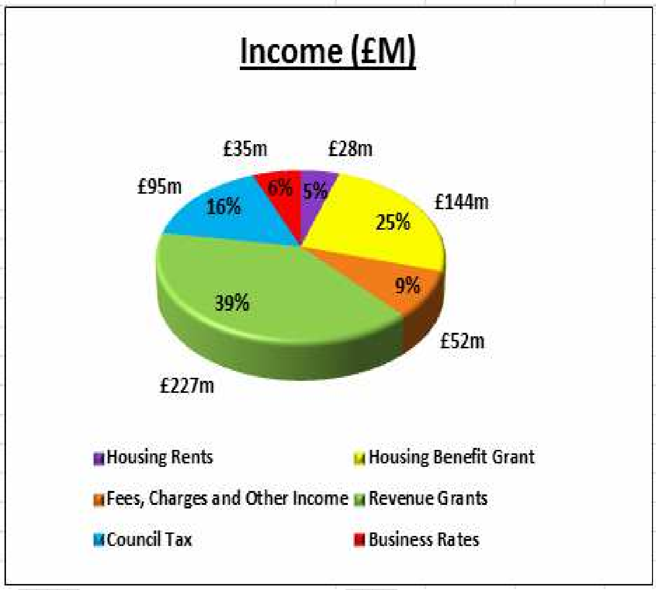
During the year the Council delivered its services innovatively and efficiently resulting in an overall under spend of £13.2m. This is a significant achievement as the council has delivered services within the approved budget, contained the pressures arising from the challenging financial environment and the risks around demand pressures.

The Council has contributed £11.8m of this under spend to specific reserves which will increase Council's capacity to address future years risks and deliver services in a very challenging climate resulting from demographic pressures, economy, welfare reforms and further cuts in funding. The balance of £1.4m has been transferred to General Reserves, taking the balance to £10m.

The final outturn position for the year compared to the revised budget is set out below.

		2013-14	
	Budget £000	**Actuals £000**	Variation £000
Directorate			
Resources	28,818	26,172	**-2,646**
Environment & Enterprise	39,717	37,343	**-2,374**
Community, Health & Wellbeing	77,762	77,137	**-625**
Children & Families	46,135	45,770	**-365**
Total - Directorate	**192,432**	**186,422**	**-6,010**
Other operating costs			
Contingencies, Corporate Items and Non-service grants	**325**	**-5,915**	**-6,240**
Capital Financing and Interest	**-4,761**	**-5,678**	**-917**
Contribution from Reserves	**-6,933**	**-6,933**	**0**
Net Expenditure	**181,063**	**167,896**	**-13,167**
Funded by :			
Government Grant	-72,254	-72,254	0
Collection Fund Surplus	-1,045	-1,045	0
Council Tax income	-93,039	-93,039	0
Business Rates income	-14,725	-14,725	0
Total	**-181,063**	**-181,063**	**0**
Underspends for the year		**-13,167**	**-13,167**
Contribution to specific reserves		11,805	11,805
Surplus for the year		**-1,362**	**-1,362**
General Fund balance at 31 March 2013		8,646	0
General Fund balance at 31 March 2014		**10,008**	**1,362**



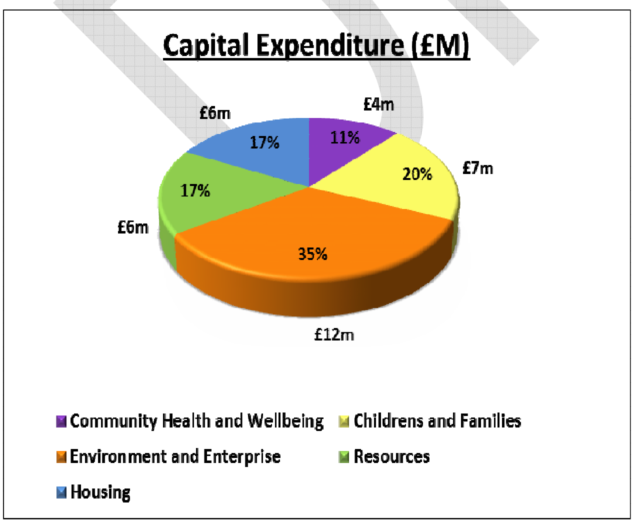


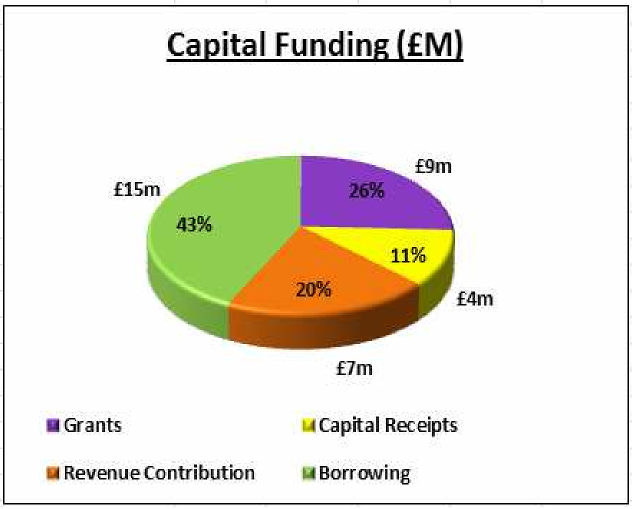
Capital

The original capital programme of £49m was increased during the year by £30m resulting from prior year slippages and £15m due to additional grant funding bringing the total programme to £94m. Actual capital spend during the year was £36m resulting in a slippage of £36m due to upfront grant funding on schools expansion programme and an under spend of £22m due to additional grant funding and land acquisition project.

Major projects included in the programme were:

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





Housing

The Council provides rented accommodation of 4,915 units. In 2013-14, average Council rents were £106.88 per week. The HRA outturn confirmed a surplus of £0.4m in 2013-14 reflected by an increase in HRA reserves from £3.2m to £3.6m.

Collection Fund

2013-14 is the first year of Business Rates Retention scheme which allows Councils to keep a share of the business rate growth promoting financial autonomy and giving councils greater stake in the economic future of their local area.

The overall position for the Collection Fund is a net surplus of £1.495m against an estimated surplus of £2.096m resulting in an adverse variance of £0.601m. This resulted from a drop in Business Rates income mainly from Leisure Centre and Libraries due to their eligibility for charitable relief (£0.574m) and an increase in the appeals provision (£0.400m).

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 1.34% in the year, which compares favourably with three month LIBID (0.36%). 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 2013-14 Treasury Strategy was to use internal funds in recognition of the unfavourable gap between investment returns and borrowing costs.

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 2014 was negative £338.1m (negative £323.1m at 31 March 2013). Details available in note 5.40 including details of the key assumptions used in calculating the balance.

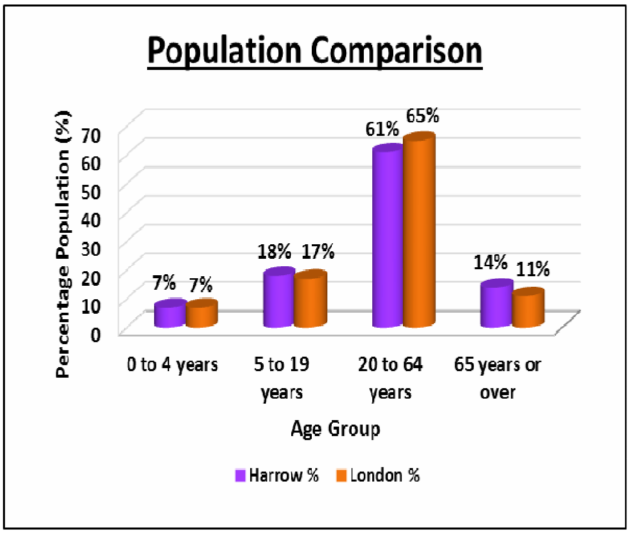
Outlook for 2014-15 and beyond

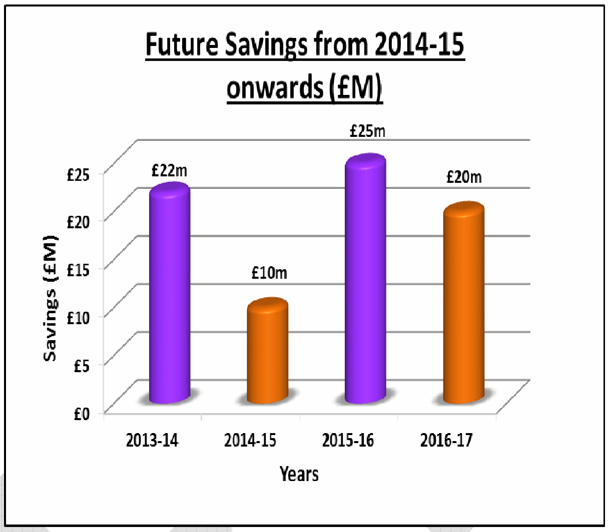
All councils, not just Harrow, continue to find themselves in a very uncertain and volatile situation with a significant number of external events, beyond the Council's control, adversely impacting on funding and demand for Harrow services. The economy is showing the early signs of recovery but this is not expected to lead to any change in the Government's policy regarding funding levels to Local Government. This continues to create a very challenging environment for the very real role that local government plays in the local community and the positive impact that the Council can have on people's quality of life.

The local context is changing for Harrow as well. In Harrow our population is growing, but with specific pinch points which will increase the demand on our services, for instance the population in Harrow is:

- Getting proportionally older (65+) and younger (5-9 years) which keeping with trend will lead to growing pressures on both Adult Social Care and school places;
- Becoming more diverse in our overall population;
- Seeing an increase in the size of families, leading to increasing demand of certain types of housing where supply is behind the demand;
- Seeing a problem in some areas of the community where working level of English is poor, which increases the risks of worklessness;
- Seeing an increase in the demand for services for those residents with complex needs; and
- Seeing a growth in health inequality between our most deprived and most affluent wards.

The MTFS 2014-15 to 2016-17 has identified total cost savings of £55m over the coming three years. The budget for 2014-15 includes savings of £10m and investment in services of £4.7m. Achieving these 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.





The contribution made during 2013-14 to the specific and general reserves will increase the Council's capacity to deliver services in a very challenging climate.

EXPLANATION OF FINANCIAL STATEMENTS

The Statements are prepared on a going concern basis, that is, they 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:

- The Code of Practice on Local Authority Accounting in the United Kingdom 2013-14;
- All relevant International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB);
- The Service Reporting Code of Practice (SERCOP) issued by CIPFA. SERCOP has statutory recognition and establishes proper practice for consistent financial reporting of income and expenditure.

The Statement of Accounts

- **Statement of Responsibilities for the Statement of Accounts** sets out the respective responsibilities of the Authority and the Borough Treasurer.
- **Auditors Statement** gives the auditors opinion of the financial statements and of the authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.
- **Movement in Reserves 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 'unusable 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 and Housing Revenue Account balances before any discretionary transfers to or from earmarked reserves.

- **Comprehensive Income and Expenditure Statement (CIES)** shows the cost of providing services in the year in accordance with International Financial Reporting Standards, rather than the amount funded from Council Tax, and other Government grants. The amount funded from Council Tax and Government grants differ from this by a series of adjustments made in accordance with regulations. These adjustments are made in the Movement in Reserves Statement.
- **Balance Sheet** shows the value of the Council's asset and liabilities at the Balance Sheet date. These are matched by reserves which are split into two categories usable and unusable reserves. Unusable reserves are not available to use to support services and are in the main used to hold unrealised gains and losses, where the actual gain or loss will only become available once another event has occurred. For example Revaluation Reserve for Non Current Assets will only become available if the asset is sold and the full value of the asset realised.
- **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)** shows the in-year economic cost 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 the legislative framework; 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** is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund, which shows the transactions in relation to National Non-Domestic Rates (NNDR) and Council Tax. It shows how much money has been collected and distributed to finance services provided by the Council, Greater London Authority (GLA).

  This financial year the local government finance regime has been revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the local area. The scheme allows the Council to retain a proportion of the total NNDR received. The Harrow share is 20% with the remainder paid to precepting bodies (Central Government 50% share and GLA 20% share).
- **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. The accounts do not include liabilities for pensions and benefits payable in future years.

Receipt of Further Information

If you would like to receive further information about these accounts, please do not hesitate to contact me at the Borough Treasurer's Department, Finance and Assurance Division, Harrow Council.

Acknowledgements

The production of the Statement of Accounts would not have been possible without the exceptional hard work and dedication of staff across the Council. I would like to express my gratitude to all colleagues, from the Finance and Assurance team and other services, who have assisted in the preparation of this document. I would also like to thank them for all their support during the financial year.

Simon George BA(HONS) ACMA ACMT

Director of Finance and Assurance

30 June 2014

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 and Standards Committee (GARMS 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 2013/14 (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 2014 and its income and expenditure for the year ended 31 March 2014.

Simon George BA(HONS) ACMA ACMT

Director of Finance and Assurance

30 June 2014

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, Risk Management and Standards Committee (GARMSC) at the meeting held on 17 September 2014.

Signed on behalf of London Borough of Harrow Council

Councillor Antonio Weiss

Chairman (GARMSC)

XX September 2014

3 Audit Opinion & Certificate

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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 2012	-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										
Deficit on the provision of services	-6,351	0	0	-12,434	0	0	0	-18,785	0	-18,785
Other Comprehensive Expenditure and Income (Note 4.2)	40,317	0	0	0	0	0	0	40,317	0	40,317
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 5.22.1)	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
Balance at 31 March 2013	-8,646	-17,709	-14,407	-3,175	-3,311	-3,384	-15,265	-65,897	-56,676	**-122,573**
Movement in reserves during 2013-14										
(Surplus) on the provision of services	-24,188	0	0	-8,295	0	0	0	**-32,483**	**0**	**-32,483**
Other Comprehensive Expenditure and Income (Note 4.2)	-4,006	0	0	0	0	0	0	**-4,006**	**0**	**-4,006**
Total Comprehensive Expenditure and (Income) (Note 4.2)	-28,194	0	0	-8,295	0	0	0	**-36,489**	**0**	**-36,489**
Adjustments between accounting basis & funding basis under regulations (Note 5.5)	20,676	0	0	7,796	-3,480	-1,198	-5,309	**18,485**	**-18,485**	**0**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	-7,518	0	0	-499	-3,480	-1,198	-5,309	**-18,004**	**-18,485**	**-36,489**
Other Adjustments (Notes 5.22.1)	0	0	0	0	-409	0	409	**0**	**0**	**0**
Transfers to/from Earmarked Reserves (Note 5.6)	6,156	-7,445	1,189	100	0	0	0	**0**	**0**	**0**
(Increase)/Decrease in 2013-14	**-1,362**	**-7,445**	**1,189**	**-399**	**-3,889**	**-1,198**	**-4,900**	**-18,004**	**-18,485**	**-36,489**
Balance at 31 March 2014 carried forward (Note 4.3)	**-10,008**	**-25,154**	**-13,218**	**-3,574**	**-7,200**	**-4,582**	**-20,165**	**-83,901**	**-75,161**	**-159,062**

4.2 Comprehensive Income and Expenditure Statement (CIES)

2012-13 Gross Expenditure £000	2012-13 Gross Income £000	2012-13 Net Expenditure /(Income) £000		Notes	2013-14 Gross Expenditure £000	2013-14 Gross Income £000	2013-14 Net Expenditure /(Income) £000
28,224	-24,674	**3,550**	Central Services		5,526	-3,374	**2,152**
12,705	-2,318	**10,387**	Cultural & Related Services		13,013	-3,105	**9,908**
19,313	-3,361	**15,952**	Environmental & Regulatory Services		19,649	-2,928	**16,721**
8,963	-3,279	**5,684**	Planning Services		7,159	-3,540	**3,619**
193,018	-146,784	**46,234**	Children & Education Services		171,218	-155,782	**15,436**
31,914	-14,395	**17,519**	Highways & Transport Services		31,015	-13,250	**17,765**
150,936	-141,531	**9,405**	Housing Services (GF)		163,401	-151,736	**11,665**
10,844	-29,155	**-18,311**	Housing Services (HRA)	6.1	17,498	-31,509	**-14,011**
74,900	-18,324	**56,576**	Adult & Social Care		76,720	-14,634	**62,086**
0	0	**0**	Public Health		9,209	-8,874	**335**
10,203	-915	**9,288**	Corporate & Democratic Core		9,211	-771	**8,440**
1,587	-636	**951**	Non distributed costs		1,681	-247	**1,434**
542,607	-385,372	**157,235**	**Cost Of Services (Section 10.3)**		525,300	-389,750	**135,550**
8,390	-5,116	**3,274**	Other Operating Expenditure	5.7	9,519	-796	**8,723**
50,541	-26,906	**23,635**	Financing and Investment Income and Expenditure	5.8	52,890	-26,176	**26,714**
0	-202,929	**-202,929**	Taxation and Non-Specific Grant Income	5.9	0	-203,470	**-203,470**
		-18,785	**Deficit (Surplus) on Provision of Services**				**-32,483**
		-2,000	Deficit/(surplus) on revaluation of non current assets	5.23.1			**-2,740**
		42,317	Remeasurements of net pension liability	5.23.4			**-1,266**
		40,317	**Other Comprehensive Income and Expenditure**				**-4,006**
		21,532	**Total Comprehensive Income and Expenditure**				**-36,489**

Remeasurements of net pension liability were referred to as 'actuarial losses on net pension liability' in last year's accounts. The remeasurement of net pension liability is also calculated on a different basis due to changes in the IAS19 calculation methodology. The 2012-13 comparative has been reduced by £3,435k to reflect these changes.

4.3 Balance Sheet

31-Mar-13 £000		Notes	31-Mar-14 £000
753,693	Property Plant and Equipment	5.10	**782,924**
27,820	Investment Property	5.11	**29,367**
25,000	Long Term Investments	5.12	**22,000**
3,237	Long Term Debtors	5.13	**2,636**
809,750	**Long Term Assets**		**836,927**
61,314	Short Term Investments	5.14	**75,248**
21,291	Short Term Debtors	5.15	**18,483**
17,618	Cash and Cash Equivalents	5.16	**35,250**
100,223	**Current Assets**		**128,981**
-21,065	Short Term Borrow ing	5.17	**-22,468**
-68,212	Short Term Creditors	5.18	**-72,021**
-5,613	Provisions	5.19	**-3,306**
-94,890	**Current Liabilities**		**-97,795**
-4,823	Provisions	5.19	**-5,362**
-340,294	Long Term Borrow ing	5.20	**-334,261**
-345,009	Other Long Term Liabilities	5.21	**-358,056**
-2,384	Capital Grants Receipts in Advance	5.35.3	**-11,372**
-692,510	**Long Term Liabilities**		**-709,051**
122,573	**Net Assets**		**159,062**
-65,897	Usable Reserves	5.22	**-83,901**
-56,676	Unusable Reserves	5.23	**-75,161**
-122,573	**Total Reserves**		**-159,062**

4.4 Cash Flow Statement

2012-13 £000		Notes	2013-14 £000
18,785	Net (deficit)/surplus on the provision of services	4.2	**32,483**
44,440	Adjustments to net deficit on the provision of services for non cash movements	5.24	**30,313**
-15,542	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	5.24	**-13,673**
47,683	Net cash flow from Operating Activities		**49,123**
-38,811	Investing Activities	5.25	**-24,675**
-2,040	Financing Activities	5.26	**-6,816**
6,832	Net increase/(decrease) in cash and cash equivalents		**17,632**
10,786	Cash and cash equivalents at the beginning of the reporting period		**17,618**
17,618	Cash and cash equivalents at the end of the reporting period	4.3	**35,250**

5 Notes to the Financial Statements

5.1 Accounting Policies

5.1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2013-14 financial year and its position as at 31 March 2014. 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 2013/14 and the Service Reporting Code of Practice 2013/14 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.

5.1.2 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.

5.1.3 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.

5.1.4 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.

5.1.5 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.

5.1.6 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.

5.1.7 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 three separate pension schemes:

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

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

However, the arrangements for the teachers' scheme and the NHS scheme mean that the Council's share of net liabilities for these benefits cannot ordinarily be separately identified. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The Comprehensive Income and Expenditure Statement is charged with employer contributions payable 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.

5.1.8 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.

5.1.9 Intangible Assets

The Council does not hold material intangible assets.

5.1.10 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.

5.1.11 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.

5.1.12 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.

5.1.13 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 2013-14 (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.

5.1.14 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.

5.1.15 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 covering the whole of the property asset portfolio of the Council over a period of five years. Material assets are subjected to a less detailed desktop valuation in the intervening 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.

The Council depreciates Council Dwellings on a straight line basis over their useful life. Material components are identified and depreciated separately as set out in the 'componentisation' section.

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 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.

5.1.16 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.

5.1.17 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.

5.1.18 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.

5.1.19 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.

5.1.20 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.

5.1.21 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.

5.1.22 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). Billing authorities act as an agent in respect of that proportion of Council Tax and NNDR Income collected on behalf of preceptors.

Council Tax cash collected belongs proportionately to the Council and the major preceptors. NNDR taxpayers for Business Rates cash collected by the Council belongs to the Government (50%), the Council (30%) and to the Greater London Authority (20%).

The Council's share of Council Tax and NNDR is recognised in the Comprehensive Income and Expenditure Statement. The balance sheet recognises debtors for unpaid Council Tax and NNDR, and a debtor/creditor position for each preceptor since the net cash paid to each preceptor in the year will not be equal to its share of total Council Tax and NNDR income received.

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 2013-14 Code of Practice:

- IFRS 13 Fair Value Measurement (May 2011)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements (as amended in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)
- IAS 32 Financial Instruments: Presentation
- Annual Improvements to IFRSs 2009 – 2011 Cycle

None of these accounting policy changes are expected to have a material impact on balances disclosed in the accounts.

5.5 Adjustment between accounting basis and funding basis under regulations

2013-14	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	-24,592	-7,345	0	0	0	-31,937
Impairment	27,727	6,887	0	0	0	34,614
Movements in the market value of Investment Properties	1,782	0	0	0	0	1,782
Capital grants and contributions - Applied	4,732	0	0	0	4,748	9,480
Capital grants and contributions - Unapplied credited to CIES	10,069	229	-241	0	-10,057	0
Revenue expenditure funded from capital under statute	-1,876	0	0	0	0	-1,876
Non Current assets w ritten out on disposal	-4,711	-2,538	0	0	0	-7,249
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	0	0	0	0	0
Insertion of items not debited or credited to the CIES:						0
Minimum Revenue Provision	14,641	38	0	0	0	14,679
Capital expenditure charged against the General Fund and HRA balances	637	0	0	0	0	637
Adjustments involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited to the CIES	4,410	4,166	-8,586	0	0	-10
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	4,434	0	0	4,434
Less Administrative Cost of disposals	-126	0	126	0	0	0
Less payments to the Capital Receipt Pool	0	-787	787	0	0	0
Adjustment involving the Major Repairs Reserve						
Reversal of Major Repairs Allow ance credited to the HRA	0	7,309	0	-7,309	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	6,111	0	6,111
Adjustments involving the Financial Instruments Adjustment Account:						
Premiums and Discounts on Debt Restructure	-257	-47	0	0	0	-304
Adjustments involving the Pensions Reserve:						
Charges made for retirement benefits in accordance w ith IAS19	-33,588	-620	0	0	0	-34,208
Employer's pensions contributions payable in the year	17,475	504	0	0	0	17,979
Adjustments involving the Collection Fund Adjustment Account:	791	0	0	0	0	791
Adjustment involving the Accumulating Compensated Absences Account	-443	0	0	0	0	-443
Total Adjustments	**16,670**	**7,796**	**-3,480**	**-1,198**	**-5,309**	**14,480**

2012-13	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	Usable 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 w ritten 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 w ith 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 Allow ance 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 w ith IAS19	-28,151	-456	0	0	0	-28,607
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	**-2,874**	**12,050**	**-585**	**764**	**-9,833**	**-478**

5.6 Transfers to/from Earmarked Reserves

	Balance at 31-Mar-12	Transfers Out 2012-13	Transfers In 2012-13	Balance at 31-Mar-13	Transfers Out 2013-14	Transfers In 2013-14	Balance at 31-Mar-14
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
Compensatory Added Years	-948	79	-7	-876	79	-4	-801
Transformation and Priority Initiatives Fund	-1,184	67	0	-1,117	747	-1,000	-1,370
PFI Schools	-3,528	477	-410	-3,461	560	-345	-3,246
PFI Neighbourhood Resource Centre	-696	0	-170	-866		-154	-1,020
Projects in progress	-3,203	1,973	-2,116	-3,346	3,346	-3,067	-3,067
Insurance reserve	-500	0	0	-500			-500
Revenue Grant Reserve	-354	300	-531	-585	445	-1,511	-1,651
Revenue Contribution for Capital from Schools	-358	295	0	-63		-1,784	-1,847
Business Risk	0	0	-1,691	-1,691	832	-2,612	-3,471
MTFS Implementation cost	0	0	-4,849	-4,849	1,571	-4,431	-7,709
Other earmarked reserves	-484	235	-106	-355	3	-120	-472
Subtotal General Fund Reserves	-11,255	3,426	-9,880	-17,709	7,583	-15,028	-25,154
Balances held by schools under a scheme of delegation	-12,632	0	-1,775	-14,407	1,189		-13,218
Total	-23,887	3,426	-11,655	-32,116	8,772	-15,028	-38,372

Compensatory Added Years: This reserve provides a source of funding for added years awarded to 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 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

2012-13 £000		2013-14 £000
	Levies	
338	London Boroughs Grants Committee	**264**
298	London Pension Fund Authority	**308**
6,768	West London Waste Authority (WLWA)	**7,727**
252	Lee Valley Regional Park Authority	**252**
172	Environment Agency	**181**
7,828	Sub Total Levies	**8,732**
562	Payments to the Government Housing Capital Receipts Pool	**787**
-5,116	Losses/(gains) on the disposal of non current assets	**-796**
3,274	**Total**	**8,723**

5.8 Financing and investment income and expenditure

2012-13 £000		2013-14 £000
17,016	Interest payable and similar charges	**17,015**
33,525	Pensions interest cost (Note 5.40.2)	**35,875**
-20,608	Expected return on pensions assets (Note 5.40.2)	**-21,307**
-1,921	Interest receivable and similar income	**-1,881**
-4,377	Income in relation to investment properties and changes in their fair value	**-2,988**
23,635	**Total**	**26,714**

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 shown as a net balance of £9,482k, added to the expenditure column in the CIES. This year pensions interest cost has been included in the expenditure column and expected return on pensions assets included in the income column of the CIES. In addition the 2012-13 comparative for expected return on pension assets has been reduced by £3,435k to reflect changes in the IAS19 calculation methodology.

5.9 Taxation and non specific grant incomes

2012-13 £000		2013-14 £000
-105,438	Council tax income	**-94,876**
-65,918	Non domestic rates	**0**
0	Business Rates Retention	**-14,725**
-8,550	Early Intervention Grant	**0**
-1,278	Revenue Support Grant	**-52,098**
0	Business Rates Top-Up Grant	**-20,154**
0	Education Services Grant	**-3,284**
-1,581	New Home Bonus Grant	**-3,025**
-2,636	Council Tax Freeze Grant	**0**
0	Other General Grants	**-294**
-17,528	Capital grants and contributions (Note 5.35.2)	**-15,014**
-202,929	**Total**	**-203,470**

5.10 Property, Plant and Equipment

2013-14	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 - Restated
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2013	293,817	343,198	117,045	188,180	886	9,720	**952,846**	**21,285**
Reversal of accumulated depreciation on revaluation	-6,548	-7,014	0	0	0	0	-13,562	0
Additions	6,232	3,058	1,907	7,097	0	12,781	31,075	175
Revaluation increases recognised in the Revaluation Reserve	961	1,779	0	0	0	0	2,740	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	6,887	27,479	0	0	0	0	34,366	1,506
Derecognition - Disposals	-2,008	-2,554	0	0	0	0	-4,562	0
Derecognition - Other	0	-2,931	0	0	0	0	-2,931	0
Assets reclassified from Asset Under Construction	38	94	561	897	0	-1,590	0	0
other movements in cost or valuation *	-12,667	12,667	0	0	0	0	0	0
At 31 March 2014	**286,711**	**375,775**	**119,513**	**196,174**	**886**	**20,911**	**999,971**	**22,966**
Accumulated Depreciation								
At 1 April 2013	-6,548	-9,943	-86,844	-94,933	-885	0	**-199,153**	-1,238
Reversal of accumulated depreciation on revaluation	6,278	7,014	0	0	0	0	13,292	0
Depreciation charges for 2013-14	-6,776	-4,779	-10,811	-9,301	0	0	**-31,667**	-304
Derecognition - Depreciation on Disposal	0	481	0	0	0	0	481	0
other movements in depreciation and impairment	270	-270	0	0	0	0	0	0
At 31 March 2014	**-6,776**	**-7,496**	**-97,655**	**-104,234**	**-885**	**0**	**-217,046**	**-1,542**
Net Book Value								
At 31 March 2014	**279,935**	**368,279**	**21,858**	**91,940**	**1**	**20,911**	**782,924**	**21,424**
At 31 March 2013	287,269	333,255	30,201	93,247	1	9,720	753,693	20,047

* HRA garages and community halls transferred from Council Dwellings to Other Land and Buildings

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	21,294
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	208
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**	**21,142**
Accumulated Depreciation								
At 1 April 2012 (Restated)	-4,148	-7,412	-74,715	-86,172	-885	0	**-173,332**	-937
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**	**-1,095**
Net Book Value								
At 31 March 2013	**287,269**	**333,255**	**30,201**	**93,247**	**1**	**9,720**	**753,693**	**20,047**
At 31 March 2012	275,446	334,962	35,058	92,595	1	8,995	747,057	20,357

5.10.1 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.

5.10.2 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 2013. 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. 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 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 2013 and 31 March 2014. The movement in HRA assets has been analysed in note 6.2.3.

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	21,858	91,940	20,911	134,709	0
Valued at fair value:							
As at 31st March 2014	279,935	279,690	0	0	0	559,625	29,367
As at 1st April 2013	0	10,120	0	0	0	10,120	0
As at 1st April 2012	0	14,880	0	0	0	14,880	0
As at 1 April 2011	0	63,589	0	0	0	63,589	0
Total Cost or Valuation as at 31.03.14	**279,935**	**368,279**	**21,858**	**91,940**	**20,911**	**782,923**	**29,367**

5.10.3 Impairment losses

2012-13 General Fund £000	2012-13 HRA £000	2012-13 Total £000		2013-14 General Fund £000	2013-14 HRA £000	2013-14 Total £000
2,736	-11,213	-8,477	Net Impairment/(reversal) charged to revenue	**-27,727**	**-6,887**	**-34,614**
0	487	487	Impairment of HRA Other Land and Buildings	**0**	**248**	**248**
		-7,990	Impairment/(reversal) charged to Services			**-34,366**

5.10.4 Capital Financing

2012-13 £000		2013-14 £000
402,669	Opening Capital Financing Requirement	**400,963**
	Capital Investment	
28,748	Property, Plant and Equipment	**31,075**
959	Loan to WLWA	**2,379**
2,693	Revenue Expenditure Funded from Capital under Statute	**1,876**
	Sources of finance	
-4,827	Capital receipts	**-4,434**
-7,721	Government grants and other contributions	**-9,480**
	Sums set aside from revenue:	
-678	· Direct revenue contributions	**-637**
-13,487	· Minimum Revenue Provision	**-14,679**
-7,393	· Major Repairs Reserve	**-6,111**
400,963	*Closing Capital Financing Requirement*	**400,952**
	Explanation of movements in year	
11,781	Increase in unsupported borrowing	**14,668**
-13,487	Minimum Revenue provision	**-14,679**
-1,706	*Increase in Capital Financing Requirement*	**-11**

Prior period figures have been adjusted for a £400k error in respect of the North Harrow Library property wrongly treated as a finance lease in 2011-12.

5.10.5 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-13 £000	Directorate	31-Mar-14 £000
1,248	Resources	**4,790**
2,824	Children and Families	**5,474**
418	Community, Health & Wellbeing	**183**
1,499	HRA	**786**
3,160	Environment & Enterprise	**6,359**
9,149		**17,591**

5.11 Investment Properties

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

2012-13 £000		2013-14 £000
24,389	Balance at start of the year	**27,820**
-27	Disposals	**-235**
3,458	Net gains from fair value adjustments	**1,782**
27,820	Balance at end of the year	**29,367**

5.12 Long Term Investments

31-Mar-13 £000		31-Mar-14 £000
13,000	Maturity date w ithin 2 years	**17,000**
12,000	Maturity date w ithin 2 - 3 years	**5,000**
25,000	Balance at end of the year	**22,000**

5.13 Long term debtors

31-Mar-13 £000		31-Mar-14 £000
2,927	West London Waste Authority	**2,379**
310	Other Loans	**257**
3,237	**Total**	**2,636**

5.14 Short term investments

31-Mar-13 £000		31-Mar-14 £000
61,311	Temporary Investment - Managed in-house	**75,245**
3	Internal Investments	**3**
61,314	**Total**	**75,248**

5.15 Short term debtors

31-Mar-13 £000		31-Mar-14 £000
6,299	Central government bodies	**5,203**
2,874	Other local authorities	**1,849**
1,436	NHS bodies	**984**
359	Public corporations and trading funds	**0**
10,323	Other entities and individuals	**10,447**
21,291	**Total**	**18,483**

5.16 Cash and cash equivalents

31-Mar-13 £000		31-Mar-14 £000
181	Cash held by the Authority	**84**
-804	Bank current accounts	**964**
18,241	Short-term deposits w ith Banks and Building Societies	**34,202**
17,618	**Total Cash and Cash Equivalents**	**35,250**

5.17 Short term borrowing

31-Mar-13 £000		31-Mar-14 £000
-1,621	Public Works Loan Board	**-1,642**
-11,189	Other Financial Institutions	**-7,152**
-4,400	West London Waste Authority	**-11,918**
-3,778	Pension Fund	**-1,679**
-77	Other Loans	**-77**
-21,065	**Total**	**-22,468**

5.18 Short Term Creditors

31-Mar-13 £000		31-Mar-14 £000
-11,697	Central government bodies	**-13,729**
-5,606	Other local authorities	**-6,913**
-717	NHS bodies	**-1,354**
-50,192	Other entities and individuals	**-50,025**
-68,212	**Total**	**-72,021**

5.19 Provisions

	Outstanding Legal Cases £000	Insurance £000	Employment £000	Other Provisions £000	**Total £000**
Short Term					
Balance at 1 April 2013	-680	-1,763	-2,418	-752	**-5,613**
Additional provisions made in 2013-14	-125	-1,502	-104	-761	**-2,492**
Transferred to Long Term	0	539	0	0	**539**
Amounts used in 2013-14	155	1,122	1,873	34	**3,184**
Unused amounts reversed in 2013-14	177	0	545	354	**1,076**
Balance at 31 March 2014	-472	-1,604	-104	-1,125	**-3,306**
Long Term					
Balance at 1 April 2013	0	-4,823	0	0	**-4,823**
Transferred from Short Term	0	-539	0	0	**-539**
Balance at 31 March 2014	0	-5,362	0	0	**-5,362**

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, 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 tree related subsidence claims. All IBNR amounts are calculated by the Council’s actuary. The provision includes £2m 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 transformation 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.

5.20 Long term borrowing

31-Mar-13 £000		31-Mar-14 £000
	Source of Loan:	
-218,461	Public Works Loan Board	**-218,461**
-121,833	Other Financial Institutions	**-115,800**
-340,294	**Total**	**-334,261**
	Analysis of loans by maturity:	
-6,033	1-2 years (1.4.2014 - 31.3.2015)	**0**
-10,000	2-5 years (1.4.2015 - 31.3.2019)	**-20,000**
-27,000	5-10 years (1.4.2019 - 31.3.2024)	**-17,000**
-297,261	More than 10 years (1.4.2024 onwards)	**-297,261**
-340,294	**Total**	**-334,261**

5.21 Other long term liabilities

31-Mar-13 £000		31-Mar-14 £000
-17,830	PFI Lease Liability (Note 5.29)	-17,418
-4,048	Finance Lease Liability (Note 5.28.1.1)	-2,544
-323,131	IAS19 Pension Liability (Note 5.40.5)	-338,094
-345,009	**Total**	-358,056

PFI Lease Liability	Special Schools £000	NRC £000	31-Mar-14 Total £000
Balance outstanding at start of year	12,232	5,988	18,220
Lease repayments during the year	-1,403	-608	-2,011
Finance Charge	1,123	497	1,620
Balance outstanding at year-end	11,953	5,877	17,830
Analysed as follow s:			
Due w ithin one year	265	147	411
Due after more than one year	11,688	5,730	17,418
	11,953	5,877	17,830
2012-13			
Analysed as follow s:			
Due w ithin one year	279	111	390
Due after more than one year	11,953	5,877	17,830
	12,232	5,988	18,220

5.22 Usable reserves

31-Mar-13 £000		Note	31-Mar-14 £000
-8,646	General Fund	4.1	-10,008
-17,709	Earmarked Reserves General Fund	5.6	-25,154
-14,407	Earmarked Reserves Locally Managed Schools	5.6	-13,218
-3,175	Housing Revenue Account	6.1	-3,574
-3,384	Major Repairs Reserve	6.2.4	-4,582
-3,311	Capital Receipts Reserve	5.22.1	-7,200
-15,265	Capital Grants and Contributions Unapplied	5.22.2	-20,165
-65,897	**Total Usable Reserves**		-83,901

5.22.1 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 2012-13 £000	HRA 2012-13 £000	Total 2012-13 £000		General Fund 2013-14 £000	HRA 2013-14 £000	Total 2013-14 £000
-1,465	-4,844	-6,309	Balance unapplied at 1 April	**-1,466**	**-1,845**	**-3,311**
0	3,583	3,583	Transfer to/from Capital Grants Unapplied	**0**	**-409**	**-409**
-4,450	0	-4,450	Receipts in year - Others	**-4,441**	**-221**	**-4,662**
-500	-1,646	-2,146	Receipts in year - Right to Buy	**0**	**-4,166**	**-4,166**
0	500	500	Right to Buy transfer frm HRA to GF	**0**	**0**	**0**
122	0	122	Disposal Costs	**126**	**0**	**126**
0	562	562	Pooling payment to the DCLG	**0**	**787**	**787**
4,327	0	4,327	Applied during the year - others	**4,284**	**150**	**4,434**
500	0	500	Applied during the year - Right to Buy	**0**	**0**	**0**
-1,466	-1,845	-3,311	**Balance unapplied at 31 March**	**-1,496**	**-5,704**	**-7,200**

5.22.2 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.

Total 2012-13 £000		General Fund 2013-14 £000	HRA 2013-14 £000	Total 2013-14 £000
-1,849	Balance unapplied at 1 April	**-11,378**	**-3,887**	**-15,265**
-3,583	Transfer to/from Capital Receipt Reserve	**0**	**409**	**409**
-5,260	Transfer from Capital Grants Receipts in Advance	**0**	**0**	**0**
-9,231	Receipts in year	**-10,039**	**-18**	**-10,057**
4,658	Applied during the year	**4,748**	**0**	**4,748**
-15,265	**Balance unapplied at 31 March**	**-16,669**	**-3,496**	**-20,165**

5.23 Unusable reserves

31-Mar-13 £000			31-Mar-14 £000
-13,782	Revaluation Reserve	5.23.1	**-15,156**
-55	Deferred Capital Receipts		**-2,423**
-374,882	Capital Adjustment Account	5.23.2	**-404,544**
4,939	Financial Instruments Adjustment Account	5.23.3	**5,243**
323,131	Pensions Reserve	5.23.4	**338,094**
-892	Collection Fund Adjustment Account	5.24.5	**-1,683**
4,865	Accumulating Compensated Absences Adjustment Account	5.23.6	**5,308**
-56,676	**Total Unusable Reserves**		**-75,161**

5.23.1 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.

2012-13 General Fund £000	2012-13 HRA £000	2012-13 Total £000		2013-14 General Fund £000	2013-14 HRA £000	2013-14 Total £000
-12,093	-504	-12,597	**Balance at 1 April**	**-13,414**	**-368**	**-13,782**
-5,180	-11,589	-16,769	Upward revaluation of assets	**-35,760**	**-7,961**	**-43,721**
501	136	637	Impairment charged to the revaluation reserve	**1,562**	**3**	**1,565**
3,007	11,213	14,220	Reversal of prior year impairment charged to CIES	**32,495**	**6,921**	**39,416**
-88	0	-88	Recognition of assets not previously on Balance Sheet	**0**	**0**	**0**
-13,853	-744	-14,597	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**-15,117**	**-1,405**	**-16,522**
39	349	388	Difference between fair value depreciation and historical cost depreciation	**357**	**129**	**486**
400	27	427	Accumulated gains on assets sold or scrapped	**822**	**58**	**880**
439	376	815	Amount written off to the Capital Adjustment Account	**1,179**	**187**	**1,366**
-13,414	-368	-13,782	**Balance at 31 March**	**-13,938**	**-1,218**	**-15,156**

5.23.2 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.

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

2012-13				2013-14		
£000 General Fund	£000 HRA	£000 Total		£000 General Fund	£000 HRA	£000 Total
-222,793	-140,743	-363,536	**Balance at 1 April**	-222,289	-152,593	-374,882
			Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
23,629	6,629	30,258	Asset Depreciation	22,908	7,309	30,217
1,686	26	1,712	Leasing Depreciation	1,685	35	1,720
2,736	-11,213	-8,477	Asset Impairment	-27,727	-6,887	-34,614
177	666	843	Non Current assets w ritten out on Disposal	4,711	2,538	7,249
2,693	0	2,693	Revenue expenditure funded from capital under statute	1,876	0	1,876
0	0	0	Deferred Capital receipts	2,379	0	2,379
-400	-27	-427	Revaluation reserve on disposal to the CI&E Statement	-822	-58	-880
30,521	-3,919	26,602		5,010	2,937	7,947
-39	-349	-388	Depreciation w ritten out of the Revaluation reserve	-357	-129	-486
30,482	-4,268	26,214	Net w ritten out amount of the cost of non current assets consumed in the year	4,653	2,808	7,461
			Capital financing applied in the year:			
-4,827	0	-4,827	Use of the Capital Receipts Reserve	-4,284	-150	-4,434
0	-7,393	-7,393	Use of the Major Repairs Reserve	0	-6,111	-6,111
-3,002	-60	-3,062	Capital grants contributions credited to the CI&E Statement	-4,732	0	-4,732
-4,556	-102	-4,658	Application of grants from the Capital Grants Unapplied Account	-4,748	0	-4,748
-13,462	-27	-13,489	Minimum Revenue Provision	-14,641	-38	-14,679
-678	0	-678	Revenue Contribution to Capital Outlay	-637	0	-637
3,957	-11,850	-7,893		-24,389	-3,491	-27,880
-3,453	0	-3,453	Movements in the market value of Investment Properties debited/credited to the CI&E Statement	-1,782	0	-1,782
-222,289	-152,593	-374,882	**Balance at 31 March**	-248,460	-156,084	-404,544

5.23.3 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.

2012-13 £000		2013-14 £000
4,656	**Balance at 1 April**	4,939
	Premiums and Discounts incurred in previous financial years to be charged against the Balance in accordance w ith statutory requirements	
250	General Fund	257
33	HRA	47
4,939	**Balance at 31 March**	5,243

5.23.4 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 pays 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.

2012-13 £000		2013-14 £000
270,287	**Balance at 1 April**	**323,131**
45,752	Actuarial (gains) or losses on pensions assets and liabilities	**-1,266**
25,172	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	**34,208**
-18,080	Employer's pensions contributions and direct payments to pensioners payable in the year	**-17,979**
323,131	**Balance at 31 March**	**338,094**

5.23.5 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.

2012-13 £000		**2013-14 £000**
-1,370	**Balance at 1 April**	**-892**
478	Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year	**-791**
-892	**Balance at 31 March**	**-1,683**

5.23.6 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.

2012-13 £000		**2013-14 £000**
5,160	**Balance at 1 April**	**4,865**
-5,160	Settlement or cancellation of accrual made at the end of the preceding year	**-4,865**
4,865	Amounts accrued at the end of the current year	**5,308**
4,865	**Balance at 31 March**	**5,308**

5.24 Cash flow statement – operating activities

2012-13 £000		2013-14 £000
17,016	Interest payable & similar charges	**17,015**
-1,921	Interest and Investment income	**-1,881**
-4,377	Other investment income	**-2,581**
	Non-Cash Transactions	
12,917	Adjustment for pension funding	**16,229**
-1,027	Increase in Provision	**-1,768**
23,981	Impairment and Depreciation	**-2,429**
-296	Accumulated Absence	**443**
-5,116	Gains/Loss (-) on disposal of non-current assets	**-1,202**
-763	Other adjustments	**0**
	Items on an accrual basis	
-591	(-)Increase/Decrease in Debtors	**2,807**
4,617	Increase/Decrease(-) in Creditors	**3,680**
44,440	**Adjustments for non cash movements**	**30,313**
1,488	Interest received	**2,523**
-17,030	Interest paid	**-16,996**
0	Other Investment income	**800**
-15,542	**Adjustments for investment and financing activities**	**-13,673**

5.25 Cash flow statement – investing activities

2012-13 £000		2013-14 £000
-29,871	Purchase of property, plant and equipment, investment property and intangible assets	**-31,138**
-9,613	Purchase of short-term and long-term investments	**-11,576**
-5,150	Other payments for investing activities	**8,987**
5,959	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**8,451**
0	Proceeds from short-term and long-term investments	**601**
-136	Other receipts from investing activities	**0**
-38,811	**Net cash flows from investing activities**	**-24,675**

5.26 Cash flow statement – financing activities

2012-13 £000		2013-14 £000
0	Cash receipts of short- and long-term borrow ing	**0**
0	Other receipts from financing activities	**0**
-2,040	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**-2,167**
0	Repayments of short- and long-term borrow ing	**-4,649**
-2,040	**Net cash flows from financing activities**	**-6,816**

5.27 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.

5.27.1 Directorate income and expenditure

2013-14	Community, Health and Wellbeing	Children's and Families	Environment and Enterprise	Resources	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	-19,920	-16,522	-21,497	-4,435	**-62,374**
Government grants	-11,227	-137,650	-621	-148,625	**-298,123**
Total Income	**-31,147**	**-154,172**	**-22,118**	**-153,060**	**-360,497**
Employee expenses	25,090	121,641	21,215	27,501	**195,447**
Other service expenses	69,866	65,806	10,984	140,468	**287,124**
Support service recharges	9,606	7,669	6,941	6,618	**30,834**
Depreciation, amortisation and impairment	3,722	4,826	12,162	4,073	**24,783**
Precepts & Levies	0	0	8,159	572	**8,731**
Total Expenditure	**108,284**	**199,942**	**59,461**	**179,232**	**546,919**
Net Departmental Costs	**77,137**	**45,770**	**37,343**	**26,172**	**186,422**

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**

5.27.2 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.

2012-13 £000		2013-14 £000
186,438	Net expenditure in the Directorate Analysis (note 5.27.1)	186,422
-15,106	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	-44,124
-14,096	Amounts included in the Analysis not included in the CIES Cost of Services	-6,748
157,235	**Cost of Services in Comprehensive Income and Expenditure Statement**	135,550

5.27.3 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.

2013-14	Directorate Analysis	HRA not reported to management for decision making	Other not reported to management for decision making	Amounts not included in CIES	Cost of services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-62,374	-31,509	0	2,256	**-91,627**	0	**-91,627**
Interest and investment income	0	0	0	0	**0**	-26,176	**-26,176**
Income from council tax	0	0	0	0	**0**	-94,876	**-94,876**
Government grants and contributions	-298,123	0	0	0	**-298,123**	-108,594	**-406,717**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	**0**	-796	**-796**
Total income	**-360,497**	**-31,509**	**0**	**2,256**	**-389,750**	**-230,442**	**-620,192**
Employee expenses	195,447	4,872	1,988	0	**202,307**	0	**202,307**
Other service expenses	287,124	9,358	-6,456	-169	**289,857**	0	**289,857**
Support Service recharges	30,834	2,960	0	-67	**33,727**	0	**33,727**
Depreciation, amortisation and impairment	24,783	706	-26,043	-37	**-591**	0	**-591**
Interest Payments	0	0	0	0	**0**	52,890	**52,890**
Precepts & Levies	8,731	0	0	-8,731	**0**	8,732	**8,732**
Payments to Housing Capital Receipts Pool	0	0	0	0	**0**	787	**787**
Total expenditure	**546,919**	**17,896**	**-30,511**	**-9,004**	**525,300**	**62,409**	**587,709**
Surplus or deficit on the provision of services	**186,422**	**-13,613**	**-30,511**	**-6,748**	**135,550**	**-168,033**	**-32,483**

2012-13	Directorate Analysis	HRA not reported to management for decision making	Other not reported to management for decision making	Amounts not included in CIES	Cost of services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-53,312	-29,155	242	0	**-82,225**	0	**-82,225**
Interest and investment income	0	0	0	0	**0**	-26,906	**-26,906**
Income from council tax	0	0	0	0	**0**	-105,438	**-105,438**
Government grants and contributions	-303,146	0	0	0	**-303,146**	-97,491	**-400,637**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	**0**	-5,116	**-5,116**
Total Income	**-356,458**	**-29,155**	**242**	**0**	**-385,372**	**-234,951**	**-620,322**
Employee expenses	179,671	4,552	-368	-2,390	**181,465**	0	**181,465**
Other service expenses	288,615	7,260	-1,468	-3,878	**290,529**	0	**290,529**
Support Service recharges	43,153	3,029	449	0	**46,631**	0	**46,631**
Depreciation, amortisation and impairment	23,629	-4,068	4,421	0	**23,982**	0	**23,982**
Interest Payments	0	0	0	0	**0**	50,541	**50,541**
Precepts & Levies	7,828	0	0	-7,828	**0**	7,828	**7,828**
Payments to Housing Capital Receipts Pool	0	0	0	0	**0**	562	**562**
Total expenditure	**542,896**	**10,773**	**3,034**	**-14,096**	**542,607**	**58,931**	**601,538**
Surplus or deficit on the provision of services	**186,438**	**-18,382**	**3,276**	**-14,096**	**157,235**	**-176,020**	**-18,875**

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The Housing Revenue Account outturn is reported to management separately from the Directorate Analysis. Amounts not reported to management for decision making included the Housing Revenue Account in last year's accounts. This year a separate column has been included for the Housing Revenue Account.

5.28 Leases

5.28.1 The council as Lessee

5.28.1.1 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 £3.66m (£5.33m in 2012-13).

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-14	31-Mar-13	31-Mar-14	31-Mar-13
	£000	£000	£000	£000
Not later than one year	**1,672**	1,930	**1,468**	1,692
Later than one year and not later than five years	**2,600**	4,251	**2,544**	3,732
Later than five years	**0**	319	**0**	316
	4,272	6,500	**4,012**	5,740
Finance costs payable in future years			**260**	760
			4,272	6,500

5.28.1.2 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-13		31-Mar-14
£000		£000
464	Not later than one year	**286**
1,016	Later than one year and not later than five years	**916**
3,004	Later than five years	**2,751**
4,484		**3,954**
502	Min. lease payments charged to revenue in 13-14	**379**

5.28.2 The Council as Lessor

5.28.2.1 Finance Leases

The Council has granted 125 year peppercorn leases in respect of 8 maintained schools which transferred to Academy status under the provisions of the Academies Act 2010. 7 transferred to Academy status with effect from August 2011 and Alexandra School with effect from September 2013. 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 schools to Academy status are treated as in substance a disposal in the Council's balance sheet. A loss on disposal of £2,931k has been recognised in the CIES in respect of the transfer of Alexandra School.

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

5.28.2.2 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 £1,067k in 2013-14 (£932k in 2012-13).

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

31-Mar-13 £000	Land and Buildings	31-Mar-14 £000
1,323	Not later than one year	**1,120**
3,736	Later than one year and not later than five years	**3,447**
13,913	Later than five years	**13,973**
18,972		**18,540**

5.29 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.

5.29.1 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 2014-15	797	203	1,098	265	42	2,404
Payable within 2 to 5 years	3,392	926	4,127	1,282	186	9,912
Payable within 6 to 10 years	4,739	1,295	4,369	2,393	316	13,112
Payable within 11 to 15 years	5,361	2,317	3,238	3,043	53	14,013
Payable within 16 + years	5,535	1,142	1,392	4,970	703	13,742
Total	**19,824**	**5,884**	**14,224**	**11,953**	**1,300**	**53,184**

5.29.2 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 2014-15	184	28	488	147	128	975
Payable within 2 to 5 years	784	220	1,826	635	686	4,151
Payable within 6 to 10 years	1,096	295	1,937	1,147	1,324	5,800
Payable within 11 to 15 years	1,240	668	1,389	1,494	1,770	6,562
Payable within 16 + years	1,701	421	644	2,454	2,572	7,793
Total	**5,005**	**1,633**	**6,284**	**5,877**	**6,481**	**25,280**

5.29.3 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 2014-15	1,231	460	1,692
Payable within 2 to 5 years	5,088	1,901	6,989
Payable within 6 to 11 years	6,740	2,519	9,260
Total	**13,059**	**4,881**	**17,940**

5.30 Members Allowances

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

2012-13 £000		2013-14 £000
824	Allowances	**815**
824	Total	**815**

5.31 Remuneration

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

5.31.1 Remuneration bands

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

Remuneration band	Number of Council Employes				Number of School Staff			
	Number in band 2013-14	Due to Lump Sum 2013-14	Number in band 2012-13	Due to Lump Sum 2012-13	Number in band 2013-14	Due to Lump Sum 2013-14	Number in band 2012-13	Due to Lump Sum 2012-13
£50,000 - £54,999	**23**	**6**	27	2	**43**	**0**	38	1
£55,000 - £59,999	**41**	**5**	52	0	**22**	**0**	23	1
£60,000 - £64,999	**11**	**4**	9	2	**9**	**2**	8	0
£65,000 - £69,999	**14**	**7**	10	0	**18**	**0**	15	0
£70,000 - £74,999	**6**	**4**	10	1	**8**	**1**	9	0
£75,000 - £79,999	**4**	**7**	2	0	**6**	**2**	4	0
£80,000 - £84,999	**2**	**0**	3	1	**6**	**0**	8	0
£85,000 - £89,999	**2**	**3**	4	1	**5**	**0**	5	0
£90,000 - £94,999	**5**	**2**	5	2	**5**	**0**	3	0
£95,000 - £99,999	**3**	**4**	1	0	**1**	**0**	3	0
£100,000 - £104,999	**1**	**1**	1	0	**1**	**0**	1	0
£105,000 - £109,999	**0**	**2**	0	1	**1**	**0**	0	0
£110,000 - £114,999	**0**	**2**	1	0	**0**	**0**	0	0
£115,000 - £119,999	**2**	**0**	2	0	**1**	**0**	1	0
£125,000 - £129,999	**0**	**3**	0	0	**0**	**0**	0	0
£140,000 - £144,999	**0**	**2**	0	0	**0**	**0**	0	0
£155,000 - £159,999	**0**	**1**	0	0	**0**	**0**	0	0
£210,000 - £214,999	**0**	**1**	0	1	**0**	**0**	0	0
	114	**54**	127	11	**126**	**5**	118	2

5.31.2 Senior officer remuneration

Position Held	Notes	Salary,(including Fees and Allowances) £ 2013-14	£ 2012-13	Benefits in Kind £ 2013-14	£ 2012-13	Total Remuneration excluding employers pension contributions £ 2013-14	£ 2012-13	Employers Pension Contribution £ 2013-14	£ 2012-13	Exit Payments £ 2013-14	£ 2012-13	Total Remuneration including employers pension contributions £ 2013-14	£ 2012-13
Michael Lockwood (Chief Executive)	1	167,838	189,550	568	1,084	168,406	190,634	32,477	35,589	30,000	0	230,883	226,223
		167,838	**189,550**	**568**	**1,084**	**168,406**	**190,634**	**32,477**	**35,589**	**0**	**0**	**230,883**	**226,223**

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) £ 2013-14	£ 2012-13	Benefits in Kind £ 2013-14	£ 2012-13	Total Remuneration excluding employers pension contributions £ 2013-14	£ 2012-13	Employers Pension Contribution £ 2013-14	£ 2012-13	Exit Payments £ 2013-14	£ 2012-13	Total Remuneration including employers pension contributions £ 2013-14	£ 2012-13
Corporate Director - Community, Health and Well Being	1	140,752	140,909	619	6,707	141,371	147,616	27,235	26,914	0	0	168,606	174,530
Corporate Director - Children and Families	2	137,137	140,909	0	0	137,137	140,909	26,536	26,914	35,001	0	198,674	167,823
Corporate Director - Environment and Enterprise		134,226	65,992	0	0	134,226	65,992	25,973	12,604	0	0	160,199	78,596
Corporate Director - Resources		126,657	121,638	619	1,084	127,276	122,722	24,508	23,233	0	0	151,784	145,955
Director - Legal and Democratic Services		132,280	130,172	619	1,084	132,899	131,256	24,494	23,995	0	0	157,393	155,251
Director - Finance and Assurance		113,325	2,132	0	0	113,325	2,132	21,928	407	0	0	135,253	2,539
Director - Public Health	3	127,095	0	0	0	127,095	0	17,793	0	0	0	144,888	0
		911,472	**601,752**	**1,857**	**8,875**	**913,329**	**610,627**	**168,467**	**114,067**	**35,001**	**0**	**1,116,797**	**724,694**

Note 1	The additional role of Head of Paid Service was delegated to the Corporate Director - Community, Health and Well Being from 1st December 2013 and Michael Lockwood left the Council on 28th February 2014.
Note 2	The Corporate Director - Children and Families left the Council on 28th March 2014.
Note 3	The Public Health function transferred from the NHS to Local Government on 1st April 2013.

5.32 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	
	2013-14	2012-13	**2013-14**	2012-13	**2013-14**	2012-13	**2013-14**	2012-13
							£000	£000
£0 - £20,000	**22**	2	**27**	0	**49**	2	**444**	16
£20,001 - £40,000	**18**	5	**11**	0	**29**	5	**844**	156
£40,001 - £60,000	**17**	8	**2**	0	**19**	8	**925**	371
£60,001 - £80,000	**8**	5	**0**	0	**8**	5	**552**	347
£80,001 - £100,000	**2**	4	**0**	0	**2**	4	**178**	358
£100,001 - £150,000	**0**	3	**0**	0	**0**	3	**0**	413
Total	**67**	27	**40**	0	**107**	27	**2943**	1661

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

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

	2013-14 £000	**2012-13 £000**
Exit Payment liabilities		
Exit payments not provided for in 2012-13	**2839**	0
Employment provision (note 5.19)	**104**	1,661
Liability where posts not yet identified	**0**	757
Included in cost of services	**2,943**	2,418

5.33 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:

2012-13 £000		**2013-14 £000**
	Fees Payable to external auditors in respect of:	
219	External audit services carried out by the appointed auditor for the year	**222**
43	Certification of grant claims and returns for the year	**40**
24	Other	**5**
286	Total	**267**

5.34 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 by the Department to fund academy schools in the local authority 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 2012.

Details of the deployment of DSG receivable for 2013-14 are as follows:

	Central Expenditure £000	ISB £000	**Total £000**
Final DSG allocation 2013-14			**-178,372**
Less			
Academy recoupment			**48,052**
Final DSG after recoupment 2013-14			**-130,320**
Surplus brought forward from 2012-13			-3,059
Carry forward retained for Early Years 2014-15			1,504
Carry forward 2012-13 earmarked for pupil growth			3,059
Agreed budgeted distribution in 2013-14	**-25,142**	**-103,674**	**-128,816**
Less			
Actual central expenditure	23,585		23,585
Actual ISB deployed to schools		103,554	103,554
Carry forward to 2014-15	**-1,557**	**-120**	**-1,677**
Surplus Carry forward to 2014-15			**-3,181**

5.35 Grants income

5.35.1 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:

2012-13 £000	Grant	Awarding Body	**2013-14 £000**
-125,796	Dedicated schools grant	Department for Education	**-126,712**
-3,024	Pupil Premium	Department for Education	**-5,041**
0	Adoption Improvement Grant	Department for Education	**-551**
-1,543	Private finance initiative	Education Funding Agency	**-1,543**
-597	Homelessness Grant	Department of Communities and Local Gov.	**0**
-475	Troubled Families Grant	Department of Communities and Local Gov.	**-539**
0	S31 Small Business Rate Relief	Department of Communities and Local Gov.	**-348**
-966	Private finance initiative	Department of Health	**-966**
-4,413	Adults Personal Social Services	Department of Health	**0**
0	Public Health	Department of Health	**-8,874**
-117,360	Rent Allowance	Department of Work and Pensions	**-122,501**
-2,018	Housing Benefit administration grant	Department of Work and Pensions	**-1,805**
-20,394	Council Tax Benefit	Department of Work and Pensions	**0**
0	Discretionary Housing Benefit	Department of Work and Pensions	**-1,223**
-20,026	HRA Rent Rebate	Department of Work and Pensions	**-21,956**
0	Social Fund Reform	Department of Work and Pensions	**-491**
-577	Unaccompanied Asylum Seekers Grant	Home Office - UK Border Agency	**-574**
-551	Community Learning Trust	Skills Funding Agency	**-322**
-2,811	EFA 6th Form Funding	Young People's Learning Agency	**-2,010**
-339	Transport for London schemes	Transport for London	**-382**
-2,256	Other		**-2,285**
-303,146			**-298,123**

5.35.2 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:

2012-13 £000	Grant	Awarding Body	2013-14 £000
-507	Adult Social Care Single Capital Pot	Department of Health	-522
-724	Devolved Formula Capital	Department for Education	-740
-13,004	LA Capital Maintenance and Basic Need Grant	Department for Education	-9,517
-438	2 Year Old Entitlement	Department for Education	0
-645	Disabled Facilities Grant	Department for Communities and Local Government	-515
-1,019	Local Implementation Plan	Transport for London	-1,601
0	Targeted Basic Needs	Department for Education	-1,339
-434	Harrow and North Harrow OLF	The Mayor's Targeted Funding Stream	-222
-377	Other		-348
-380	Section 20 Income		-210
-17,528	Total Capital Grants included in Comprehensive Income and Expenditure Account		-15,014

5.35.3 Capital grants receipts in advance

2012-13 £000	Grant - Capital	Awarding Body	2013-14 £000
-1,047	Devolved Formula Grant	Department for Education	-699
0	Targeted Basic Needs Grant	Department for Education	-8,164
-929	Section 106 Capital Receipts		-2,258
-408	Other Capital Grants		-251
-2,384			-11,372

5.36 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.

5.36.1 United Kingdom Government and other Local Authorities

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 significant 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
Harrow Association of Disabled People	Cllr Zarina Khalid Cllr Bill Phillips	Trustee Trustee	312	Grant Services
Harrow Community Radio	Cllr David Gawn Cllr Jean Lammiman	Director Director	3	Professional fees
Harrow Environmental Forum	Cllr Sue Anderson Cllr Ramji Chauhan Cllr Phillip O'Dell Cllr Asad Omar Cllr Stephen Wright	Appointee Appointee Appointee Appointee Appointee	4	Grant
Harrow Equalities Centre	Cllr Susan Hall Cllr Krishna James Cllr Jean Lammiman Cllr Asad Omar	Trustee Trustee Trustee Trustee	4	Grant Services
Harrow Heritage Trust	Cllr Marilyn Ashton Cllr Keith Ferry Cllr Janet Mote Cllr Navin Shah Cllr Simon Williams	Trustee Trustee Trustee Trustee Trustee	4	Grant
London Youth Games	Cllr Chris Mote Cllr David Perry Cllr Yogesh Teli	Appointee Appointee Appointee	9	Events

5.36.2 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 Susan Hall.

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 2013-14 was £122k (£182k in 2012-13).

2012-13 £000		2013-14 £000
6,768	Payments to WLWA	**7,727**
4,400	Cash Balances Invested With the Council as at 31 March 2014	**11,918**
2,927	Long Term Lending to WLWA	**2,379**

5.36.3 London Borough of Harrow Pension Fund

The Council is the Administering Authority for the Pension Fund.

2012-13 £000		2013-14 £000
15,161	Employers Pension Contributions to the Fund	**15,042**
-682	Administration expenses paid by the Fund	**-778**
3,778	Cash Due to the Fund	**1,679**

5.37 Road charging schemes under the Transport Act 2000

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.

2012-13 £000		2013-14 £000
-6,935	Penalty Charge Notices	**-6,805**
-1,188	On street meters	**-1,205**
-357	Residents Permits	**-406**
-8,480	Total income	**-8,416**
1,522	Enforcement contract/costs	**1,531**
1,136	Other expenditure	**1,160**
2,658	Total expenditure	**2,691**
-5,822	Total (surplus) for the year ending 31 March 2011	**-5,725**
	Utilisation of Surplus	
5,822	Concessionary fares	**5,725**
5,822		**5,725**

5.38 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 is the lead body for the Integrated Community Equipment Service (ICES) with the local Integrated Care Organisation:

2012-13 £000		2013-14 £000
	Funding provided to the pooled budget:	
-255	· Harrow Contribution	**-215**
-25	· Schools Contribution	**-33**
-57	· Misc Income	**-51**
-664	· Integrated Care Organisation	**-556**
-1,001		**-855**
	Expenditure met from the pooled budget:	
942	· Gross Expenditure	**820**
-59	Surplus for the year	**-35**

The Council is the lead body for the Public Health Service with Barnet Council. The Public Health Service transferred from the NHS to local authorities from 1st April 2013. The grant and expenditure on providing the Public health service therefore appears in the Council's accounts for the first time in 2013-14. The Council's surplus has been carried forward to fund future Public Health Service expenditure:

2012-13 £000			2013-14 £000
	Funding provided to the pooled budget		
0	·	Harrow Public Health Grant	-8,874
0	·	Barnet Public Health Grant	-13,798
0			**-13,798**
	Expenditure met from the pooled budget:		
0	·	Harrow public health expenditure	**8,208**
0	·	Barnet public health expenditure	**12,967**
0			**21,175**
	Surplus for the year		
0	·	Harrow	**-666**
0	·	Barnet	**-831**
			-1,497

5.39 Trust Funds

Trust funds do not represent assets of the Council and are therefore not included in the Balance Sheet.

The Council acts as a custodian for various trust funds. The balance of these trust funds in 2013-14 was £216k (£221k in 2012-13).

In addition the Council acts as administrator for the Edward Harvist Charity. Charity funds are held in a permanent endowment fund. Income from the investment is distributed to 5 Boroughs who then make grants to appropriate organisations and individuals for the public benefit to improve the lives of their residents. The value of Charity funds in 2013-14 was £8,656k (£7,576k in 2012-13).

5.40 Defined benefit pension schemes

5.40.1 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.

5.40.2 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 £276.764m have been recognised in the Movement in Reserves Statement for 2013-14 (£278.030m in 2012-13). Expected employer contributions for 2013-14 are £15.042m, excluding any contributions in respect of unfunded benefits. The movement in reserves in respect of retirement benefits is summarised in note 5.23.4.

The estimated employer's contributions for 2014/15 is £15.423m.

2012-13 £000		2013-14 £000
	Cost of Services:	
15,300	• current service cost	18,488
390	• past service costs	1,606
0	• settlements and curtailments	-454
	Financing and Investment Income and Expenditure	
33,525	• interest cost	35,875
-20,608	• interest income on scheme assets	-21,307
28,607	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**34,208**
	Other Post Employment Benefit Charged to the CIES	
	Remeasurements in net liability due to	
0	• changes in demographic assumptions	8,984
78,769	• changes in financial assumptions	20,084
-36,216	• return on plan assets	-36,595
-236	• changes in other experience	6,261
42,317		-1,266
70,924	Total Post Employment Benefit Charged to the CIES	**32,942**
18,080	Actual amount charged to the General Fund balance in the year	**17,979**

5.40.3 Reconciliation of present value of the scheme liabilities

The weighted average duration of the defined benefit obligation for scheme members is 17.0 years.

2012-13 £000		2013-14 £000
702,045	Opening balance at 1 April	806,824
15,300	Current service cost	18,488
33,525	Interest cost	35,874
5,228	Contributions by scheme participants	5,089
	Remeasurement (gains)/losses arsing from changes in:	
0	Demographic Assumptions	8,984
78,769	Financial Assumptions	20,084
-236	Other Experience	6,261
-28,197	Benefits paid	-30,210
0	Effect of settlements	-6,942
390	Past service costs	1,607
806,824	Closing balance at 31 March	**866,059**

5.40.4 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 £57.902m (2012-13: £56.824m).

2012-13 £000		2013-14 £000
431,758	Opening balance at 1 April	483,693
20,608	Interest income on plan assets	21,307
36,216	Remeasurement gain/(loss)	36,595
0	Effect of settlements	-6,488
18,080	Employer contributions	17,979
5,228	Contributions by scheme participants	5,089
-28,197	Benefits paid	-30,210
483,693	Closing balance at 31 March	**527,965**

5.40.5 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 £338.093m. 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.

	2013-14	2012-13	2011-12	2010-11	2009-10
	£000	£000	£000	£000	£000
Present value of liabilities	**-866,059**	-806,824	-702,045	-644,631	-775,538
Fair value of assets	**527,965**	483,693	431,758	432,124	429,100
Net deficit in the scheme	**-338,094**	-323,131	-270,287	-212,507	-346,438

5.40.6 Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the Projected Unit 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 2013. Refer to pension fund accounts note 9.4.14 for more information..

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:

2012-13		**2013-14**
	Long-term expected rate of return on assets in the scheme:	
4.5%	Equity investments	**7.1%**
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
21.6	Men	**22.1**
23.6	Women	**24.4**
	Longevity at 65 for future pensioners:	
23.6	Men	**24.5**
25.9	Women	**26.9**
	Financial assumptions:	
4.6%	Rate of increase in salaries	**4.1%**
2.8%	Rate of increase in pensions (CPI)	**2.8%**
4.5%	Rate for discounting scheme liabilities	**4.3%**
	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%**

5.40.7 Scheme Assets

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

31-Mar-13 %		31-Mar-14
12%	Debt Securities	**12.0%**
5%	Private Equity	**4.0%**
8%	Real Estate: UK Property	**8.0%**
	Investment Funds and Unit Trusts:	
71%	Equities	**66.0%**
0%	Other	**9.0%**
4%	Cash and Equivalents	**1.0%**
100%		**100%**

5.40.8 History of experience gains and losses

	2013-14 %	2012-13 %	2011-12 %	2010-11 %	2009-10 %
Differences between the expected and actual return on assets	**6.93**	6.78	-5.32	-5.61	24.72
Experience gains and (losses) on liabilities	**-0.72**	0.03	-1.41	4.03	-0.16

5.40.9 Sensitivity of the defined benefit obligation to changes in actuarial assumptions

	Increase in present value of scheme liabilities	
	%	£000
1 year increase in member life	3	25,982
0.5% increase in rate of increase in salaries	2	18,863
0.5% increase in the rate of increase in pensions	6	56,054
0.5% decrease in the real discount rate	9	75,567

5.41 Teachers' and NHS Pension Schemes

The Teachers' Pension Agency (TPA) provides retirement benefits for teachers on behalf of the Department for Education and Skills.

The NHS Pension Scheme provides retirement benefits for staff employed on NHS contracts. These staff transferred to the Council as part of the transfer of public health services on 1st April 2013. The Scheme is managed by the NHS Business Service Authority (NHSBSA) on behalf of the NHS.

The assets and liabilities for the Teachers' and NHS Schemes cannot be identified at individual employer level. Because of this they are accounted for on the same basis as a defined contribution scheme.

In 2013-14 the Council made £6.188m (£6.240m in 2012-13) of employer contributions to the TPA and £202k to the NHSBSA. The current contribution rates are at 14.1% (14.1% in 2012-13) for teacher's pensions and 14% for NHS pensions.

In addition, the Council is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2013-14 these amounted to £0.720m (£0.725m in 2012-13) for teacher's pensions representing 1.64% of pensionable pay. No payments were made for NHS pensions.

5.42 Financial instruments

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

	Long-term		Current	
	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
	£000	£000	£000	£000
Investments				
Loans and receivables	**22,000**	25,000	**75,245**	61,308
Cash and cash equivalents			**35,250**	18,422
Total investments	**22,000**	25,000	**110,495**	79,730
Debtors				
Loans and receivables	**2,636**	3,237	**0**	0
Financial assets carried at contract amounts	**0**	0	**9,300**	9,424
Total Debtors	**2,636**	3,237	**9,300**	9,424
Borrowings				
Financial liabilities at amortised cost	**-334,261**	-340,294	**-22,468**	-21,869
Total borrowings	**-334,261**	-340,294	**-22,468**	-21,869
Other Long Term Liabilities				
PFI and finance lease liabilities	**-19,962**	-21,878	**-4,030**	-2,083
Total other long term liabilities	**-19,962**	-21,878	**-4,030**	-2,083
Creditors				
Financial liabilities carried at contract amount	**0**	0	**-49,268**	-42,098
Total creditors	**0**	0	**-49,268**	-42,098

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 and exclude balances that relate to statutory functions. The balance of short term debtors excludes £9.18m (£10.69m in 2012-13). The creditors balance excludes £22.75m (£26.11m in 2012-13).

Income, Expense, Gains and Losses

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

	31-Mar-14	31-Mar-13
	£000	£000
Interest receivable on investments	**-1,881**	-1,921
Interest payable on borrowings	**14,951**	14,903
Interest payable on other long term liabilities	**2,064**	2,113
Impairment losses on debtors	**549**	784

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-14 Carrying Amount £000	31-Mar-14 Fair Value £000	31-Mar-13 Carrying Amount £000	31-Mar-13 Fair Value £000
Financial Liabilities	**-340,261**	**-330,224**	-350,261	-360,299
Financial Assets	**130,770**	**131,749**	103,230	105,592

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 2013-14 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 non-UK banks and financial institutions unless they are rated independently with a minimum score of AAA sovereign rating, A long term rating, F1 short term rating, or support level rating. 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-14 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31-Mar-14 %	Estimated maximum exposure to default and uncollectability 31-Mar-14 £000
UK Banks	**93,955**	0.00	0.15	**140**
Overseas Banks	**15,183**	0.00	0.00	**0**
UK Building Societies	**0**	0.00	0.00	**0**
UK Money Market Funds	**21,631**	0.00	0.00	**0**
Customers	**7,325**	5.73%	26.25%	**1,923**
Total	**138,094**			**2,063**

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-13 £000		Amount at 31-Mar-14 £000
3,240	Less than three months	**4216**
586	Three to six months	**418**
676	Six months to one year	**844**
2,189	More than one year	**1847**
6,691	**Total Debtors**	**7,325**

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 2012-13) held in the form of Lenders Option Borrowers Option (LOBOs) loans, at favourable rates (approximately 25% 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 weighted average balance of loans was £350.3m (£350.3m in 2012-13). A movement of 1% in the rate payable would not have exposed the Council to any additional interest cost as it does not currently hold any variable rate loans.

The average balance of investments was £150.8m (£117.0m in 2012-13). 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 £1.5m, although only two thirds of this would benefit the General Fund.

5.43 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 14^{th} 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

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.

2012-13 £000		Note	2013-14 £000	£000
	Expenditure			
7,203	Repairs and maintenance		8,064	
7,375	Supervision and mangement		8,343	
179	Rents, rates, taxes and other charges		243	
6,629	Depreciation of non current assets	6.2.3	7,309	
490	Impairment of non current assets		282	
-11,213	Reversal of past impairment losses	5.10.3	-6,921	
34	Debt management costs		35	
147	Movement in the allow ance for bad debts		143	
10,844	**Total Expenditure**			17,498
	Income			
-26,150	Dw elling rents (gross)	6.2.1	-27,780	
-596	Non-dw elling rents (gross)	6.2.2	-649	
-1,547	Charges for services and facilities		-2,107	
-862	Contributions tow ards expenditure		-974	
-29,155	**Total Income**			-31,509
-18,311	**Net cost of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement**			-14,011
389	HRA's share of Corporate and Democratic Core			398
-17,922	**Net cost of HRA Services**			-13,613
	HRA share of operating income & expenditure included in the Whole Authority Comprehensive Income & Expenditure Statement			
-965	(Gain) on sale of HRA Fixed Assets			-1,629
562	Pooling payments in respect of Right to Buy disposals			787
6,433	Interest payable and similar charges			6,434
-101	Interest & investment income			-63
-441	Capital grants & contributions receivable			-211
-12,434	**(Surplus) Deficit for the year on HRA services**			-8,295

Statement of Movement on the HRA Balance

2012-13 £000		Note	2013-14 £000
-2,791	**Balance on HRA at end of the previous year**		-3,175
-12,434	(Surplus) Deficit for the year on the HRA Income & Expenditure Statement		-8,295
932	Adjustment betw een accounting basis and funding basis under regulations	6.2.9	1,582
-11,502	Net increase or decrease before transfers to(/from) reserves		-6,713
11,118	Transfer to/(from) reserves	6.2.9	6,314
-384	**(Increase) Decrease in year on the HRA**		-399
-3,175	**Balance on HRA at end of the current year**		-3,574

6.2 Notes to the Housing Revenue Account

6.2.1 Dwelling Rents Income

This is the total income due for the year after allowance is made for voids etc. At year end 0.41% of lettable properties were vacant (0.69% in 2012-13). The average depooled rents were £106.88 per week in 2013-14 (£102.14 in 2012-13). There was an average rent increase of 4.64% over the previous year. The average increase, after taking into account service charges, was 4.58%.

6.2.2 Non-dwelling Rents

This includes garages. At the year-end 64.90% of garages were vacant compared with 55.28% in 2012-13.

6.2.3 Depreciation

	Land £000	Dwellings £000	Garages £000	Community Halls £000	Shops £000	Non operational assets £000	**Total 2013-14 £000**
Net book value as at 1 April 2013	92,969	181,633	9,273	3,394	3,281	69	**290,619**
Revaluations and restatements	4,291	9,826	-461	314	-23	0	**13,948**
Value at 31 March 2014	**97,261**	**191,459**	**8,812**	**3,708**	**3,259**	**69**	**304,566**
Disposals	-703	-1,305	-529	0	0	0	**-2,538**
Gross book value as at 31 March 2014	**96,558**	**190,153**	**8,282**	**3,708**	**3,259**	**69**	**302,029**
Depreciation for year	0	-6,776	-436	-74	-22	0	**-7,309**
Net book value as at 31 March 2014	**96,558**	**183,377**	**7,846**	**3,633**	**3,237**	**69**	**294,720**

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 2013 would have been £1,029.214m (£986.269m at 1 April 2012), therefore recognising the economic cost to the Government of providing Council housing at less than open market value of £771.910m (2012-13 £739.732m).

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, mainly garages, were £0.282m (2012-13 £0.490m). There was no amortisation of revenue expenditure funded from capital resources during the financial year. No non-operational land is held within the HRA.

6.2.4 Major Repairs Reserve

Councils are required to maintain a Major Repairs Reserve to fund capital expenditure. The main credit to the reserve is an amount equal to the total depreciation charge for HRA Assets.

	Balance 01-Apr-13 £000	Transfer to Reserve £000	Capital Expenditure £000	**Balance 31-Mar-14 £000**
Movements	-3,384	-7,309	6,111	**-4,582**

6.2.5 Capital Expenditure and Funding Statement

2012-13 £000		2013-14 £000
	HRA Capital Expenditure	
7,563	Dwellings & Garages	**6,261**
7,563	**Total**	**6,261**
	Financed by:	
7,393	Major Repairs Reserve	**6,111**
102	Capital receipts - Right to Buy, Affordable Housing & other	**150**
68	Grant - extensions and conversions	**0**
7,563	**Total**	**6,261**

6.2.6 Capital Receipts

Under the Local Government and Housing Act 1989 a proportion of receipts relating to housing disposals is payable to the Government. The balance can be used for new capital investment, construction of replacement housing or set aside to reduce the Council's underlying need to borrow.

2012-13 £000		2013-14 £000
0	**Balance at 1 April**	**584**
	Receipts in year:	
1,646	Houses, Mortgage Redemptions & other	**4,176**
-562	Paid to DCLG Pool	**-787**
-500	Applied in the year	**0**
584	**Balance at 31 March**	**3,973**

6.2.7 Pensions (IAS 19)

The HRA is charged with its share of current and past service pension 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.

Further details are provided in note 5.40.

6.2.8 Housing Revenue Account Statistics

2012-13 Total	Housing Stock	Houses	Flats	Bungalows	2013-14 Total
104	4 or more bedrooms	104	1	0	**105**
1,389	3 bedrooms	1,283	93	1	**1,377**
1,461	2 bedrooms	551	868	25	**1,444**
1,997	1 bedroom	0	1,853	136	**1,989**
4,951	LBH managed stock as at 1 April				**4,915**
958	Garages				**870**
	Summary of change in stock				
4,965	Stock as at 1 April				**4,951**
	Less				
-14	Sales				**-36**
0	Stock transfers				**0**
0	Conversions				**0**
4,951	**Total HRA stock at 31 March**				**4,915**
	Measures of performance & information for dosclosure notes to HRA				
£52.72	Average weekly costs per dwelling of management and maintenance				**£56.72**
£0.989m	Rent arrears (current and former tenants)				**£1.251m**
98.39%	Rent collection rate (BVPI 66a)				**98.78%**
0.50%	Current tenant arrears as percentage of the authorities rent roll (whether dwellings				**1.48%**
0.73%	Rent loss through voids				**0.44%**
£0.095m	Write offs in year				**£0.339m**
£0.757m	Provision for bad debts				**£0.558m**

6.2.9 Statement of Movement on the HRA Balance

2012-13 £000		2013-14 £000
	Adjustment between accounting basis and funding basis under regulations	
-33	Difference between amortisation of premiums & discounts determined in accordance with the Code and those determined in accordance with statute	**-47**
	Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	
965	Gain / (loss) on sale of HRA fixed assets	**1,629**
932		**1,582**
	Transfer to / (from) earmarked reserves	
	HRA share of contributions to/from Pensions reserve :	
-456	Net charges made for retirement benefits in accordance with IAS19	**-116**
456	Employer's contributions payable in the year	**0**
	Sums directed by the Secretary of State to be credited to the HRA that are not expenditure in accordance with the Code	
	Transfer to / (from) the Capital Adjustment Account	
11,213	Impairment	**6,887**
60	Capital expenditure funded by Grants	**0**
27	Voluntary set aside	**36**
-26	Finance Lease Depreciation	**-35**
-6,629	Depreciation transfer	**-7,309**
6,629	Transfer to / (from) the Major Repairs Reserve	**7,309**
	Transfers to/from Capital Reserves	
-562	Pooling payments to DCLG financed through capital reserves	**-787**
406	Other	**329**
11,118		**6,314**
12,050		**7,896**

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7 Collection Fund

This Collection Fund is an agent's statement that reflects the statutory obligations for the London Borough of Harrow, as billing authority, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from tax payers and distribution to local authorities (London Borough of Harrow and the GLA) and the Government of council tax and non-domestic rates.

Statement of Income and Expenditure

2012-13		2013-14		
		Business Rates & Crossrail	Council Tax	Total
£000		£000	£000	£000
	Income			
-113,626	Income from Council Tax	0	-121,162	-121,162
-20,140	Council Tax Benefits (transfer from General Fund)	0	0	0
-47,797	Income Collectable from Business Ratepayers	-51,137	0	-51,137
-1,220	Income Collectable from Business Ratepayers - BRS	-1,231	0	-1,231
-182,783	**Total Income**	-52,368	-121,162	-173,530
	Expenditure			
	Apportionment of Previous year surplus			
349	Harrow Council	0	1,048	1,048
1,335	Greater London Authority	0	271	271
	Precepts, demands and Shares			
104,583	Local Demand (Harrow)	14,725	93,039	107,764
28,246	Greater London Authority	11,041	23,293	34,334
47,543	Central Government	24,542	0	24,542
	Impairment of Debts/appeals			
1,361	Write offs of uncollectable amounts	1,087	1,118	2,205
-292	Allowance for impairment and appeals	1,685	1,048	2,733
262	Costs of Collection	263	0	263
183,387	**Total Expenditure**	53,343	119,817	173,160
604	Movement on Fund balance: Surplus(-)/Deficit for the year	975	-1,345	-370
-1,728	Surplus(-) brought forward		-1,124	-1,124
-1,124	**Surplus(-) carried forward**	975	-2,469	-1,494

7.1 Notes to the Collection Fund

7.1.1 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:

Band D Ratio	2012-13 Property Numbers	Council Tax £		Valuation Bands	Band D Ratio	2013-14 Property Numbers	Council Tax £
6/9	270	995.51	A =	Not exceeding £40,000	6/9	**211**	**1,008.85**
7/9	2,184	1,161.43	B =	£40,001 - £52,000	7/9	**1,373**	**1,177.00**
8/9	14,640	1,327.35	C =	£52,001 - £68,000	8/9	**11,329**	**1,345.13**
1	25,614	1,493.27	D =	£68,001 - £88,000	1	**22,102**	**1,513.28**
11/9	24,633	1,825.12	E =	£88,001 - £120,000	11/9	**22,427**	**1,849.56**
13/9	10,393	2,156.95	F =	£120,001 - £160,000	13/9	**9,930**	**2,185.85**
15/9	9,453	2,488.78	G =	£160,001 - £320,000	15/9	**9,326**	**2,522.13**
18/9	2,161	2,986.54	H =	£320,001 +	2	**2,147**	**3,026.56**
	89,348			**Total**		**78,845**	
	-1,208			Adjustment for non-collection		**-1,971**	
	88,140			**Council tax base**		**76,874**	

7.1.2 National Non-Domestic Rates

The Council acts as an agent, collecting non-domestic rates on behalf of the GLA and central government and, as a principal, collecting rates for itself. The surplus/deficit is split between the three parties according to their proportionate shares of non-domestic rate income.

The total non-domestic rateable value for the London Borough of Harrow at the year-end was £128.92m (£129.99m in 2012-13) and the national non-domestic rate multiplier for 2013-14 was 0.471 (0.433 in 2012-13).

7.1.3 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 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 2014 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 vision and priorities are reviewed annually and set out in the Corporate Plan. The Council's Corporate Plan 2013/14 was agreed in March 2013. The plan was underpinned by engagement with the community including (for example) “Lets Talk” events to explain the budget and seek views from residents.

The Corporate Plan set out the following four Corporate Priorities for 2013/14:

- 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.

Although there was a change of Administration in May 2013 the corporate vision and priorities remained the same however a further change in Administration in September 2013 brought in a new Administration who agreed a new set of priorities in February 2014 of Cleaner; Safer; Fairer in the new Corporate Plan for 2014/15. However there was no consultation with the local community and other key stakeholders other than the publication of the draft budget in December 2013 with a view to seek external views on it before agreement in February 2014.

Following elections in May 2014 and a new Administration a new vision and priorities were agreed at Council on 12th June 2014. The vision and priorities are based on the new Administrations understanding of the views of local residents developed by listening to many people, from community groups, women’s groups, businesses and trade unions over the last year.

In October 2013 consultation was launched on the deletion of the Chief Executive post and a final decision taken to delete it and replace it with a Head of Paid Service combined with an existing Corporate Director post by Cabinet in December 2013 and ratified by full Council. The Chief Executive subsequently left the Council in February 2014 and was replaced on an interim basis by the Head of Paid Service and Corporate Director of Health and Wellbeing.

Harrow Council works in partnership with many different organisations, both public and private sector, to deliver the best outcomes for our community. For many years and for the first half of 2013/14 the Harrow Strategic Partnership (HSP) was in place as an umbrella conduit for change to improve the social, economic, environmental, health, education, and community safety needs of the communities of Harrow. This was supported by a number of key boards including the Health and Wellbeing Board (although technically the Health and Wellbeing Board did not report to the HSP), the Safer Harrow Board and the Harrow Chief Officer Group. Over the years, as the partnerships have developed, the need for an umbrella board has diminished and thus in September 2014 the Harrow Strategic Partnership Board was abolished to streamline the decision making and governance arrangements for our partnerships with other public sector bodies.

The Council also has a number of shared service arrangements and commercial partnership arrangements in place to help deliver the best outcomes for our community in terms of costs and service delivery. Each of these has governance structures in place, designed as appropriate for the individual arrangement.

The development of the medium term financial strategy continues to be extremely challenging because:

- The Government’s deficit reduction strategy is making significant reductions in the funding available to local authorities
- Changes to the way the Government funds local authorities are transferring significant risks to local authorities that were previously borne by Central Government
- Harrow is already a relatively low spending council
- Considerable savings have been made in previous years and this makes it increasingly difficult to identify new areas for efficiencies and reductions
- The demand for services from our residents and expectations from central government are growing all the time

During 2013/14 as part of its preparations for meeting savings targets in 2014/16 and beyond the Resources Directorate launched Project Minerva to review outsourcing, in house and shared services options for the delivery of its services. The conclusions were reported to Cabinet in January 2013.

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 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 improvements as part of their commissioning plans, considered by 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 responsibilities, committee terms of reference and details of the statutory obligations (Head of Paid Service, Directors of Children's, Adult Social Services, Director of Public Health, Chief Financial Officer (S151 Officer), Monitoring Officer and Returning Officer).

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 June 2014.

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
- Resources

The function is driven by the need to hold the council and our partners to account both for their policy direction and performance. 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 webpages 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 Corporate risk register is reviewed by the Corporate Strategy Board and the Governance, Audit and Risk Management Committee on a quarterly basis. All Directorates have risk registers and these are reviewed by Directorate Management Teams regularly and the Improvement Boards quarterly.

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 on a permanent basis in March 2013. Throughout 2013/14 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 to the Chief Executive (Head of Paid Service) on matters relating to his statutory role. The CFO sits on the Corporate Strategy Board. 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. The arrangements for the discharge of the Head of Paid Service is covered in the constitution and this role was fulfilled by the Chief Executive until February 2014 and by the interim Head of Paid Service for the rest of the year and to date.

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. The membership of the committee was stable throughout the year although the Chair changed in July 2013. As the political make-up of the Council changed in May 2014 the GARM Committee membership will change. This will be managed by providing general and specific member training to committee members to enable then to fulfil their role.

A whistleblowing policy exists and was last reviewed in 2013/14. 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 to development is also available to all members via e-learning. Monitoring of the Member Development Programme and evaluation of development activities is undertaken quarterly by the Member Development Panel, 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 2013/14 a new corporate development programme was designed and launched, with improved attendances. Each development activity is evaluated and the programme updated quarterly.

The Council's Involvement Tracker seeks residents' opinions on a wide range of service and community issues. 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 moved to the Council's Communications team, which has enabled a greater consistency on the approach and delivery of consultations.

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;
- 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 will be 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 and significant governance identified by this process will be outlined in paragraph 8.9.

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 draft overall audit opinion for the Council's control environment for 2013/14 was assessed as "good". The detailed report setting out the reasoning behind this assessment will be considered by the Governance, Audit and Risk Management Committee (GARM) in July 2014.

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 process was further enhanced in 2013/14 to provide a narrative for each risk.

This process has yet to be completed. The outcome will be reported in the final AGS.

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 2013/14 has identified no significant governance gaps and 14 minor gaps of which 12 were carried forward from 2012/13. Significant progress has been made toward closing the majority of the carried forward gaps during 2013/14 in addition to closing the other 11 gaps, including 1 significant gap, identified as part of the 2012/13 process.

An action plan will be agreed as part of this process to address the gaps identified to further enhance our governance arrangements and reported with the final AGS.

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.

9 Pension Fund Accounts

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2013-14

I certify that the accounts set out in Section 9 present fairly the financial position of the Pension Fund as at 31 March 2014 and its income and expenditure for the year.

Simon George BA(HONS) ACMA ACMT

Director of Finance and Assurance

30 June 2014

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 for 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 administering 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 Employer

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 Employer

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.

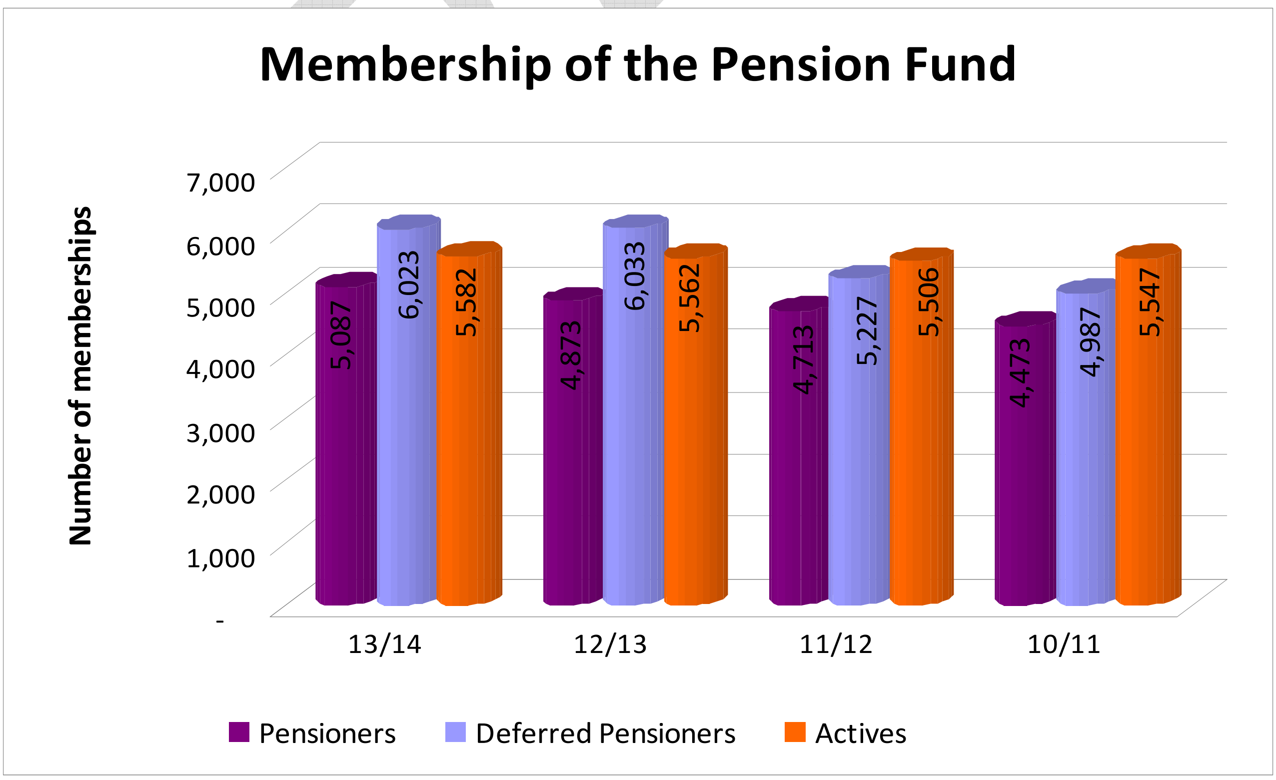
The scheduled and admitted employers to the fund are listed in the table on the following page.

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

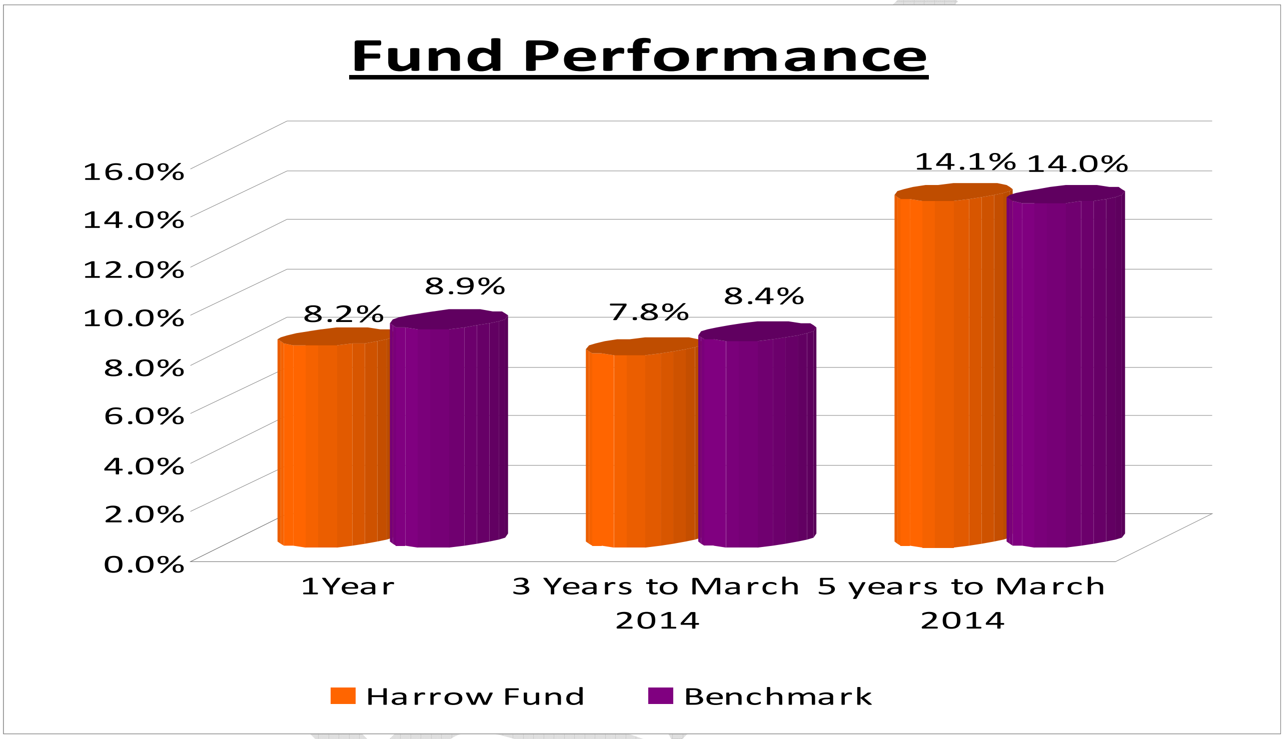
Employer	Status	Employees	Deferred	Pensioners	Total	%
Harrow Council	Scheduled	4,272	5,297	4,804	14,373	86.12
Alexandra School	Scheduled	32	1	0	33	0.20
Avanti Free School	Scheduled	15	1	0	16	0.10
Bentley Wood School	Scheduled	53	35	6	94	0.56
Canons High School	Scheduled	86	23	5	114	0.68
Harrow College	Scheduled	176	235	128	539	3.23
Harrow High School	Scheduled	91	19	3	113	0.68
Hatch End High School	Scheduled	81	110	6	197	1.18
Jubilee Academy	Scheduled	16	2	0	18	0.11
Krishna Avanti Primary School	Scheduled	19	0	0	19	0.11
North London Collegiate School	Scheduled	71	19	26	116	0.69
Nower Hill High School	Scheduled	145	57	2	204	1.22
Park High School	Scheduled	67	26	2	95	0.57
Rooks Heath College	Scheduled	113	21	2	136	0.81
St Dominics 6th Form College	Scheduled	50	20	30	100	0.60
Salvatorian College	Scheduled	57	26	3	86	0.51
Stanmore College	Scheduled	102	116	60	278	1.66
Capita Business Services Ltd	Admitted	11	4	5	20	0.12
Carillion Services	Admitted	87	4	4	95	0.57
Family Action	Admitted	2	0	0	2	0.01
Granary Kids	Admitted	2	1	0	3	0.02
Govindas	Admitted	5	0	0	5	0.03
Harrisons Catering	Admitted	22	3	0	25	0.15
Julius Rutherfoord & Co	Admitted	1	2	1	4	0.03
Linbrook Services Ltd	Admitted	4	1	0	5	0.03
Temco Facilities Services Ltd	Admitted	2	0	0	2	0.01
	Total	**5,582**	**6,023**	**5,087**	**16,692**	**100**



Responsibility for the overall direction of the Fund's investment policy rests with the Council's Pension Fund Committee. In implementing the Fund's investment policy, the Council has appointed 10 investment managers with responsibility to deal at discretion within broad investment objectives laid down by the Council. These are Aviva Investors Global Services Limited, Baring Asset Management, BlackRock Investment Management (UK) Limited, Fidelity Worldwide Investments, Longview Partners, Pantheon Ventures, Record Currency Management Limited, Standard Life Investments, State Street Global Advisors Limited and Wellington Management Company.

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 equities, property and private equity all providing returns in excess of 10%. Returns over all three time periods were strong, reflecting recovery from the significantly lower returns achieved at the height of the financial crisis in 2008.

The fund has moderately underperformed against its benchmark over the last three years due primarily to the significant underperformance of one of the equity managers.

The average local authority fund (as measured by WM Performance Services) returned 6.4% on its assets during the year. The Fund was ranked 19th in the local authority annual league table of investment returns for the year. The Council’s asset allocation added 0.2% to the return relative to the local authority universe whilst the successful stock selection by some of the managers realised a relative outperformance of 1.6%.

9.3 London Borough of Harrow Pension Fund Account

9.3.1 Pension Fund Account for the year ended 31st March 2014

2012-13 £000		Notes	2013-14 £000
	Contributions and Benefits		
-25,351	Contributions receivable	9.4.2	**-25,458**
-1,279	Individual transfers in from other schemes		**-2,874**
24	Other income		**-306**
	Less:		
26,716	Benefits payable	9.4.3	**31,259**
1,062	Payments to and on account of leavers	9.4.4	**1,074**
827	Administrative expenses	9.4.5	**981**
1,999	**Net additions from dealings with members**		**4,676**
	Returns on Investments		
-4,833	Investment income	9.4.6	**-7,468**
-60,112	Change in market value of investments	9.4.7	**-35,562**
-339	Investment management expenses	9.4.5	**-236**
-65,284	**Net Returns on Investments**		**-43,266**
-63,285	Net (Increase)/decrease in Fund during the year		**-38,590**
-488,942	Net assets at start of year		**-552,227**
-552,227	**Net assets at end of year**		**-590,817**

9.3.2 Net Assets Statement

2012-13 £000		Notes	2013-14 £000
	Investment Assets		
531,020	Pooled investment vehicles	9.4.9	**583,565**
865	Derivative contracts	9.4.10	**1,351**
531,885			**584,916**
	Investment Liabilities		
-3,139	Derivative contracts	9.4.10	**-238**
528,746			**584,678**
20,117	Cash deposits	9.4.7	**4,873**
548,863	**Net Investment Assets**		**589,551**
3,974	Current assets	9.4.12	**2,000**
-610	Current liabilities	9.4.12	**-734**
552,227	**Net assets of the Fund available to fund benefits at 31 March 2014**		**590,817**

The accounts summarise the transactions of the Fund and show the value as at 31st March 2014 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

9.4.1 Accounting Policies

The accounts have been compiled in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and following guidance in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised May 2007).

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 2014;
- Investments in pooled investment vehicles are stated at the bid value of the latest prices quoted by their respective managers;
- 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; and
- There are no published price quotations available to determine the value of the Fund's private equity holdings. The value of these holdings is therefore assessed by the manager as at 31 December 2013 and adjusted for drawdowns paid and distributions received in the period 1 January 2014 to 31 March 2014.

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.

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

The items in the Net Assets Statement as at 31 March 2014 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.	Total property and private equity investments disclosed in the accounts amount to £69.7m. A 10% change in value will result in a change in value of +/- £7 million.
Actuarial present value of promised retirement benefits	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 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 £76m. An increase of 0.5% in assumed salary or pension inflation would increase the pension liability by approximately £19m and £56m respectively. A one year increase in assumed life expectancy would increase the pension liability by approximately £26m.

Critical judgements in applying accounting policies

The most significant judgements in applying accounting policies are as follows:

<u>Unquoted private equity investments</u>

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.

<u>Actuarial present value of promised retirement benefits</u>

The actuarial present value of promised retirement benefits, as disclosed in note 9.4.14, 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 9.4.14 is subject to significant variances depending on the assumptions adopted.

9.4.2 Contributions Receivable

2012-13 £000		2013-14 £000
	Employers - normal	
-15,161	London Borough of Harrow	**-15,042**
-3,330	Scheduled Bodies	**-3,756**
-494	Admitted Bodies	**-344**
	Members - normal	
-5,225	London Borough of Harrow	**-5,094**
-1,024	Scheduled Bodies	**-1,137**
-117	Admitted Bodies	**-85**
-25,351		**-25,458**

9.4.3 Benefits Payable

2012-13 £000		2013-14 £000
	Pensions	
21,085	London Borough of Harrow	**22,359**
709	Scheduled Bodies	**868**
141	Admitted Bodies	**69**
21,935		**23,296**
	Commutation of Pensions and Lump Sum Retirement Benefits and Commitments	
3,840	London Borough of Harrow	**5,909**
288	Scheduled Bodies	**625**
24	Admitted Bodies	**423**
4,152		**6,957**
	Lump Sum Death Benefits	
611	London Borough of Harrow	**841**
18	Scheduled Bodies	**135**
	Admitted Bodies	**30**
629		**1,006**
26,716		**31,259**

9.4.4 Payments to and on Account of Leavers

2012-13 £000		2013-14 £000
2	Refunds to members	**17**
1,060	Individual transfers to other schemes	**1,057**
1,062		**1,074**

9.4.5 Investment Management and Administration Expenses

2012-13 £000		2013-14 £000
-339	Investment management expenses	**-236**
	Scheme administration	
682	London Borough of Harrow	**778**
145	Miscellaneous (including Actuary Fees)	**203**
827	**Total Administration Expenses**	**981**
488	**Total Expenses**	**745**

9.4.6 Investment Income

2012-13 £000		2013-14 £000
-4,628	Income from pooled investment	**-7,407**
-205	Interest on cash deposits	**-61**
-4,833		**-7,468**

9.4.7 Investments

	Value at 01-Apr-13 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 31-Mar-14 £000
Pooled Investment Vehicles					
Property	41,905	0	0	3,146	45,051
Other	489,115	57,804	-35,202	26,797	538,514
Derivatives	-2,274	1,508	-3,740	5,619	1,113
	528,746	**59,312**	**-38,942**	**35,562**	**584,678**
Cash Deposits	20,117				4,873
	548,863				**589,551**

The change in market value reflects higher valuations for equities partly offset by a fall in the value of the bond holdings.

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

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.

	2013-14 £000	2013-14 %	**2012-13** £000	2012-13 %	
Aviva	**45,051**	**8**	41,905	8	UK Property
State Street	**155,512**	**27**	142,591	27	UK Equities Passive
BlackRock	**72,035**	**12**	72,059	14	Corporate and Index-linked bonds
Fidelity	**68,381**	**12**	98,872	18	Global Equities
Longview	**49,507**	**8**	40,109	7	Global Equities
Wellington	**113,911**	**19**	109,156	21	Global Equities
Barings	**26,630**	**5**	0	0	Alternatives
Standard Life	**27,890**	**5**	0	0	Alternatives
Pantheon	**24,648**	**4**	26,328	5	Private Equity
Record	**1,113**	**0**	-2,274	0	Passive currency
Total Fund	**584,678**	**100**	528,746	100	

Bank Balances of £4.873m at 31 March 2014 (£20.117m at 31 March 2013) are excluded from the above table.

9.4.8 Investments Exceeding 5% of the Total Value of Net Assets

2012-13 £m		2013-14 £m
142.6	SSGA MPF UK Equity Index Sub-Fund	**155.5**
109.2	Wellington Global Pooled Value Equity Portfolio	**113.9**
86.8	Fidelity Institutional Select Global Pooled Equities	**61.2**
57.5	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	**57.6**
40.1	Longview Partners Invest - Global Pooled Equities FD K Class	**49.5**
41.9	Aviva Investors UK Real Estate Fund of Funds Open Ended	**45.1**
478.1		**482.8**

9.4.9 Pooled Investment Vehicles

2012-13 £000		2013-14 £000
	UNITED KINGDOM	
	Managed funds - Property	
41,905	Unit Trusts	**45,051**
	Managed funds - Other	
142,592	Unitised Insurance Policy	**155,513**
	Fixed interest securities	
57,527	Corporate	**57,566**
	Index linked securities	
14,532	Public Sector	**14,468**
	GLOBAL	
	Managed funds - Other	
149,265	Unit Trusts	**191,308**
125,199	Other	**119,659**
531,020	**TOTAL**	**583,565**

9.4.10 Derivatives

2012-13 £000		2013-14 £000
	Investment Assets	
865	Forward foreign exchange contracts	**1,351**
	Investment Liabilities	
-3,139	Forward foreign exchange contracts	**-238**
-2,274	**Net Derivatives**	**1,113**

Counterparty	Duration	No. of Contracts	Value at 31-Mar-14 Assets £000	Liabilities £000
Barclays Bank - London	7 days - 7 mths	**5**	**377**	**-41**
Deutsche Bank - London	7 days - 6 mths	**4**	**567**	**-17**
Northern Trust	7 days - 6 mths	**6**	**246**	**-6**
Royal Bank of Canada - London	7 days - 6 mths	**9**	**48**	**-8**
Standard Chartered	7 days - 3 mths	**7**	**10**	**-11**
State Street - London	3 mths - 6 mths	**5**	**6**	**-42**
Toronto Dominion - Toronto	7 days - 6 mths	**5**	**49**	**-60**
Westpac - Sydney	7 days - 6 mths	**5**	**48**	**-53**
		46	**1,351**	**-238**

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. Non sterling currency exposure hedged at the year end is £105m. The main currency exposures before hedging in sterling are US$ £55m, Yen £17m and Euro £13m.

9.4.11 Additional Voluntary Contributions (AVCs)

Members of the Fund are able to accrue additional benefits through the payment of AVCs, which are invested outside 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.

2012-13		2013-14
2,099	Value of AVC Fund at 1 April	**2,211**
356	Employee contributions	**371**
107	Investment income and change in market value	**86**
0	Transfer values in	**10**
-351	Benefits paid and transfers out	**-268**
2,211	**Value of AVC Fund at 31 March**	**2,410**

9.4.12 Current Assets & Liabilities

2012-13 £000		2013-14 £000
	Current Liabilities	
-149	Unpaid benefits	**-154**
-461	Other unpaid liabilities	**-580**
-610		**-734**
	Current Assets	
3,778	Cash balances held by London Borough of Harrow	**1,678**
177	Contributions due from employers	**283**
19	Other current assets	**39**
3,974		**2,000**
3,364	**Net Current Assets**	**1,266**

9.4.13 Related Party Transactions

2012-13 £000		2013-14 £000
-15,161	Employer's pension contribution to the Fund	**-15,042**
682	Administration expenses paid to the Council	**778**
3,778	Cash held by Council	**1,678**

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 Fund some transactions continue to be processed through the Council's bank account and as such these balances are settled on a monthly basis.

9.4.14 Actuarial Valuation

An actuarial valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £552m and the total accrued liabilities of the Fund were £786m. The Fund deficit was therefore £234m, producing a funding level of 70.3% (compared to 73.5% at 31 March 2010).

To reach the funding level of 100% over a period of 20 years, the common employer's contribution rate is 34.4% 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 2013 actuarial valuation are detailed below:

Assumption	
Price inflation (CPI)	2.5%
Pay increases	3.8%
Gilt based discount rate	3.0%
Funding basis discount rate	4.6%
Longevity at 65 for current pensioners:	
Male	22.1 years
Female	24.4 years
Longevity at 65 for future pensioners:	
Male	24.5 years
Female	26.9 years

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 employer's contributions.

9.4.15 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 2014 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:

2012-13		2013-14
2.8%	Rate of inflation	**2.80%**
4.6%	Rate of increase in salaries	**4.10%**
2.8%	Rate of increase in pensions	**2.80%**
4.5%	Rate for discounting scheme liabilities	**4.30%**

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 2013. The liability at 31 March 2014 (£824m) has been estimated by the actuary as comprising £314m in respect of employee members, £148m in respect of deferred pensioners and £362m 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.

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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
GARMSC	Governance, Audit, Risk Management Committee
GDP	Gross Domestic Product
HRA	Housing Revenue Account
IASB	International Accounting Standards Board
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
LGPS	Local Government Pension Scheme
LOBO	Lenders Option Borrowers Option
MMI	Municipal Mutual Insurance
MRP	Minimum Revenue Provision
MTFS	Medium Term Financial Strategy
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
WLWA	West London Waste Authority

10.3 Service Reporting Code of Practice (SERCOP)

Division of Service	2013-14 Gross Expend.	2013-14 Gross Income	2013-14 Net Expend.	2012-13 Net Expend.
Service Reporting Code of Practice Summary	£000	£000	£000	£000
Central Services	5,310	-3,374	1,936	3,389
Court Services	216	0	216	161
Cultural and Related Services	13,013	-3,105	9,908	10,387
Environmental and Regulatory Services	19,649	-2,928	16,721	15,952
Planning Services	7,159	-3,540	3,619	5,684
Education and Children's Services	171,218	-155,782	15,436	42,459
Highw ays & Transport Services	31,015	-13,250	17,765	17,519
Housing Services - general fund	163,401	-151,736	11,665	9,405
Housing Services - HRA	17,498	-31,509	-14,011	-18,311
Adult Social Care	76,720	-14,634	62,086	56,576
Public Health	9,209	-8,874	335	0
Corporate and Democratic Core	9,211	-771	8,440	9,288
Non Distributed Costs	1,681	-247	1,434	951
Cost of Services	**525,300**	**-389,750**	**135,550**	**153,460**
Other items			**-168,033**	**-179,455**
Surplus or Deficit on the Provision of Services			**-32,483**	**-25,995**
Central Services				
Local Tax Collection	3,136	-1,333	1,803	2,482
Registration of Births, Deaths and Marriages	1,093	-1,168	-75	81
Elections	259	199	458	632
Emergency Planning	233	-23	210	242
Local Land Charges	401	-558	-157	-48
General Grants Bequests and Donations	16	0	16	0
Local Welfare Assistance Schemes	172	-491	-319	0
	5,310	**-3,374**	**1,936**	**3,389**
Court Services				
Coroners' Court Services	216	0	216	161
	216	**0**	**216**	**161**
Cultural and Related Services			0	
Culture and Heritage	2,001	-814	1,187	1,260
Recreation and Sport	1,140	-1,054	86	1,047
Open Spaces	3,996	-1,036	2,960	2,459
Library Service	5,876	-201	5,675	5,621
	13,013	**-3,105**	**9,908**	**10,387**
Environmental and Regulatory Services				
Cemetery, cremation and mortuary services	637	-362	275	296
Community safety (Crime Reduction)	401	-69	332	271
Community Safety (CCTV)	602	-1	601	599
Flood Defence and Land Drainage	1,303	-261	1,042	761
Street Cleansing (Not chargeable to highw ays)	4,370	0	4,370	5,660
Waste Collection	3,257	-65	3,192	2,928
Trade Waste	298	-541	-243	-185
Recycling	4,165	-577	3,588	1,535
Climate Change Costs	576	-261	315	270
Regulatory Services	2,990	-651	2,339	2,742
Waste disposal	1,050	-140	910	1,075
	19,649	**-2,928**	**16,721**	**15,952**

Division of Service	2013-14 Gross Expend. £000	2013-14 Gross Income £000	2013-14 Net Expend. £000	2012-13 Net Expend. £000
Planning Services				
Building Control	1,057	-649	408	351
Development Control	3,333	-2,344	989	1,253
Planning Policy.	689	-58	631	2,004
Environmental initiatives	0	0	0	37
Economic Development	815	-238	577	494
Community Development	1,265	-251	1,014	1,564
Business Support	0	0	0	-19
	7,159	**-3,540**	**3,619**	**5,684**
Children's and Education Services				
Early years	13,479	-8,899	4,580	4,046
Primary Schools	69,596	-97,816	-28,220	3,014
Secondary Schools	15,395	-15,300	95	1,092
Special Schools	25,624	-24,125	1,499	-1,006
Services to Young People & Other Community Learners	3,412	-228	3,184	2,159
Management and support services	0	0	0	2,482
Service Strategy	0	0	0	2,391
Commissioning and social w ork	0	0	0	357
Children looked after	8,809	-710	8,099	8,186
Family support services	3,244	-503	2,741	130
Youth justice	944	-280	664	582
Asylum seekers	1,566	-635	931	749
Other children's and families' services and Young people's Safety	12,941	-1,068	11,873	11,340
Other School-related Education Services	16,208	-6,218	9,990	6,937
	171,218	**-155,782**	**15,436**	**42,459**
Highw ays and Transport Services				
Transport planning, policy and strategy	652	-954	-302	143
Structural Maintenance	1,166	-180	986	6,060
Environment Safety and Routine Maintenance	8,571	-1,095	7,476	2,133
Street Lighting	1,961	-4	1,957	1,926
Winter Service	360	-53	307	323
Traffic Management and Road Safety: Education and Safe Routes	84	0	84	3,595
Traffic Management and Road Safety: Other	3,997	-882	3,115	0
Parking Services	4,330	-10,047	-5,717	-5,929
Public Transport	9,894	-35	9,859	9,268
	31,015	**-13,250**	**17,765**	**17,519**
Housing Services				
Housing strategy, advice, advances, enabling, renew als and licensing	1,919	-31	1,888	2,769
Homelessness	8,561	-3,831	4,730	2,510
Housing benefits payments	143,601	-144,416	-815	-513
Housing benefits administration	5,213	-3,355	1,858	937
Contribution to the HRA re:items shared by the w hole community	0	0	0	163
Other council property	4	-3	1	6
Supporting People	4,103	-100	4,003	3,533
Housing Revenue Account	17,498	-31,509	-14,011	-18,311
	180,899	**-183,245**	**-2,346**	**-8,906**

Division of Service	2013-14 Gross Expend. £000	2013-14 Gross Income £000	2013-14 Net Expend. £000	2012-13 Net Expend. £000
Adult Social Care				
Service Strategy	222	0	222	468
Older people(Aged 65 or over) including older mentally ill	35,870	-8,183	27,687	27,813
Adults aged under 65 with a physical disability or sensory impairment	10,032	-2,257	7,775	7,123
Adults aged under 65 with a learning disabilities	24,857	-3,860	20,997	14,725
Adults aged under 65 with mental health needs	5,739	-334	5,405	5,725
Other adult services	0	0	0	722
	76,720	**-14,634**	**62,086**	**56,576**
Public Health				
Sexual Health	3,387	-3,239	148	0
NHS Health Check Programme	386	-568	-182	0
Health Protection	16	-27	-11	0
National Child Measurement Programme	13	-18	-5	0
Public Health Advice	35	-115	-80	0
Obesity	40	-62	-22	0
Physical Activity	58	-89	-31	0
Substance Misuse	3,336	-2,893	443	0
Smoking & Tobacco	260	-364	-104	0
Children 5-19 Public Health Programmes	768	-727	41	0
Misc Public Health Services	910	-772	138	0
	9,209	**-8,874**	**335**	**0**
Corporate and Democtratic Core				
Democratic Representation and Management	4,050	-399	3,651	3,952
Corporate Management	5,161	-372	4,789	5,336
	9,211	**-771**	**8,440**	**9,288**
Non Distributed Costs				
Retirement Benefits	1,681	-247	1,434	951
	1,681	**-247**	**1,434**	**951**

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London Borough of Harrow Pension Fund

Annual Report 2013 - 2014

CONTENTS

Appendices

1. Introduction

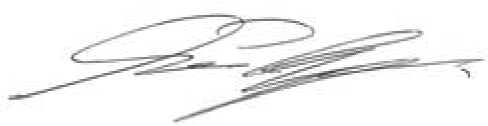
The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the London Borough of Harrow Fund (‘the Fund’) for the financial year to 31 March 2014. This report also explains the administration and management of the Fund, the investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Fund is provided by the net assets statement. The actuarial funding level is reported in paragraph 12.14 and in the Statement of the Consulting Actuary.

The Pension Fund Committee is responsible for overseeing the management, administration and strategic direction of the Fund. The Committee 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.

During 2013-14, overall, equity markets continued to perform strongly with most developed markets producing returns approaching 20% in local currency, though some of this return was eroded for UK investors in the US and Japan by the relative strength of Sterling against the Dollar and the Yen. UK equities were below the overseas average but still returned 11% for the year. UK bonds realised only their third year of negative results in the last twenty whilst, on the other hand, property returned 11% for the year.

The market value of the Fund as at 31 March 2014 was £590.8m compared to £552.2m as at 31 March 2013. The Fund was ranked 19th in the local authority annual league table of investment returns for the year.



Simon George BA(HONS) ACMA ACMT

Director of Finance and Assurance
30 June 2014

2. Audit Opinion and Certificate

3. Scheme Management and Advisors

Administering Authority	London Borough of Harrow
Pension Fund Committee	Councillor Richard Romain (Chairman) Councillor Keith Ferry (Vice Chairman) Councillor Sachin Shah Councillor Tony Ferrari
Co-optees	Howard Bluston Stephen Compton – UNISON Pamela Belgrave - GMB
Officer	Simon George, Director of Finance and Assurance
Actuary	Hymans Robertson LLP
Investment Consultant	Aon Hewitt
Investment Managers	Aviva Investors Global Services Limited Baring Asset Management BlackRock Investment Management (UK) Limited Fidelity Worldwide Investments Longview Partners Pantheon Ventures Record Currency Management Limited Standard Life Investments State Street Global Advisors Limited Wellington Management Company.
AVC Providers	Clerical and Medical Equitable Life Assurance Society Prudential Assurance
Custodian	JP Morgan and Bank of New York Mellon
Auditor	Deloitte LLP
Performance Measurement	WM Company
Bankers	The Royal Bank of Scotland

4. Scheme Overview

The London Borough of Harrow Pension Fund is part of the Local Government Pension Scheme (LGPS) which is governed by various regulations. Its benefits are therefore defined and guaranteed in law. The LGPS is contracted out of the State Second Pension (S2P) and must, in general, provide benefits at least as good as most members would have received had they been members of S2P.

The London Borough of Harrow Pension Fund is a funded pension scheme which means that contributions into the Fund are made by employers and employees which are then used to make investments upon which a return is anticipated. Benefits are paid using the Fund's cash flow.

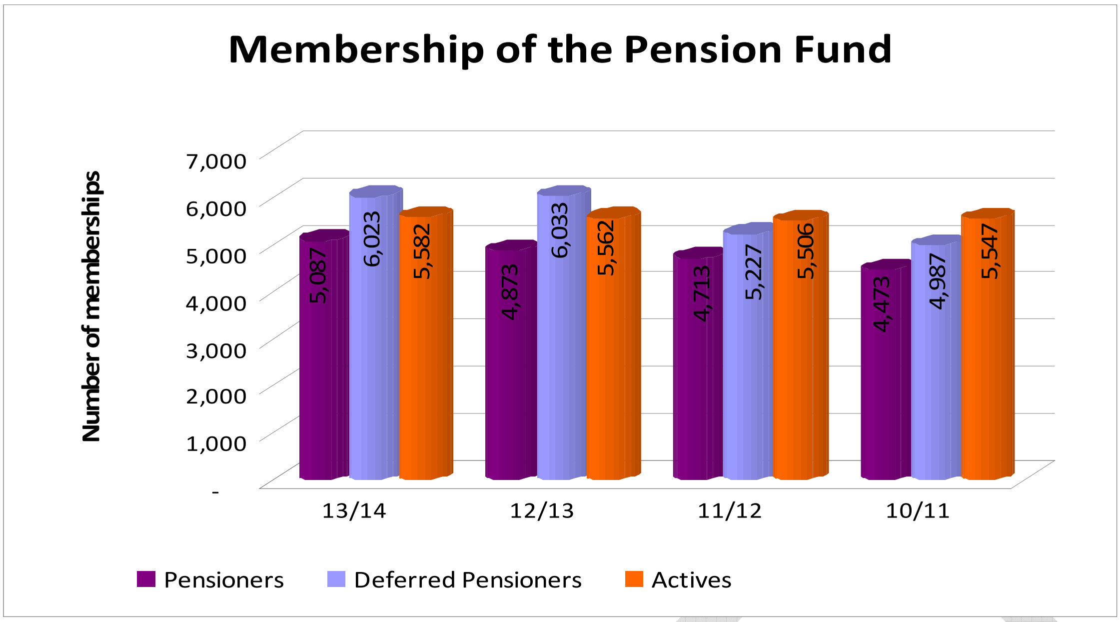
The purpose of the Fund is to provide pensions to all the Council's employees with the exception of teaching staff. Also included are certain employees of admitted and scheduled bodies who have gained admittance to the Fund in accordance with the Fund's admittance criteria.

Scheduled Employer : 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 Employer : 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 administering 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.

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.



Employer	Status	Actives	Deferred	Pensioners	Total	%
Harrow Council	Scheduled	4,272	5,297	4,804	14,373	86.12
Alexandra School	Scheduled	32	1	0	33	0.20
Avanti Free School	Scheduled	15	1	0	16	0.10
Bentley Wood School	Scheduled	53	35	6	94	0.56
Canons High School	Scheduled	86	23	5	114	0.68
Harrow College	Scheduled	176	235	128	539	3.23
Harrow High School	Scheduled	91	19	3	113	0.68
Hatch End High School	Scheduled	81	110	6	197	1.18
Jubilee Academy	Scheduled	16	2	0	18	0.11
Krishna Avanti Primary School	Scheduled	19	0	0	19	0.11
North London Collegiate School	Scheduled	71	19	26	116	0.69
Nower Hill High School	Scheduled	145	57	2	204	1.22
Park High School	Scheduled	67	26	2	95	0.57
Rooks Heath College	Scheduled	113	21	2	136	0.81
St Dominics 6th Form College	Scheduled	50	20	30	100	0.60
Salvatorian College	Scheduled	57	26	3	86	0.51
Stanmore College	Scheduled	102	116	60	278	1.66
Capita Business Services Ltd	Admitted	11	4	5	20	0.12
Carillion Services	Admitted	87	4	4	95	0.57
Family Action	Admitted	2	0	0	2	0.01
Granary Kids	Admitted	2	1	0	3	0.02
Govindas	Admitted	5	0	0	5	0.03
Harrisons Catering	Admitted	22	3	0	25	0.15
Julius Rutherfoord & Co	Admitted	1	2	1	4	0.03
Linbrook Services Ltd	Admitted	4	1	0	5	0.03
Temco Facilities Services Ltd	Admitted	2	0	0	2	0.01
	Total	**5,582**	**6,023**	**5,087**	**16,692**	**100**

Employee contribution rates are set by regulations and are dependent upon each member's full time equivalent salary. Employee contributions attract tax relief at the time they are deducted from pay and the employee also pays lower National Insurance contributions between the Lower and Upper Earnings Limits, unless the employee has opted to pay the married woman's reduced rate.

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2013 and showed that the fund was 70% funded. The deficit is to be funded by additional employer contributions over the course of 20 years.

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 member's 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.

New LGPS regulations are due to come into force from 1 April 2014. The changes are summarised below:

- Basis of pension to become career average revalued earnings rather than final salary
- Accrual rate (rate at which pension is earned) to be changed to 1/49th from 1/60th
- Revaluation rate to be based on Consumer Prices Index (CPI) rather than final salary
- Pensionable pay now to include non-contractual overtime and additional hours for part time staff
- Members can now pay 50% contributions for 50% of pension benefit
- Normal pension age to be equal to the individual member's state pension age rather than the age of 65
- Death in service survivor benefits and ill health provision to reflect the change in normal pension age

The investment objective of the Pension Fund is to ensure that the Fund has sufficient assets to pay pensions and other benefits by maximising investment returns within acceptable risk tolerances.

5. Governance Arrangements

The London Borough of Harrow is the Administering Authority for the Pension Fund. Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund. The Committee convenes approximately six times a year and contains four Councillors with full voting rights. Representatives from the trade unions are able to participate as members of the Committee but do not have voting rights..

The Pension Fund Committee has the following terms of reference:

- to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;
- the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;
- 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 pension investment portfolio;
- to appoint and determine the investment managers' delegation of powers of management of the Fund;
- to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended), subject to the conditions now agreed in respect of all staff, excluding Chief Officers;
- to apply the arrangements to Chief Officers where the application has been recommended by the Chief Executive, either 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 approve any severance packages for officers of £100,000 or over irrespective of the grade of officer. The definition of severance package is in accordance with the DCLG supplementary statutory guidance 'Openness and accountability in local pay: Guidance under section 40 of the Localism Act 2011' issued in February 2013; and
- to report back to Council for information purposes on all such approved severance packages.

The dates of the Pension Fund Committee meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:

http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1297

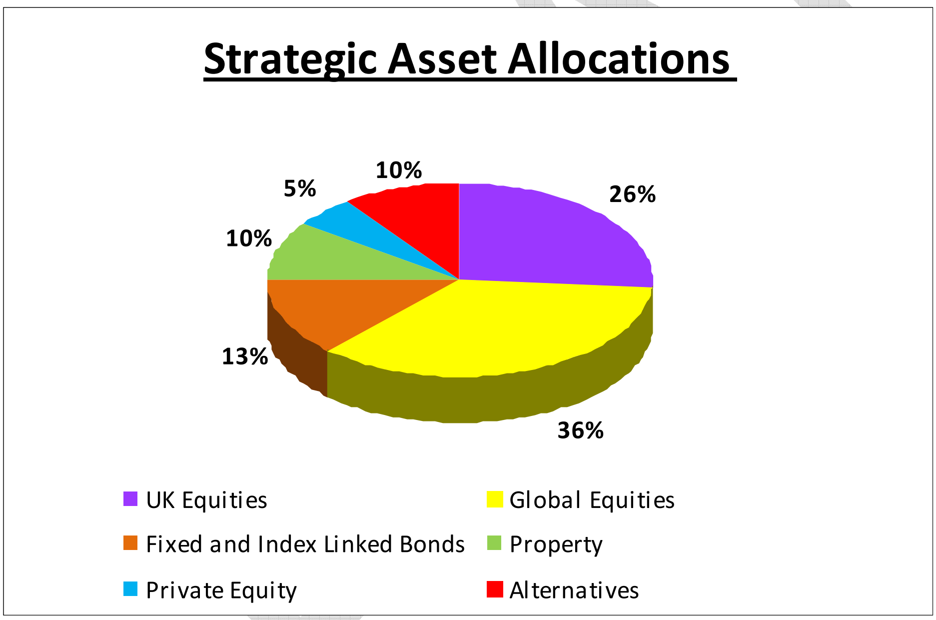
6. Investment Policy and Performance

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 Fund Statement of Investment Principles specifies that the Fund may invest 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.

To support the Fund's objective of achieving a return that is sufficient to meet the cost of benefits and achieving this within acceptable risk parameters the Committee, in conjunction with the Fund's investment advisor, set the following strategic asset allocation in March 2013:



The Committee 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. Diversifying investments reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Fund.

Following the strategy review concluded in March 2013 cash balances and realisations from listed equities managed by Fidelity were used to invest 10% of the Fund in two multi-asset class mandates managed by Barings and Standard Life.

The following table compares the actual asset allocation as at 31 March 2014 to the benchmark:

Asset (%)	Actual	Target
UK Equities	26	26
Global Equities	39	36
Fixed and Index Linked Bonds	12	13
Property	8	10
Private Equity	4	5
Alternatives	10	10
Cash	1	**0**
Total	**100**	**100**

The Committee believes in appointing fund managers with clear performance benchmarks that place maximum accountability for performance against that benchmark with the investment manager. Fund managers are set risk parameters to provide them with some flexibility in achieving the asset allocation to allow them to make the most of market conditions. They must seek approval for any positions that go beyond the agreed risk parameters set for their strategies. Following the manager changes discussed above, the Fund has ten investment managers to give diversification of investment style and spread of risk. The Committee will continue to monitor the ability of the investment managers to achieve their target returns.

Investments held by Fund Managers

	2013-14 £000	2013-14 %	**2012-13 £000**	2012-13 %	
Aviva	**45,051**	**8**	41,905	8	UK Property
State Street	**155,512**	**27**	142,591	27	UK Equities Passive
BlackRock	**72,035**	**12**	72,059	14	Corporate and Index-linked bonds
Fidelity	**68,381**	**12**	98,872	18	Global Equities
Longview	**49,507**	**8**	40,109	7	Global Equities
Wellington	**113,911**	**19**	109,156	21	Global Equities
Barings	**26,630**	**5**	0	0	Alternatives
Standard Life	**27,890**	**5**	0	0	Alternatives
Pantheon	**24,648**	**4**	26,328	5	Private Equity
Record	**1,113**	**0**	-2,274	0	Passive currency
Total Fund	**584,678**	**100**	528,746	100	

Market commentary

The Federal Reserve (Fed) continued its open-ended quantitative easing (QE) programme to support the US economy. However, investors became anxious in May as Fed Chairman Bernanke signalled a reduction in QE sooner than expected, possibly in September. In the event, the Fed actually initiated its withdrawal of QE in December. As the Fed continued to wind down its asset purchases, Bernanke's successor Janet Yellen emphasised her commitment to maintain accommodative monetary policy in order to support continuing economic growth.

Both Janet Yellen and Bank of England Governor Mark Carney changed course on their respective forward guidance policies, playing down dependence on the unemployment rate, which had been falling faster than anticipated in both the US and UK.

Tensions in the Ukraine surfaced in early 2014, sparking a fresh bout of volatility in equity markets, after which Russia's president Vladimir Putin calmed investors by saying that he wanted to rebuild ties with independent Ukraine.

The Eurozone emerged from recession in Q2 2013, led by stronger German growth, although many peripheral countries continued to struggle. Deflationary concerns caused the European Central Bank to lower its policy rate to 0.25%.

For many developed economies, economic data picked up over the year, with a string of strong Purchasing Managers' Index (PMI) releases globally in the second half of 2013. Growth in emerging economies slowed however, with the larger economies, such as China, particularly disappointing investors.

Equities

Markets brushed aside concerns over a reduction in QE, and despite various economic and political difficulties, global equity returns were strong over the 12 months to 31 March 2014, and the MSCI All Country World Index returned 17.4% in local currency terms. However, sterling strength over the year eroded the majority of these returns, and the sterling return on the index was 6.7%.

Despite some encouraging economic data and having the fastest developed market GDP growth, UK equity market returns over the past 12 months were overshadowed by other developed markets. The UK equity market returned 8.8%.

Over the past 12 months, US equities provided the highest return in local currency terms (22.2%) whilst returning 11.3% in sterling terms due to sterling strength. Despite investors having to adjust to the prospect of a return to normal monetary policy, equities were able to sustain gains over the period.

Continental European equities returned 21.2% in local currency terms, which equated to 17.3% in sterling terms, higher than in any other region.

Japanese equities performed exceptionally well in 2013 as new government and central bank leadership led to an aggressive stimulus package in an attempt to jumpstart growth and end years of deflation. However, Japanese equities lost their momentum at the start of 2014 as investors became worried about the implications of a weaker Chinese economy on Japanese exports and the stalling progress of reforms. Japanese equities returned 18.4% in yen terms, but the combination of sterling strength and yen weakness meant that the return to sterling investors was -1.6%.

Emerging Markets lagged developed markets and were the worst performers in both local currency (3.8%) and sterling (-9.9%) terms. This poor performance was due to a slowdown in emerging market growth and weaker commodity prices. Investors also grew concerned about the impact of Fed monetary policy on the region.

Gilts

UK fixed interest gilts provided negative return over the year as better economic data and speculation over an end to QE in the US put upward pressure on UK bond yields.

UK corporate bonds returned 1.6% over the year as the narrowing of credit spreads offset the rise in gilt yields.

UK Property

UK property returns were positive, with the IPD Monthly Index rising 14.0% over the period, its highest 12-month return since December 2010.

Currencies and interest rates

Bank of England (BoE) policy rates remained at 0.5%, unchanged since March 2009. New BoE Governor Mark Carney, who started in July, issued forward guidance that interest rates would stay low until unemployment falls. After falling faster than anticipated, the unemployment rate was dropped as the main trigger for allowing interest rates to rise. Improving UK economic data caused sterling to appreciate against most major currencies over the year. Sterling ended the year up 7.2% on a trade-weighted basis.

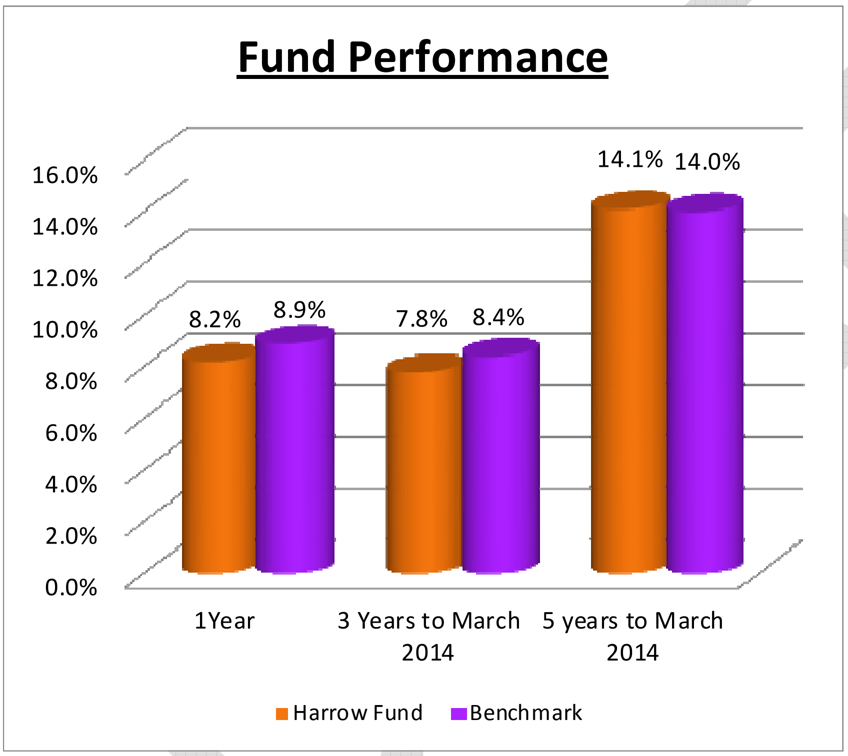
The Federal Funds rate remained between 0% and 0.25%. QE3 continued throughout the year with $85bn a month of asset purchases. However, in December, the Fed started to wind down its asset purchases, which now stand at $55bn per month. The US dollar appreciated on a trade-weighted basis by 1.8%, though this was largely a result of the hefty devaluation of the Japanese yen. The US dollar depreciated by 8.9% against sterling.

The ECB cut rates by 25 basis points to 0.5% in May 2013, after which weak inflation data and a reduction in growth forecasts prompted the ECB to further cut their policy rate to 0.25% in November. The euro depreciated by 2.2% against sterling over the year.

The Bank of Japan (BoJ) left rates at between 0 and 0.1%, unchanged since December 2008. In April the new BoJ Governor announced a massive escalation in monetary easing to boost growth and tackle deflation. The yen depreciated by 16.8% against sterling over the year as a result.

Fund performance

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



Source: WM Performance Services

The Fund had a good year with equities, property and private equity all providing returns in excess of 10%. Returns over all three time periods were strong, reflecting recovery from the significantly lower returns achieved at the height of the financial crisis in 2008. The Fund has moderately underperformed against its benchmark over the last three years due primarily to the significant underperformance of one of the equity managers.

The average local authority fund (as measured by WM Performance Services) returned 6.4% on its assets during the year. The Fund was ranked 19th in the local authority annual league table of investment returns for the year. The Council’s asset allocation added 0.2% to the return relative to the local authority universe whilst the successful stock selection by some of the managers realised a relative outperformance of 1.6%.

7. Statements and Publications

Governance Compliance Statement
The Local Government Pension Scheme (Administration) Regulations 2008 Regulation 31 requires all administering authorities to produce a Governance Compliance Statement. This Statement must set out whether the Administering Authority delegates its function and if so what the terms, structure and operation of the delegation are. The Administering Authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The current Statement can be found in Appendix 1.

Communications Policy Statement
The Local Government Pension Scheme (Administration) Regulations 2008 require all administering authorities to produce a Communications Policy Statement. This statement sets out the Fund's strategy for communicating with members, members' representatives, prospective members and employing authorities, together with the promotion of the Scheme to prospective members and their employing authorities. The latest Statement can be found in Appendix 2.

Local Government Pension Scheme Guide
A brief guide to the Local Government Pension Scheme can be found in Appendix 3

Statement of Investment Principles
Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities to publish a Statement of Investment Principles. This Statement provides details of the Fund's investment policies including

• The types of investment to be held
• The balance between different types of investment
• Risk measurement and management

The Statement also details the Fund's compliance with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds'.
The current version can be found in Appendix 4.

Funding Strategy Statement
Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 requires all administering authorities to produce a Funding Strategy Statement. The purpose of the Funding Strategy Statement is to explain the funding objectives of the Fund, in particular:

• How the costs of the benefits provided under the LGPS are met through the Fund
• The objectives in setting employer contribution rates
• The funding strategy that is adopted to meet these objectives.

The Funding Strategy Statement is reviewed every three years at the same time as the triennial actuarial valuation of the Fund. An interim review of the statement may be carried out and a revised Statement published if there has been a material change in the policy matters set out in the Statement or there has been a material change to the Statement of Investment Principles. The current full Statement can be found in Appendix 5.

8. 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 Committee 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 Pension Fund Committee 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 asset classes as detailed in paragraphs 12.7 and 12.9. This is done in line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which require pension funds to invest any monies not immediately required to pay benefits. These Regulations require the formulation of a Statement of Investment Principles which sets out the Fund's approach to investment including the management of risk. 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:

<u>Pricing Risk</u>
The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, 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. During the last year the net assets of the Fund have increased by 7%. Most of the price changes relate to the global value of equities. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments between asset classes and geographical areas to include fixed interest and index linked bonds, property, multi assets mandates and private equity. The proportion of the Fund invested in listed equities is 65%, 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 are hedged to sterling.

Liquidity Risk
Investments in some asset classes 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 managed in accordance with the Council's Treasury Management Strategy Statement and are all 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. Recent changes to the benefit structure will reduce some of these risks. All are monitored through the actuarial valuation process and additional contributions required from employers should deficits arise.

e. Operational Risk

Operational risk relates 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. Communications

Registered Address	London Borough of Harrow Civic Centre Station Road Harrow HA1 2XF
Administration Enquiries	Email address: Pension@harrow.gov.uk Telephone Number: 020 8424 1186.
Complaints and Advice	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB Website: www.pensionsadvisoryservice.org.uk
The Office of the Pensions Ombudsman	The Pensions Ombudsman 11 Belgrave Road London SW1V 1RB Tel No. 0207 630 2200 Fax No. 0207 821 0065 Email: enquiries@pensions-ombudsman.org.uk Website: www.pensions-ombudsman.org.uk

10. 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 2014 and its income and expenditure for the year then ended.

Simon George BA(HONS) ACMA ACMT

Director of Finance and Assurance
30 June 2014

11. London Borough of Harrow Pension Fund Account

Pension Fund Account for the year ended 31st March 2014

2012-13 £000		Notes	2013-14 £000
	Contributions and Benefits		
-25,351	Contributions receivable	12.2	**-25,458**
-1,279	Individual transfers in from other schemes		**-2,874**
24	Other income		**-306**
	Less:		
26,716	Benefits payable	12.3	**31,259**
1,062	Payments to and on account of leavers	12.4	**1,074**
827	Administrative expenses	12.5	**981**
1,999	**Net additions from dealings with members**		**4,676**
	Returns on Investments		
-4,833	Investment income	12.6	**-7,468**
-60,112	Change in market value of investments	12.7	**-35,562**
-339	Investment management expenses	12.5	**-236**
-65,284	**Net Returns on Investments**		**-43,266**
-63,285	Net (Increase)/decrease in Fund during the year		**-38,590**
-488,942	Net assets at start of year		**-552,227**
-552,227	**Net assets at end of year**		**-590,817**

Net Assets Statement

2012-13 £000		Notes	2013-14 £000
	Investment Assets		
531,020	Pooled investment vehicles	12.9	**583,565**
865	Derivative contracts	12.10	**1,351**
531,885			**584,916**
	Investment Liabilities		
-3,139	Derivative contracts	12.10	**-238**
528,746			**584,678**
20,117	Cash deposits	12.7	**4,873**
548,863	**Net Investment Assets**		**589,551**
3,974	Current assets	12.12	**2,000**
-610	Current liabilities	12.12	**-734**
552,227	**Net assets of the Fund available to fund benefits at 31 March 2014**		**590,817**

The accounts summarise the transactions of the Fund and deal with the net assets. The Net Assets 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 26 and 27 and these accounts should be read in conjunction with it.

Simon George BA(HONS) ACMA ACMT
Director of Finance and Assurance
30 June 2014

12. Notes to the Pension Fund Accounts

12.1 Accounting Policies, Judgements and Uncertainties

Accounting Policies

The accounts have been compiled in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and following guidance in the Statement of Recommended Practice “Financial Reports of Pension Schemes” (revised May 2007).

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 2014;
- Investments in pooled investment vehicles are stated at the bid value of the latest prices quoted by their respective managers;
- 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; and
- There are no published price quotations available to determine the value of the Fund’s private equity holdings. The value of these holdings is therefore assessed by the manager as at 31 December 2013 and adjusted for drawdowns paid and distributions received in the period 1 January 2014 to 31 March 2014.

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.

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

The items in the Net Assets Statement as at 31 March 2014 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.	Total property and private equity investments disclosed in the accounts amount to £69.7m. A 10% change in value will result in a change in value of +/- £7 million.
Actuarial present value of promised retirement benefits	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 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 £76m. An increase of 0.5% in assumed salary or pension inflation would increase the pension liability by approximately £19m and £56m respectively. A one year increase in assumed life expectancy would increase the pension liability by approximately £26m.

Critical judgements in applying accounting policies

The most significant judgements in applying accounting policies are as follows:

<u>Unquoted private equity investments</u>

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.

<u>Actuarial present value of promised retirement benefits</u>

The actuarial present value of promised retirement benefits, as disclosed in note 12.14, 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 12.14 is subject to significant variances depending on the assumptions adopted.

12.2 Contributions

2012-13 £000		2013-14 £000
	Employers - normal	
-15,161	London Borough of Harrow	**-15,042**
-3,330	Scheduled Bodies	**-3,756**
-494	Admitted Bodies	**-344**
	Members - normal	
-5,225	London Borough of Harrow	**-5,094**
-1,024	Scheduled Bodies	**-1,137**
-117	Admitted Bodies	**-85**
-25,351		**-25,458**

12.3 Benefits

2012-13 £000		2013-14 £000
	Pensions	
21,085	London Borough of Harrow	**22,359**
709	Scheduled Bodies	**868**
141	Admitted Bodies	**69**
21,935		**23,296**
	Commutation of Pensions and Lump Sum Retirement Benefits and Commitments	
3,840	London Borough of Harrow	**5,909**
288	Scheduled Bodies	**625**
24	Admitted Bodies	**423**
4,152		**6,957**
	Lump Sum Death Benefits	
611	London Borough of Harrow	**841**
18	Scheduled Bodies	**135**
	Admitted Bodies	**30**
629		**1,006**
26,716		**31,259**

12.4 Payments to and on Account of Leavers

2012-13 £000		2013-14 £000
2	Refunds to members	**17**
1,060	Individual transfers to other schemes	**1,057**
1,062		**1,074**

12.5 Investment Management and Administration Expenses

2012-13 £000		2013-14 £000
-339	Investment management expenses	**-236**
	Scheme administration	
682	London Borough of Harrow	**778**
145	Miscellaneous (including Actuary Fees)	**203**
827	**Total Administration Expenses**	**981**
488	**Total Expenses**	**745**

External audit fees of £21,000, the same as in the previous year, were charged.

12.6 Investment Income

2012-13 £000		2013-14 £000
-4,628	Income from pooled investment	**-7,407**
-205	Interest on cash deposits	**-61**
-4,833		**-7,468**

All investments other than cash are held in pooled investments and only the income that is distributed is included above. Income retained within pooled funds is reflected within the change in market value of investments.

12.7 Investments

	Value at 01-Apr-13 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 31-Mar-14 £000
Pooled Investment Vehicles					
Property	41,905	0	0	3,146	**45,051**
Other	489,115	57,804	-35,202	26,797	**538,514**
Derivatives	-2,274	1,508	-3,740	5,619	**1,113**
	528,746	**59,312**	**-38,942**	**35,562**	**584,678**
Cash Deposits	20,117				4,873
	548,863				**589,551**

The change in market value reflects higher valuations for equities partly offset by a fall in the value of the bond holdings.
Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees, commissions, stamp duty and other fees.
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.

Derivative receipts (£3.7m) are in respect of realised profits on forward foreign exchange trades settled during the period.

12.8 Investments Exceeding 5% of the Total Value of Net Assets

2012-13 £m		2013-14 £m
142.6	SSGA MPF UK Equity Index Sub-Fund	**155.5**
109.2	Wellington Global Pooled Value Equity Portfolio	**113.9**
86.8	Fidelity Institutional Select Global Pooled Equities	**61.2**
57.5	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	**57.6**
40.1	Longview Partners Invest - Global Pooled Equities FD K Class	**49.5**
41.9	Aviva Investors UK Real Estate Fund of Funds Open Ended	**45.1**
478.1		**482.8**

12.9 Pooled Investment Vehicles

2012-13 £000		2013-14 £000
	UNITED KINGDOM	
	Managed funds - Property	
41,905	Unit Trusts	**45,051**
	Managed funds - Other	
142,592	Unitised Insurance Policy	**155,513**
	Fixed interest securities	
57,527	Corporate	**57,566**
	Index linked securities	
14,532	Public Sector	**14,468**
	GLOBAL	
	Managed funds - Other	
149,265	Unit Trusts	**191,308**
125,199	Other	**119,659**
531,020	**TOTAL**	**583,565**

12.10 Derivatives

2012-13 £000		2013-14 £000
	Investment Assets	
865	Forward foreign exchange contracts	**1,351**
	Investment Liabilities	
-3,139	Forward foreign exchange contracts	**-238**
-2,274	**Net Derivatives**	**1,113**

Counterparty	**Duration**	**No. of Contracts**	**Value at 31-Mar-14 Assets £000**	**Liabilities £000**
Barclays Bank - London	7 days - 7 mths	**5**	**377**	**-41**
Deutsche Bank - London	7 days - 6 mths	**4**	**567**	**-17**
Northern Trust	7 days - 6 mths	**6**	**246**	**-6**
Royal Bank of Canada - London	7 days - 6 mths	**9**	**48**	**-8**
Standard Chartered	7 days - 3 mths	**7**	**10**	**-11**
State Street - London	3 mths - 6 mths	**5**	**6**	**-42**
Toronto Dominion - Toronto	7 days - 6 mths	**5**	**49**	**-60**
Westpac - Sydney	7 days - 6 mths	**5**	**48**	**-53**
		46	**1,351**	**-238**

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. Non sterling currency exposure hedged at the year end is £105m. The main currency exposures before hedging in sterling are US$ £55m, Yen £17m and Euro £13m.

12.11 Additional Voluntary Contributions (AVCs)

Members of the Fund are able to accrue additional benefits through the payment of AVCs, which are invested outside 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.

2012-13		2013-14
2,099	Value of AVC Fund at 1 April	**2,211**
356	Employee contributions	**371**
107	Investment income and change in market value	**86**
0	Transfer values in	**10**
-351	Benefits paid and transfers out	**-268**
2,211	**Value of AVC Fund at 31 March**	**2,410**

12.12 Current Assets & Liabilities

2012-13 £000		2013-14 £000
	Current Liabilities	
-149	Unpaid benefits	**-154**
-461	Other unpaid liabilities	**-580**
-610		**-734**
	Current Assets	
3,778	Cash balances held by London Borough of Harrow	**1,678**
177	Contributions due from employers	**283**
19	Other current assets	**39**
3,974		**2,000**
3,364	**Net Current Assets**	**1,266**

12.13 Related Party Transactions

2012-13 £000		2013-14 £000
-15,161	Employer's pension contribution to the Fund	**-15,042**
682	Administration expenses paid to the Council	**778**
3,778	Cash held by Council	**1,678**

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. 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 Fund some transactions continue to be processed through the Council's bank account and as such these balances are settled on a monthly basis.

12.14 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 2013/14. The IAS 19 valuation is based on prescribed assumptions that differ from those used in the triennial valuation that determines the required level of contributions.

The actuarial value of benefits and the main assumptions used by the actuary are set out below.

Assumption	
Price inflation (CPI)	2.5%
Pay increases	3.8%
Gilt based discount rate	3.0%
Funding basis discount rate	4.6%
Longevity at 65 for current pensioners:	
Male	22.1 years
Female	24.4 years
Longevity at 65 for future pensioners:	
Male	24.5 years
Female	26.9 years

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation at 31 March 2013. The liability at 31 March 2014 (£824m) has been estimated by the actuary as comprising £314m in respect of employee members, £148m in respect of deferred pensioners and £362m in respect of pensioners. The actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises.

The value of the Fund as at 31 March 2014 represents 71.7% 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.

12.15 Actuarial Valuation

An actuarial valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £552m and the total accrued liabilities of the Fund were £786m. The Fund deficit was therefore £234m, producing a funding level of 70.3% (compared to 73.5% at 31 March 2010).
To reach the funding level of 100% over a period of 20 years, the common employer's contribution rate is 34.4% 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 2013 actuarial valuation are detailed below:

Assumption	
Price inflation (CPI)	2.5%
Pay increases	3.8%
Gilt based discount rate	3.0%
Funding basis discount rate	4.6%
Longevity at 65 for current pensioners:	
Male	22.1 years
Female	24.4 years
Longevity at 65 for future pensioners:	
Male	24.5 years
Female	26.9 years

13. Statement of the Consulting Actuary

This statement has been prepared in accordance with Regulation 34(1)(d) 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 2013/14.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

• to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

• to ensure that employer contribution rates are reasonably stable where appropriate;

• to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);

• to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

• to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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 20 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 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £552 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £234 million. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 28 March 2014.

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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	3.80%	1.30%
Pension increases	2.50%	-

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	24.5 years	26.9 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Harrow , the administering authority to the Fund.

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been a little better than expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA

Associate of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

23 May 2014

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;

if it does so—

the terms, structure and operational procedures of the delegation,

the frequency of any committee or sub-committee meetings,

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;

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.

Principle A – Structure

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

<u>Principle C – Selection and role of lay members</u>

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

Principle D – Voting

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

Principle F – Meetings (frequency/quorum)

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 – Harrow Intranet	Electronic	Continually available	Loaded for key communications	All
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 meetings	Reports & Meeting	In line with published Panel meeting cycle	Notification through Committee Services	Named union 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 and Pension Panel	All members of the Pension Committee/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	***Media***	***Frequency of***	***Method of***	***Audience Group***

Communication		***Issue***	***Distribution***	
Pension Fund valuation reports • Revenue & Adjustment (R&A) certificate • Revised R&A certificates • Cessation valuations	Electronic	Every three years	Via email	Communities & Local 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

A brief guide to the Local Government Pension Scheme (LGPS)

Employees in England and Wales – April 2014

Highlights of the 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 –
worked out every ***scheme year*** and added to your ***pension account***. The pension added to your account is equal to a 49th of your pay in that year. At the end of every ***scheme year*** the value of the pension in your account is adjusted to take into account the cost of living (as currently measured by the ***Consumer Prices Index (CPI)***).

Flexibility to pay more or less contributions –
you have the option in the LGPS to pay half your normal contributions in return for half your normal pension. This is known as the 50/50 section of the scheme and is designed to help members stay in the scheme when times are financially tough. You can also boost your pension by paying more contributions, which you would get tax relief on.

Tax-free cash –
you have the option when you draw your pension to exchange part of it for some tax-free cash.

Peace of mind –
your family enjoys financial security, with immediate life cover and a pension for your spouse, ***civil partner*** or ***eligible cohabiting partner*** and ***eligible children*** in the event of your death in service and, if you ever become seriously ill and you've met the 2 years ***vesting period***, you could receive immediate ill health benefits.

Freedom to choose when to take your pension –
you do not need to have reached your ***Normal Pension Age*** in order to take your pension as, once you've met the 2 years ***vesting period***, you can choose to retire and draw your pension at any time between age 55 and 75. Your ***Normal Pension Age*** is simply the age you can retire and take the pension you've built up in full. However, if you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later.

Redundancy and Efficiency Retirement –
if you are made redundant or retired in the interests of business efficiency at or after age 55 you will, provided you've met the 2 years ***vesting period***, receive immediate payment of the benefits you've built up.

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, and you've met the 2 years ***vesting period***, 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.

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 2014.

What kind of scheme is it?
The LGPS is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972 (in the future scheme rules will be made under the Public Service Pension Schemes Act 2013) 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. Your pension is worked out every year and added to your ***pension account***. The amount in your ***pension account*** is revalued at the end of each ***scheme year*** so your pension keeps up with the cost of living.
The LGPS is very secure because the benefits are set out in law.

Who can join?
The LGPS covers employees working in local government and for other organisations that have chosen to participate in it. To be able to join the LGPS you need to be under age 75 and work for an employer that offers membership of the scheme. If you are employed by a designating body, such as a town or parish council, or by a non-local government organisation which participates in the LGPS (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 and employees eligible to join another statutory pension scheme (such as the NHS Pension Scheme) are not allowed to join the LGPS.

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 and you are not an ***Eligible Jobholder***, but even then 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 and a ***pension account*** (for each employment if you have more than one employment) 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?
Yes you can opt-out of the scheme but if you are thinking of opting out you might want to first consider an alternative option which is to elect to move to the 50/50 section of the scheme. The 50/50 section allows you to pay half your normal contributions in return for half your normal pension build up. To find out more, see the section on **flexibility to pay less**.

If having considered the 50/50 option you still decide the LGPS is not for you, you can leave the LGPS at any time on or after your first day of eligible employment by giving your employer notice in writing. You might, however, want to take independent financial advice before making the final decision to opt out.

If you opt out of the LGPS before completing 3 months membership you will be treated as never having been a member and your employer will refund the contributions to you through your pay.

If you opt out of the LGPS with 3 or more months membership and before completing the 2 years ***vesting period*** you can take a refund of your contributions (less any statutory deductions) or transfer out your pension to another scheme.

If you opt out of the LGPS after meeting the 2 years ***vesting period*** you will have deferred benefits in the scheme and will generally have the same options as anyone leaving their job before retirement.

If you opt-out, you can, provided you are otherwise eligible to join the scheme, opt back into the scheme at any time before age 75.

If you opt out of the LGPS then:

- on the date your employer is first required to comply with the automatic enrolment provisions under the Pensions Act 2008, your employer will automatically enrol you back into the LGPS if you are an ***Eligible Jobholder*** at that time in the job you've opted out from, or
- if on the date your employer is first required to comply with the automatic enrolment provisions under the Pensions Act 2008 you are not an ***Eligible Jobholder*** at that time in the job you opted out from your employer will, if you subsequently become an ***Eligible Jobholder*** in that job, automatically enrol you back into the LGPS from the ***automatic enrolment date***.

Your employer must notify you if this happens. You would then have the right to again 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 12.5% of your ***pensionable pay***. If you elect for the 50/50 section of the scheme you would pay half the rates listed below. The rate you pay depends on which pay band you fall into.

Here are the pay bands and the rates that apply from April 2014.

Contribution table 2014/15

If your Pay is:	**You pay a contribution rate of:**
Up to £13,500	5.5%
£13,501 to £21,000	5.8%
£21,001 to £34,000	6.5%
£34,001 to £43,000	6.8%
£43,001 to £60,000	8.5%
£60,001 to £85,000	9.9%
£85,001 to £100,000	10.5%
£100,001 to £150,000	11.4%
Over £150,000	12.5%

The intention is that contribution rates and / or pay bands will be reviewed on a regular basis and may change in the future.

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 £40,000 you may have to pay a tax charge. Most people will not be affected by the annual allowance.

What about my National Insurance contributions?
Whilst you are a member of the LGPS you will currently, 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.

Is there flexibility to pay less contributions?
Yes, in the scheme there is an option known as 50/50 which provides members with the facility to pay half the normal contributions and to build up half the normal pension during the time the reduced contributions are being paid - see the section on **flexibility to pay less**.

Can I make extra contributions to increase my benefits?
You can increase your benefits by paying additional contributions (known as Additional Pension Contributions, APCs) to buy extra LGPS pension, or by making payments to the scheme's ***Additional Voluntary Contribution***s ***(AVC)*** arrangement. 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.

What if I've been a member before and can now re-join the LGPS?
If you rejoin the LGPS and you have deferred benefits in an LGPS fund in England and Wales your deferred benefits will normally be automatically joined with your new active ***pension account***. If you want to retain separate deferred benefits then you must make such an election within 12 months of rejoining the scheme. If you rejoin the LGPS in England and Wales and have a deferred refund this **must** be joined with your new active ***pension account***.

What about any non-LGPS pension rights I have?
If you have paid into another non-LGPS pension arrangement, you may be able to transfer your previous pension rights into the LGPS (provided you are not already drawing them as a pension). You only have 12 months from joining the LGPS to opt to transfer your previous pension rights, unless your employer and pension fund allows you longer.

What if I'm already receiving an LGPS pension – will it be affected?
If you are already drawing a pension from the scheme, some or all of which you built up before 1 April 2014, and you are re-employed in local government or by an employer who offers 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. They will let you know whether your pension in payment is affected in any way.

If you are drawing a pension from the scheme, all of which you built up after 31 March 2014, and you are re-employed in local government or by an employer who offers membership of the LGPS you do not need to inform the LGPS fund that pays your pension as there is no effect on your pension in payment. The only exception to this is if you are in receipt of an ill-health pension that is stopped if you are in any gainful employment, in which case you must inform the employer who awarded you that pension and they will let you know whether your pension in payment should be stopped.

Contribution Flexibility

Flexibility to pay less
When you join the scheme you will be placed in the main section of the scheme. However, once you are a member of the scheme you will be able to elect in writing, at any time, to move to the 50/50 section if you wish.

The 50/50 section gives you the ability to pay half your normal contributions. This flexibility may be useful during times of financial hardship as it allows you to remain in the scheme, building up valuable pension benefits, as an alternative to opting out of the scheme.

A 50/50 option form is available from your employer. If you have more than one job in which you contribute to the scheme you would need to specify in which of the jobs you wish to be moved to the 50/50 section.

If you elect for 50/50 you would be moved to that section from the next available pay period. You would then start paying half your normal contributions and build up half your normal pension during the time you are in that section. When you make an election for the 50/50 section your employer must provide you with information on the effect this will have on your benefits in the scheme.

If you were to die in service whilst in the 50/50 section of the scheme the lump sum death grant and any survivor pensions would be worked out as if you were in the main section of the scheme. If you are awarded an ill-health pension which includes enhanced membership, the enhanced membership is added to your ***pension account*** as if you were in the main section of the scheme.

The 50/50 section is designed to be a short-term option for when times are tough financially. Because of this your employer is required to re-enrol you back into the main section of the scheme approximately three years from the date they first have to comply with the automatic enrolment provisions of the Pensions Act 2008 (and approximately every three years thereafter). If you wished to continue in the 50/50 section at that point you would need to make another election to remain in the 50/50 section.

There is no limit to the number of times you can elect to move between the main and the 50/50 section, and vice versa.

Flexibility to pay more
There are a number of ways you can provide extra benefits, on top of the benefits you are already looking forward to as a member of the LGPS.

You can improve your retirement benefits by paying:

- Additional Pension Contributions (APCs) to buy extra LGPS pension,
- ***Additional Voluntary Contributions (AVCs)*** arranged through the LGPS (in-house AVCs),
- Free Standing Additional Voluntary Contributions (FSAVCs) to a scheme of your choice,
- Contributions to a stakeholder or personal pension plan.

Your pension fund can give you more information on the first two of these options. Contact details are at the end of this guide.

Your Pension

Your LGPS benefits are made up of:

- An annual pension that, after leaving, increases every year in line with the cost of living for the rest of your life, and
- The option to exchange part of your pension for a tax-free lump sum paid when you draw your pension benefits.

How is my pension worked out?
Every year, you will build up a pension at a rate of 1/49th of the amount of ***pensionable pay*** you received in that ***scheme year*** if you are in the main section of the scheme (or half this rate of build up for any period you have elected to be in the 50/50 section of the scheme). If during the ***scheme year*** you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on ***relevant child related leave*** or ***reserve forces service leave*** then, for the period of that leave, your pension is based on your ***assumed pensionable pay***. The amount of pension built up during the ***scheme year*** is then added to your ***pension account*** and revalued at the end of each ***scheme year*** so your pension keeps up with the cost of living.

If you joined the LGPS before 1 April 2014, your benefits for membership before 1 April 2014 were built up in the final salary scheme and are calculated differently using your membership built up to 31 March 2014 and your final year's pay.

The examples below show how benefits based on membership in the LGPS built up after 31 March 2014 are worked out.

If you are nearing retirement and you were a member of the scheme before 1 April 2014 there is an additional protection in place to ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed on the 1 April 2014. This protection is known as the **underpin.**

The **underpin** applies to you if you were:

- an active member on 31 March 2012, and
- you are within 10 years of your protected ***Normal Pension Age*** on 1 April 2012, and
- you haven't had a continuous break in active membership of a public service pension scheme of more than 5 years (after 31 March 2012), and
- you've not drawn any benefits in the LGPS before protected ***Normal Pension Age***, and
- you leave with an immediate entitlement to benefits.

If you are covered by the underpin a calculation will be performed at the date you cease to contribute to the Scheme, or at your protected ***Normal Pension Age*** if earlier, to check that the pension you have built up (or, if you have been in the 50/50 section of the scheme at any time, the pension you would have built up had you always been in the main section of the scheme) is at least equal to that which you would have received had the scheme not changed on 1 April 2014. If it isn't, the difference will be added into your ***pension account*** when you draw your benefits.

What pensionable pay is used to work out my pension?
Your pension for membership in the LGPS built up after 31 March 2014 is worked out using your ***pensionable pay*** which is the amount of pay on which you pay your pension contributions.

However if during the ***scheme year*** you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on ***relevant child related leave*** or ***reserve forces service leave*** then, for the period of that leave, your pension is worked out based on your ***assumed pensionable pay***.

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 £312,500 (2014/15 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.

How is my pension worked out - an example

Let's look at the build-up in a member's ***pension account*** for 5 years in the scheme.

Let's assume that the member joins the scheme on 1 April 2014, that their ***pensionable pay*** is £24,500 in ***scheme year*** 1 and their ***pensionable pay*** increases by 1% each year. Let's also assume that the cost of living (revaluation adjustment) is 3% each year.

Scheme Year	**Opening Balance**	**Pension Build up in Scheme year** Pay/ Build up rate = Pension	**Total Account 31 March**	**Cost of living Revaluation adjustment**	**Update Total Account**
1	£0.00	£24,500/49 = **£500.00**	£500.00	3% = £15.00	£500.00 + £15.00 = **£515.00**
2	£515.00	£24,745/49 = **£505.00**	£1,020.00	3% = £30.60	£1,020.00 + £30.60 = **£1,050.60**
3	£1,050.60	£24,992.45/49 = **£510.05**	£1,560.65	3% = £46.82	£1,560.65 + £46.82 = **£1,607.47**
4	£1,607.47	£25,242.37/49= **£515.15**	£2,122.62	3% = £63.68	£2,122.62 + £63.68 = **£2,186.30**
5	£2,186.30	£25,494.79/49 = **£520.30**	£2,706.60	3% = £81.20	£2,706.60 + £81.20 = **£2,787.80**

If you joined the LGPS before 1 April 2014
Your benefits for membership before 1 April 2014 are calculated differently.

For membership built up to 31 March 2008, you receive a pension of 1/80th of your ***final pay*** plus an automatic tax-free lump sum of 3 times your pension.

For membership built up from 1 April 2008 to 31 March 2014, you receive a pension of 1/60th of your ***final pay***. There is no automatic lump sum for membership built up after March 2008, but you do have the option to exchange some of your pension for a tax-free lump sum.

Taking AVCs as cash
If you pay ***Additional Voluntary Contributions (AVCs)*** via the LGPS you may elect to take up to 25% of your AVC fund as a tax-free lump sum provided the lump sum doesn't exceed £312,500 (2014/15 figure) less the value of any other pension rights you have in payment.

If your election to start paying AVCs was made before 1 April 2014 you can elect to take up to 100% of your AVC account as a tax-free lump sum if you draw it at the same time as your main LGPS pension benefits **provided,** when added to any 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 £312,500 (2014/15 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.

Retirement

When can I retire and draw my LGPS pension?
You can choose to retire and draw your pension from the LGPS at any time from age 55 to 75, provided you have met the 2 years ***vesting period*** in the scheme.

The ***Normal Pension Age*** in the LGPS is linked to your ***State Pension Age*** (but with a minimum of age 65). If the ***State Pension Age*** changes in the future then this change will also apply to your ***Normal Pension Age*** for benefits built up after 31 March 2014.

If you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later. You must draw your benefits in the LGPS before your 75^{th} birthday.

You may have to retire at your employer's instigation, perhaps because of redundancy, business efficiency or permanent ill health. Your LGPS benefits, even in these circumstances can, provided you have met the 2 years ***vesting period*** in the scheme provide you with an immediate retirement pension, which may even be enhanced.

If you voluntarily choose to retire before, on or after your ***Normal Pension Age*** you can defer drawing your benefits but you must draw them before age 75. If you draw your pension after your ***Normal Pension Age***, your benefits will be paid at an increased rate to reflect late payment.

If you built up membership in the LGPS before 1 April 2014 then you will have membership in the final salary scheme. These benefits have a different ***Normal Pension Age***, which for most is age 65.

Will my pension be reduced if I voluntarily retire before my Normal Pension Age?
If you choose to retire before your ***Normal Pension Age*** your benefits will normally be reduced to take account of being paid for longer. Your benefits are initially calculated as detailed under the heading **How is my pension worked out?** and are then reduced. How much your benefits are reduced by depends on how early you draw them.

If you were a member of the LGPS on 30 September 2006, some or all of your benefits paid early could be protected from the reduction if you have rule of 85 protection.

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, provided, you have met the 2 years ***vesting period*** in the scheme. However, any additional pension paid for by Additional Pension Contributions (APCs) or Shared Cost Additional Pension Contributions (SCAPCs) would be paid at a reduced rate if the retirement occurred before your ***Normal Pension Age*** (to take account of the additional pension being paid for longer). Also if you have bought additional pension by Additional Regular Contributions (ARCs), that additional pension would be paid at a reduced rate if the retirement occurred before your pre 1 April 2014 ***Normal Pension Age*** which, for most, is age 65.

What happens if I have to retire early due to ill health?
If you have to leave work due to illness you may be able to receive immediate payment of your benefits.

To qualify for ill health benefits you have to have met the 2 years ***vesting period*** in the scheme and your employer, based on an opinion from an independent occupational health physician appointed by them, must be satisfied that you will be permanently unable to do your own job until your ***Normal Pension Age*** and that you are not immediately capable of undertaking gainful employment.

Ill health benefits can be paid at any age and are not reduced on account of early payment – in fact, your benefits could be increased to make up for your early retirement 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 you have met the 2 years ***vesting period*** in the scheme and 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 your ***Normal Pension Age*** 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.If your employer agrees to flexible retirement you can still draw your wages / salary from your job on the reduced hours or grade and continue paying into the LGPS, 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 my Normal Pension Age?
If you carry on working after your ***Normal Pension Age*** you will continue to pay into the LGPS, building up further benefits. When you eventually retire you will receive your pension unless you choose to delay drawing it. You must draw your pension by no later than age 75. Your pension will be paid at an increased rate to reflect the fact that it will be paid for a shorter time.

How does my pension keep its value?
On retiring on or after age 55 your LGPS pension increases in line with the cost of living every year throughout your retirement. As the cost of living increases, so will your pension. If you are retired on ill health grounds, your pension is increased each year regardless of your 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 following benefits are payable:

- A lump sum death grant of three times your ***assumed pensionable pay***.
- Pensions for ***eligible children***.
- A spouse's, ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's*** pension, equal to 1/160th of your ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) times the period of your membership in the scheme after 31 March 2014, plus 49/160ths of the amount of any pension credited to your pension account following a transfer of pension rights into the scheme, plus an amount equal to 1/160th of your ***assumed pensionable pay*** for each year of membership you would have built up from your date of death to your ***Normal Pension Age***. For membership built up **before** 1 April 2014 the pension payable is equal to 1/160th of your ***final pay*** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry after retiring in which case it could be less. For a ***civil partner*** or an ***eligible cohabiting partner*** this pension is based on the period of membership after 5 April 1988 (plus, in the case of an ***eligible cohabiting partner's***

pension, any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's*** pension).

If you are in the 50/50 section of the scheme when you die this does not impact on the value of any pension for your **spouse, *civil partner*, *eligible cohabiting partner*** or ***eligible children*.**

If you die after retiring on pension, a spouse's, ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's*** pension and pensions for ***eligible children*** are payable. The pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is equal to 1/160th of the ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) upon which your pension was calculated times the period of your membership in the scheme after 31 March 2014, plus 49/160ths of the amount of any pension credited to your ***pension account*** following a transfer of pension rights into the scheme from another pension scheme or arrangement. For membership built up **before** 1 April 2014 the pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is equal to 1/160th of your ***final pay*** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry after retiring in which case it could be less. For a ***civil partner*** or an ***eligible cohabiting partner*** this pension is based on the period of membership after 5 April 1988 (plus, in the case of an ***eligible cohabiting partner's*** pension, any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's pension***).

A lump sum death grant will be paid if you die and less than 10 years pension has been paid and you are under age 75. The amount payable would be 10 times the level of your annual pension prior to giving up any pension for a tax-free cash lump sum, reduced by any pension already paid to you and the amount of any tax-free cash lump sum you chose to take when you drew your pension at retirement. If you are receiving a pension and are also an active member of the scheme, or have a separate deferred benefit when you die this may impact on the death grant you receive.

What conditions need to be met for an eligible cohabiting partner's survivor's pension to be payable?

If you have a cohabiting partner, of either opposite or same sex, they will be entitled to receive a survivor's pension on your death if they meet the criteria to be considered to be an ***eligible cohabiting partner***.

For an ***eligible cohabiting partner's*** survivor's pension to be payable, all of the following conditions must have applied for a continuous period of at least 2 years on the date of your death:

- you and your cohabiting partner are, and have been, free to marry each other or enter into a ***civil partnership*** with each other, and
- you and your cohabiting partner have been living together as if you were husband and wife, or ***civil partners***, and
- neither you or your cohabiting partner have been living with someone else as if you/they were husband and wife or ***civil partners***, and
- either your cohabiting partner is, and has been, financially dependent on you or you are, and have been, financially interdependent on each other.

On your death, a survivor's pension would be paid to your cohabiting partner if:

- all of the above criteria apply at the date of your death, and
- your cohabiting partner satisfies the pension fund that the above conditions had been met for a continuous period of at least 2 years immediately prior to your death.

Who is the lump sum death grant paid to?
The LGPS allows you to say who you would like any death grant to be paid to by completing and returning an expression of wish form. This form is available from Harrow pension fund. 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

If you leave your job before retirement and have met the 2 years *vesting period* you will have built up an entitlement to a pension. You will have two options in relation to that pension entitlement:

- you can choose to keep your benefits in the LGPS. These are known as deferred benefits and will increase every year in line with the cost of living, or
- alternatively, you may be able to transfer your deferred benefits to another pension arrangement.

If you leave your job before retirement and have not met the 2 years *vesting period* you will have three options:

- you will normally be able to claim a refund of your contribution, or
- you may be able to transfer your benefits to a new pension arrangement, or
- you can delay your decision until you either re-join the LGPS, transfer your benefits to a new pension arrangement, or want to take a refund of contributions. A refund of contributions must, in any event, be paid within 5 years of your leaving the scheme (or age 75 if earlier).

Refunds of Contributions
If you leave, or opt out of the scheme after 3 months' membership, and you've not met the 2 years ***vesting period*** 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). A refund of contributions must be paid within 5 years of your leaving the scheme (or age 75 if earlier).

Deferred benefits
If you leave before your ***Normal Pension Age*** and you meet the 2 years ***vesting period*** you will be entitled to deferred benefits within the LGPS. Your deferred LGPS benefits will be calculated as described in the **How is my pension worked out** 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 unreduced at your ***Normal Pension Age***, 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 are unlikely to be capable of undertaking any gainful employment within 3 years of applying for the benefit or by your ***Normal Pension Age***, whichever is the earlier; or
- you can, if you wish, elect to receive your deferred benefits early from age 55 onwards, or
- you can, if you wish, elect not to draw your deferred benefits at your ***Normal Pension Age*** and defer drawing them till some time later (although they must be paid by age 75).

Benefits paid earlier than your ***Normal Pension Age***, 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 your ***Normal Pension Age*** 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. If you have deferred benefits and are also an active member of the scheme when you die this may impact on the death grant you receive. 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 Harrow pension fund. You can find out how to contact the pension fund at the end of this guide. The scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to.

If you leave with deferred benefits and die before they come into payment a spouse's, ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's pension*** and pensions for ***eligible children*** are payable. The pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is equal to 1/160th of the ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) upon which your pension was calculated times the period of your membership in the scheme after 31 March 2014, plus 49/160ths of the amount of any pension credited to your ***pension account*** following a transfer of pension rights into the scheme from another pension scheme or arrangement. For membership built up **before** 1 April 2014 the pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is equal to 1/160th of your ***final pay*** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry after retiring in which case it could be less. For a ***civil partner*** or an ***eligible cohabiting partner*** this pension is based on the period of membership after 5 April 1988 (plus, in the case of an ***eligible cohabiting partner's*** pension, any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's*** pension).

What if I have two or more LGPS jobs?
If you have two or more jobs in which 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, your deferred benefits from the job that has ended are automatically transferred to the active ***pension account*** for the job you are continuing in, unless you elect to keep them separate. If you wish to keep your deferred benefits separate you must elect to do so within 12 months of re-joining the LGPS, unless your employer allows you longer. 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 must transfer your benefits to the ***pension account*** for the job you are continuing in.

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 another pension arrangement or a new employer's pension scheme. This may even be to an overseas pension scheme or arrangement that meets HM Revenue and Customs conditions. You cannot transfer your benefits if you leave less than one year before your ***Normal Pension Age***. An option to transfer must be made at least 12 months before your ***Normal Pension Age*** or, if later, within 6 months of leaving.

Your new pension provider will require a transfer value quotation which, under the provisions introduced by the Pensions Act 1995, your pension fund will guarantee for a period of three months from the date of calculation.

Alternatively, if you return to employment with an employer participating in the LGPS and rejoin the LGPS after having previously built up LGPS pension rights (i.e. you previously left an LGPS employment with deferred benefits) then these deferred benefits will automatically be transferred to the active ***pension account*** for your new job, unless you elect to keep them separate. If you wish to keep your deferred benefits separate you must elect to do so within 12 months of re-joining the LGPS, unless your employer allows you longer. If you rejoin the LGPS after having previously left an LGPS employment without building up pension rights but you deferred taking a refund of contributions (normally where you have less than two years membership) then this deferred refund **must** be joined with your new active ***pension account*** in the scheme.

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 your 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 decided which contribution band you are in.

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 adjudicator appointed 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 adjudicator considers reasonable). This is a formal review of the initial decision or act or omission and is an opportunity for the matter to be reconsidered. The adjudicator 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 pension 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
  Website www.pensionsadvisoryservice.org.uk

- **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
  Website www.pensions-ombudsman.org.uk

- **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
  Website www.thepensionsregulator.gov.uk

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
Website www.gov.uk/find-lost-pension

Don't forget to keep your pension providers up to date with any change in your home address.

Some terms we use

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
An admission body is an employer that chooses to participate in the scheme under an admission agreement. These tend to be employers such as charities and contractors.

Assumed Pensionable Pay
This provides a notional ***pensionable pay*** figure to ensure your pension is not affected by any reduction in ***pensionable pay*** due to a period of sickness or injury on reduced contractual pay or no pay, or ***relevant child related leave*** or ***reserve forces service leave***.

If you have a period of reduced contractual or no pay due to sickness or injury or you have a period of ***relevant child related leave*** or ***reserve forces service leave*** then your employer needs to provide the pension fund with the ***assumed pensionable pay*** you would have received during that time. This requires a calculation to be carried out by your employer to determine what your pay would have been for the period when you were on reduced contractual pay or no pay due to sickness or the period of ***relevant child related leave*** or ***reserve forces service leave***.

The ***assumed pensionable pay*** is calculated as the average of the ***pensionable pay*** you received for the 12 weeks (or 3 months if monthly paid) before the period of reduced pay or no pay for sickness or injury or before the start of the ***relevant child related leave*** or ***reserve forces service leave***. This figure is then grossed up to an annual figure and then divided by the period of time you were on reduced pay or no pay for sickness or injury or on ***relevant child related leave*** or ***reserve forces service leave.***

Automatic enrolment date
This is the earlier of:
- the day you reach age 22 provided you are earning more than £10,000 a year in the job, or
- the beginning of the pay period in which you first earn more than £10,000 in the job, on an annualised basis, provided you are aged 22 or more and under ***State Pension Age*** at that time.

Civil Partnership (Civil Partner)
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.

Consumer Prices Index (CPI)
The ***Consumer Price Index (CPI)*** is the official measure of inflation of consumer prices in the United Kingdom. This is currently the measure used to adjust your ***pension account*** at the end of every ***scheme year*** when you are an active member of the scheme and, after you have ceased to be an active member, it is used to increase (each April) the value of your deferred pension in the scheme and any pension in payment from the scheme. The adjustment ensures your pension keeps up with the cost of living.

Eligible children
Eligible children are your children. They must, at the date of your death:
- be your natural child (who must be born within 12 months of your death), or
- be your adopted child, or
- be your step-child or a child accepted by you as being a member of your family (this doesn't include a child you sponsor for charity) and be dependent on you.

Eligible children must meet the following conditions:
- be under age 18, or
- be aged 18 or over and under 23 and in full-time education or vocational training (although your administering authority can continue to treat the child as an eligible child notwithstanding a break in full-time education or vocational training), or
- be unable to engage in gainful employment because of physical or mental impairment and either:
    - has not reached the age of 23, or
    - the impairment is, in the opinion of an independent registered medical practitioner, likely to be permanent and the child was dependent on you at the date of your death because of that mental or physical impairment.

Eligible cohabiting partner
An ***eligible cohabiting partner*** is a partner you are living with who, at the date of your death, has met all of the following conditions for a continuous period of at least 2 years:
- you and your cohabiting partner are, and have been, free to marry each other or enter into a ***civil partnership*** with each other, and
- you and your cohabiting partner have been living together as if you were husband and wife, or ***civil partners***, and
- neither you or your cohabiting partner have been living with someone else as if you/they were husband and wife or ***civil partners***, and
- either your cohabiting partner is, and has been, financially dependent on you or you are, and have been, financially interdependent on each other.

Your partner is financially dependent on you if you have the highest income. Financially interdependent means that you rely on your joint finances to support your standard of living. It doesn't mean that you need to be contributing equally. For example, if your partner's income is a lot more than yours, he or she may pay the mortgage and most of the bills, and you may pay for the weekly shopping.

On your death, a survivor's pension would be paid to your cohabiting partner if:
- all of the above criteria apply at the date of your death, and
- your cohabiting partner satisfies your pension fund that the above conditions had been met for a continuous period of at least 2 years immediately prior to your death.

You are not required to complete a form to nominate a cohabiting partner for entitlement to a cohabiting partner's pension. However, you can provide your pension fund with your cohabiting partner's details. Your pension fund will require evidence upon your death to check that the conditions for a cohabiting partner's pension are met.

Eligible Jobholder
An ***eligible jobholder*** is a worker who is aged a least 22 and under ***State Pension Age*** and who earns more than the annual amount of £10,000.

Final pay
This is usually the pay in respect of your final year of scheme membership on which you paid contributions, or one of the previous 2 years if this is higher, and includes your normal pay, contractual shift allowance, bonus, contractual overtime (but not non-contractual overtime), Maternity Pay, Paternity Pay, Adoption Pay, and any other taxable benefit specified in your contract as being pensionable.

Normal Pension Age

Normal Pension Age is linked to your ***State Pension Age*** for benefits built up from April 2014 (but with a minimum of age 65) and is the age at which you can take the pension you have built up in full. If you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later.

You can use the Government's ***State Pension Age*** calculator (www.gov.uk/calculate-state-pension) to find out your ***State Pension Age***. Please note that this calculator does not include proposed changes to ***State Pension Age***.

Remember that your ***State Pension Age*** may change in the future and this would also change your ***Normal Pension Age*** in the LGPS for benefits built up from April 2014. Once you start drawing your pension any subsequent change to your ***State Pension Age*** will not affect your ***Normal Pension Age*** in the LGPS.

If you were paying into the LGPS before 1 April 2014 your final salary benefits retain their protected ***Normal Pension Age*** - which for most is age 65. However all pension benefits drawn on normal retirement must be taken at the same date i.e. you cannot separately draw your final salary benefits (built up before April 2014) at age 65 and your benefits built up in your ***pension account*** (built up from April 2014) at your ***Normal Pension Age*** (which for your benefits built up from April 2014 is linked to your ***State Pension Age***).

Pension Account

Each ***scheme year*** the amount of pension you have built up during the year is worked out and this amount is added into your active ***pension account***. Adjustments may be made to your account during the ***scheme year*** to take account of any transfer of pension rights into the account during the year, any additional pension you may have decided to purchase during the year or which is granted to you by your employer, any reduction due to a Pension Sharing Order or qualifying agreement in Scotland (following a divorce or dissolution of a ***civil partnership***) and any reduction due to an Annual Allowance tax charge that you have asked the scheme to pay on your behalf. Your account is then revalued to take account of the cost of living. This adjustment is carried out in line with the Treasury Revaluation Order index which, currently, is the rate of the ***Consumer Prices Index (CPI).***

You will have a separate ***pension account*** for each employment. That ***pension account*** will hold the entire pension built-up for that employment.

In addition to an active member's **pension account** there are also:

- a deferred member's ***pension account***;
- a deferred refund account;
- a retirement ***pension account***;
- a flexible retirement ***pension account***;
- a deferred pensioner member's account;
- a pension credit account; and
- a survivor member's account.

These accounts will be adjusted by any debits for any Pension Sharing Order or qualifying agreement in Scotland (following a divorce or dissolution of a ***civil partnership***) and for any Annual Allowance tax charge that you have asked the scheme to pay on your behalf.

Pensionable Pay

The pay on which you normally pay contributions is your normal salary or wages plus any shift allowance, bonuses, overtime (both contractual and non-contractual), 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 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, pay relating to loss of future pensionable payments or benefits, any pay paid by your employer if you go on ***reserve forces service leave*** nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.

Relevant Child Related Leave
Relevant child related leave includes periods of Ordinary Maternity, Adoption or Paternity Leave (normally first 26 weeks) and any periods of paid Additional Maternity, Adoption or Paternity Leave (normally after week 26 weeks up week 39).

Reserve Forces Service Leave
This occurs when a Reservist is mobilised and called upon to take part in military operations. The period of mobilisation can range from three months or less and up to a maximum of 12 months. During a period of ***reserve forces service leave*** you will continue to build up a pension based on the rate of ***assumed pensionable pay*** you would have received had you not been on ***reserve forces service leave***.

Scheme Year
The scheme year runs from 1 April to 31 March each year.

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 and 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. To find out your ***State Pension Age*** please visit https://www.gov.uk/calculate-state-pension.

Vesting Period
The ***vesting period*** in the LGPS is 2 years. You will meet the 2 years ***vesting period*** if:

- you have been a member of the LGPS in England and Wales for 2 years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a different occupational pension scheme or from a European pensions institution and the length of service you had in that scheme or institution was 2 or more years or, when added to the period of time you have been a member of the LGPS is, in aggregate, 2 or more years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a pension scheme or arrangement where you were not allowed to receive a refund of contributions, or
- you have previously transferred pension rights out of the LGPS in England or Wales to a pension scheme abroad (i.e. to a qualifying recognised overseas pension scheme), or
- you already hold a deferred benefit or are receiving a pension from the LGPS in England or Wales (other than a survivor's pension or pension credit member's pension), or
- you have paid National Insurance contributions whilst a member of the LGPS and cease to contribute to the LGPS in the tax year of attaining pension age,
- you cease to contribute to the LGPS at age 75, or
- you die in service.

Further information and disclaimer

This guide is for employees in England or Wales and reflects the provisions of the LGPS and overriding legislation from 1 April 2014.

The national web site for members of the LGPS who contribute to the scheme on or after 1 April 2014 can be found at www.lgps2014.org.

This guide cannot cover every personal circumstance. For example, it does not cover all 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 (£1.25 million in 2014/15), those whose pension benefits increase in any tax year by more than the annual allowance (£40,000 in 2014/15), 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:

Harrow Pension Fund
Shared Services – Pensions, 3rd Floor South Wing, Civic Centre,
Station Road, Harrow, HA1 2XF.
Tel: 020 8424 1186 Fax: 020 8424 7520
Email: pension@harrow.gov.uk
Website: Harrowpensionfund.org

Version 1 - 17 March 2014

Appendix 4

LONDON BOROUGH OF HARROW

PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

LONDON BOROUGH OF HARROW PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

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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%	11-15%	Active Sterling aggregate benchmark plus gilts
	Corporate bonds 10.4%		
	Index Linked gilts 2.6%		
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 triennial 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 principles 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.

Appendix 1

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.

<u>Best Principle Guidance</u>

• 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.

<u>Best Practice Guidance</u>

• 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

LONDON BOROUGH OF HARROW

PENSION FUND

FUNDING STRATEGY STATEMENT

MARCH 2014

Contents

1. Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Harrow Pension Fund ("the Fund"), which is administered by London Borough of Harrow Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2014.

1.2 What is the London Borough of Harrow Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Harrow Fund, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy,such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact

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2. Basic funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution;if there is a surplus there may be a reduction in the employer's total contribution.Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employers, employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus.The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood,size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3 It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.There are currently more employers in the Fund than ever before, a significant part of this being due to the establishment of new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academies, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and Council Tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on Council Tax levels;
- Contributions which academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of Council Tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which Council Tax payers in one period are in effect benefiting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3. Calculating contributions for individual employers

3.1 General comments

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 methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of Employer	Scheduled Bodies		Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Council Pool**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)		Ongoing, but may move to "gilts basis" - see Note (a)	Ongoing, but may move to "gilts basis" - see Note (a)	Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)		Projected Unit Credit approach if open (see Appendix D – D.2)	Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach if open, Attained Age otherwise (see Appendix D – D.2)
Stabilised rate?	Yes - see Note(b)	Yes - see Note (b)	No	No	No
Maximum deficit recovery period – Note (c)	20 years	20 years	15 years – subject to security / covenant check	15 years – subject to security / covenant check	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Administering Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Particularly reviewed in last 3 years of contract
New employer	n/a	Note (g)	Note (h)		Notes (h)& (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for

			future deficits and contributions arising.

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Note (a) (Basis for Community Admission Bodies and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) 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 from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and 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 or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be 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.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	**Council Pool**	**Academies**
Max cont increase	+0.5% of pay	+1.0% of pay

Max cont decrease	-0.5% of pay	

The stabilisation criteria and limits will be reviewed at 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account employer membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 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 where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 20 years.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three years' period until the next valuation will be set as monetary amounts.

Note (e) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New academy employers)

The Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion; and

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data,all as at the day prior to conversion.

e) For the current valuation period (1 April 2014 to 31 March 2017) the maximum percentage increase in employer's contribution will be limited to 1.0%

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing to exist with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority should be informed when any of the above options are exercised. Any risk sharing agreements should be detailed in a side letter to the admission agreement. It may be the case that this details what the contractor is and isn't responsible for, however, note all parties should take their own professional advice. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary 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.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4. Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;

- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3Note (b)).The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3Note (b), struck an appropriate balance between the above objectives.In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pension Fund Committee meetings, and also to employers through newsletters and Employers Forums.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that 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.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which 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, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with Council Tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in January 2014 for comment;

b) Comments were requested within 14 days;

c) There was an Employers Forum on 23 January at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in March 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.harrow.gov.uk
- A copy sent by e-mail to each participating employer in the Fund;

- A copy sent to employee/pensioner representatives;
- A summary issued to all Fund members;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Fund Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.harrow.gov.uk

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;

- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 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;
- have a policy and 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; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;

- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 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. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
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. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this

Risk	Summary of Control Mechanisms
	risk. Employers pay for their own salary awards and should be mindful 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	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is

Risk	Summary of Control Mechanisms
	permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

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) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with relevant contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps

Risk	Summary of Control Mechanisms
	will be taken.
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 (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

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 of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period.The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[2], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[3]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but 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 more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

[2] See LGPS (Administration) Regulations 36(5).
[3] See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. 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 over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- 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.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. 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.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. 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 Fund actuary does not allow for certain relatively minor events, 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.

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 it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit.However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. 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 asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, 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 gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum.This is a change from the previous valuation, which assumed a three year restriction at 1% per annum followed by longer term growth at CPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI,has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita'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 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

14. Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are**members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial**

	assumptions.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s **covenant** to be as strong as its guarantor’s.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer’s annual contribution which relates to past service **deficit** repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still

require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).

Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, i.e. where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

REPORT FOR: Governance, Audit, Risk Management and Standards Committee (GARMS)

Date of Meeting: 22nd July 2014

Subject: **Draft Annual Governance Statement 2013/14**

Responsible Officer: Simon George,
Director of Finance & Assurance

Exempt: No

Enclosures: 2013/14 Draft Annual Governance Statement – Appendix 1

Section 1 – Summary and Recommendations

This report sets out the Council's Draft Annual Governance Statement (AGS) for 2013/14 required to meet the requirements of the Accounts and Audit Regulations 2011.

Recommendations:
The Committee is requested to:

1) Review the 2013/14 draft AGS (Appendix 1);

2) Make recommendations as appropriate to enhance the statement or improve the annual review process.

Reason: (For recommendations)
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 the 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 Head of Paid Service. It is submitted in draft to the

Leader, the Head of Paid Service and the Governance, Audit and Risk Management (GARM) Committee 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 Statement will be finalised, having considered any comments received on the draft, and the signed-off version will be presented at the next GARM Committee meeting with the Accounts.

Financial Implications

2.8 Financial implications have been addressed, where relevant, in the main body of the report.

Risk Management Implications

2.9 The work of internal audit supports the management of risks across the council.

Corporate Priorities

2.10 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: Steve Tingle … Date: …09/07/14………..	√	On behalf of Chief Financial Officer
Name: …Sarah Wilson..……. Date: …11/07/14…………	√	On behalf of Monitoring Officer

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit,
Tel:0208 424 1420

Background Papers: None.

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ANNUAL GOVERNANCE STATEMENT 2013/14

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 2014 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 vision and priorities are reviewed annually and set out in the Corporate Plan. The Council's Corporate Plan 2013/14 was agreed in March 2013. The plan was underpinned by engagement with the community including (for example) "Lets Talk" events to explain the budget and seek views from residents..

3.3 The Corporate Plan set out the following four Corporate Priorities for 2013/14:

- 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.

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3.4 Although there was a change of Administration in May 2013 the corporate vision and priorities remained the same however a further change in Administration in September 2013 brought in a new Administration who agreed a new set of priorities in February 2014 of Cleaner; Safer; Fairer in the new Corporate Plan for 2014/15. However there was no consultation with the local community and other key stakeholders other than the publication of the draft budget in December 2013 with a view to seek external views on it before agreement in February 2014.

3.5 Following elections in May 2014 and a new Administration a new vision and priorities were agreed at Council on 12th June 2014. The vision and priorities are based on the new Administrations understanding of the views of local residents developed by listening to many people, from community groups, women's groups, businesses and trade unions over the last year.

3.6 In October 2013 consultation was launched on the deletion of the Chief Executive post and a final decision taken to delete it and replace it with a Head of Paid Service combined with an existing Corporate Director post by Cabinet in December 2013 and ratified by full Council. The Chief

Executive subsequently left the Council in February 2014 and was replaced on an interim basis by the Head of Paid Service and Corporate Director of Health and Wellbeing.

3.7 Harrow Council works in partnership with many different organisations, both public and private sector, to deliver the best outcomes for our community. For many years and for the first half of 2013/14 the Harrow Strategic Partnership (HSP) was in place as an umbrella conduit for change to improve the social, economic, environmental, health, education, and community safety needs of the communities of Harrow. This was supported by a number of key boards including the Health and Wellbeing Board (although technically the Health and Wellbeing Board did not report to the HSP), the Safer Harrow Board and the Harrow Chief Officer Group. Over the years, as the partnerships have developed, the need for an umbrella board has diminished and thus in September 2014 the Harrow Strategic Partnership Board was abolished to streamline the decision making and governance arrangements for our partnerships with other public sector bodies.

3.8 The Council also has a number of shared service arrangements and commercial partnership arrangements in place to help deliver the best outcomes for our community in terms of costs and service delivery. Each of these have governance structures in place, designed as appropriate for the individual arrangement.

3.9 The development of the medium term financial strategy continues to be extremely challenging because:

- The Government's deficit reduction strategy is making significant reductions in the funding available to local authorities
- Changes to the way the Government funds local authorities are transferring significant risks to local authorities that were previously borne by Central Government
- Harrow is already a relatively low spending council
- Considerable savings have been made in previous years and this makes it increasingly difficult to identify new areas for efficiencies and reductions
- The demand for services from our residents and expectations from central government are growing all the time

During 2013/14 as part of its preparations for meeting savings targets in 2014/16 and beyond the Resources Directorate launched Project Minerva to review outsourcing, in house and shared services options for the delivery of its services. The conclusions were reported to Cabinet in January 2013.

3.10 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 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 improvements as part of their commissioning plans, considered by the Commissioning Panels.

3.11 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 responsibilities, committee terms of reference and details of the statutory obligations (Head of Paid Service, Directors of Children's, Adult Social Services, Director of Public Health, Chief Financial Officer (S151 Officer), Monitoring Officer and Returning Officer).

3.12 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 June 2014.

3.13 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
- 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.

3.14 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.

3.15 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 Corporate risk register is reviewed by the Corporate Strategy Board and the Governance, Audit and Risk Management Committee on a quarterly basis. All Directorates have risk registers and these are reviewed by Directorate Management Teams regularly and the Improvement Boards quarterly.

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

3.17 The role of the Chief Financial Officer (CFO) was filled on a permanent basis in March 2013. Throughout 2013/14 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 to the Chief Executive (Head of Paid Service) on matters relating to his statutory role. The CFO sits on the Corporate Strategy Board. 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.

3.18 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. The arrangements for the discharge of the Head of Paid Service is covered in the constitution and this role was fulfilled by the Chief Executive until February 2014 and by the interim Head of Paid Service for the rest of the year and to date.

3.19 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. The membership of the committee was stable throughout the year although the Chair changed in July 2013. As the political make-up of the Council changed in May

2014 the GARM Committee membership will change. This will be managed by providing general and specific member training to committee members to enable then to fulfil their role.

3.20 A whistleblowing policy exists and was last reviewed in 2013/14. 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.

3.21 A Member Development Programme is in place that includes mandatory training on their statutory role. Access to development is also available to all members via e-learning. Monitoring of the Member Development Programme and evaluation of development activities is undertaken quarterly by the Member Development Panel, 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 2013/14 a new corporate development programme was designed and launched, with improved attendances. Each development activity is evaluated and the programme updated quarterly.

3.22 The Council's Involvement Tracker seeks residents' opinions on a wide range of service and community issues. 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 moved to the Council's Communications team, which has enabled a greater consistency on the approach and delivery of consultations.

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 will be 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 and significant governance identified by this process will be outlined in paragraph 9.

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 draft overall audit opinion for the Council's control environment for 2013/14 was assessed as "good". The detailed report setting out the reasoning behind this assessment will be considered by the Governance, Audit and Risk Management Committee (GARM) in July 2014.

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. The process was further enhanced in 2013/14 to provide a narrative for each risk.

7.2 This process has yet to be completed. The outcome will be reported in the final AGS.

.

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 2013/14 has identified no significant governance gaps and 14 minor gaps of which 12 were carried forward from 2012/13. Significant progress has been made toward closing the majority of the carried forward gaps during 2013/14 in addition to closing the other 11 gaps, including 1 significant gap, identified as part of the 2012/13 process.

9.2 An action plan will be agreed as part of this process to address the gaps identified to further enhance our governance arrangements and reported with the final AGS.

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.

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REPORT FOR:	**Governance, Audit, Risk Management and Standards Committee (GARMS)**
Date of Meeting:	22 July 2014
Subject:	**INFORMATION REPORT – Internal Audit Year-End Report 2013/14**
Responsible Officer:	Simon George – Director of finance & Assurance
Exempt:	No
Enclosures:	Appendix A – Internal Audit Year-end Report 2013/14 Appendix B – Suspected Financial Irregularities Appendix C – Reports issued in 2013/14 Appendix D – Recommendations not Agreed and Follow-ups

Section 1 – Summary

This report sets out the draft overall audit opinion on the control environment and progress against the 2013/14 Internal Audit plan.

FOR INFORMATION

Section 2 – Report

Background

2.1. The Internal Audit Year-end 2013/14 report, Appendix A, covers progress against the internal audit annual work plan; information on suspected financial irregularities is provided in Appendix B; a summary of all reports and follow-ups is provided in Appendix C; Appendix D provides information on recommendations not agreed/not implemented.

Overview of Progress

2.2. Overall the Internal Audit Team have achieved 92% of the 2013/14 annual Audit plan, which exceeds the 90% target. This included 100% achievement of the core financial systems reviews relied upon by the council's External Auditors for their risk assessment of the authority. Fifty-four audit reports were issued during the year containing a total of 441 recommendations of which 432 were agreed (or alternative actions agreed) for implementation (98%) which exceeds the 95% performance target.

2.3 The attached reports provide a summary of work undertaken during the year including an overview of each review, details of follow-up work and detailed results of the team's performance indicators showing that 100% were met or exceeded.

Draft Audit Opinion on Overall Control Environment

2.4 This is a draft overall opinion based on internal audit risk based and reliance work carried out in 2013/14 including the core financial systems work for 2013/14 complete so far.

The adequacy and effectiveness of organisation's control environment for the 2013/14 financial year has been assessed as "good" based on the following:

- 78% of the traffic lighted systems reviewed during 2013/14 were given an amber, an amber/green or a green assurance rating;
- 98% of recommendations made during 2013/14 were agreed for implementation;
- 74% of recommendations followed-up have been implemented, 23% are in progress or are planned at the time of follow-up thus it is expected that in due course 97% will be implemented. 86% of follow-ups resulted in an improved assurance rating and 14% were core financial system reviews that remained green.
- 6 suspected financial irregularities were reported to Internal Audit during 2013/14.
- 87.5% of controls reviewed (thus far) within the Council's core financial systems were either operating fully or substantially, with 12.5% operating partially.

- 100% of walkthrough tests confirmed that the core financial systems were operating as described in system notes and 95% of controls self-assessed by management were operating.

2.5 The final opinion will include all the core financial system reviews and the results of the Management Assurance exercise and will be reported to GARM at the next meeting.

Section 3 – Further Information

The next report on the performance of the Internal Audit team will be the 2013/14 Mid-year Report to be submitted to GARM Committee in November 2013.

Section 4 – Financial Implications

There are no financial implications to this report.

Section 5 - Equalities implications

None

Section 6 – Corporate Priorities

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.

Name: Steve Tingle….	√	On behalf of Chief Financial Officer
Date: …11/07/14		

Section 7 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit, Tel: 0208 424 1420

Background Papers: None

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APPENDIX A

INTERNAL AUDIT YEAR-END REPORT 2013/14

DRAFT OPINION ON THE OVERALL CONTROL ENVIRONMENT

1. This is a draft overall opinion based on internal audit risk based work and includes the core financial systems work for 2013/14 and the results of the management assurance exercise for 2013/14.

2. The adequacy and effectiveness of the organisation's control environment for the 2013/14 financial year has been assessed as "good" based on the following:

   - 78% of the traffic lighted systems reviewed during 2013/14 were given an amber, an amber/green or a green assurance rating;
   - 98% of recommendations made during 2013/14 were agreed for implementation;
   - 74% of recommendations followed-up have been implemented, 23% are in progress or are planned at the time of follow-up thus it is expected that in due course 97% will be implemented. 86% of follow-ups resulted in an improved assurance rating and 14% were core financial system reviews that remained green.
   - 6 suspected financial irregularities were reported to Internal Audit during 2013/14.
   - 87.5% of controls reviewed (thus far) within the Council's core financial systems were either operating fully or substantially, with 12.5% operating partially.
   - 100% of walkthrough tests confirmed that the core financial systems were operating as described in system notes and 95% of controls self-assessed by management were operating.

3. The final opinion will include all the core financial system reviews and the results of the Management Assurance exercise

OVERVIEW OF WORK UNDERTAKEN

4. Overall the Internal Audit Team have achieved 92% of the 2013/14 Annual Audit plan. This included 100% achievement of the core financial systems reviews relied upon by the council's External Auditors for their risk assessment of the authority. See Appendix E.

5. The original 2013/14 plan contained 51 projects/areas, during the year 4 projects were replaced by new emerging risk projects.

6. In addition to this 119 days have been spent on projects carried forward from 2012/13, 81 days have been spent on investigating suspected financial irregularities (11 days more than the annual allocation), 75 days have been spent on providing professional advice on internal control and risk mitigation (10 days more than the annual allocation) and 47 days have been spent on standard follow-ups of audit recommendations (7 days more than the annual allocation). The annual allocation for follow-up is an estimate of how many days will be required for following up red and amber reports based on 2 days per report and is dependent on how many reports are issued.

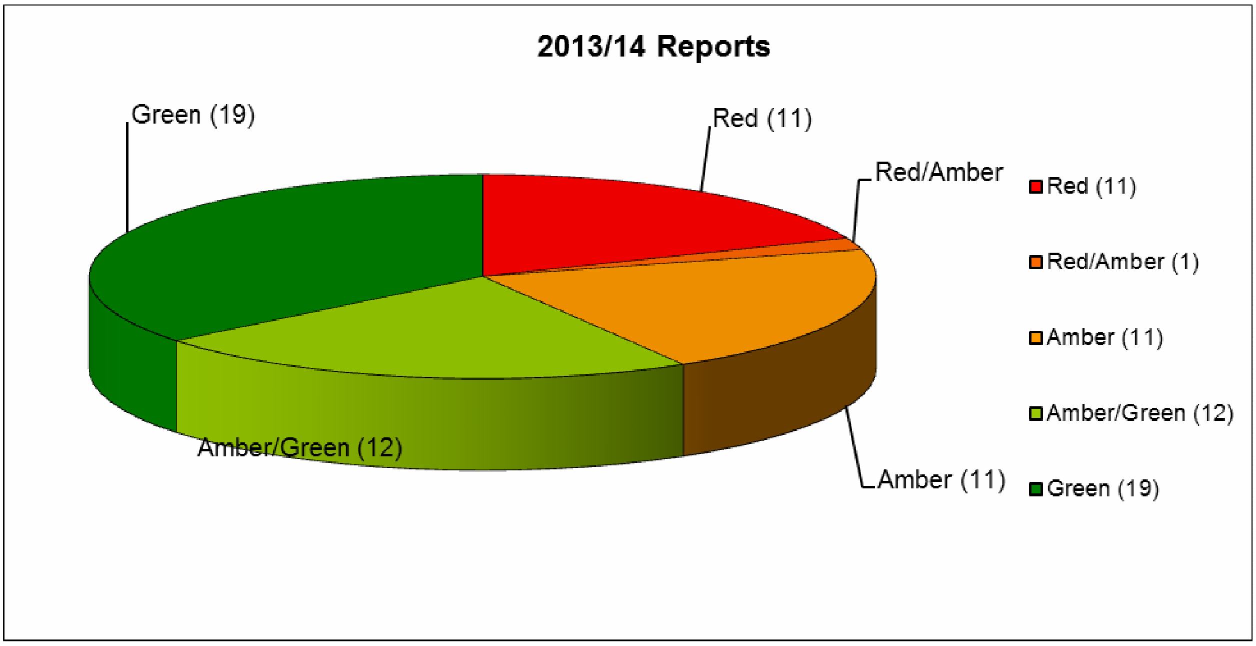
Assurance Reports

7. Audit reports are traffic lighted to indicate the level of assurance that can be obtained from the system under review. This ranges from green reports indicating that a system is well controlled and therefore a low risk to the authority to red reports indicating that a system represents a high risk to the authority needing immediate attention to improve the control environment.

8. As the Internal Audit Plan is risk based it concentrates on systems that have been identified as high risk by management via inclusion in the corporate risk registers or during consultation on the audit plan or by internal audit based on cumulative audit knowledge and audit risk assessment. In 2008/9 41% of assurance levels were red or red/amber; in 2009/10 it was 50%; in 2010/11 it was 42%; in 2011/12 it was 30%; in 2012/13 it was 14% and in 2013/14 it was 22%. This shows an overall improvement in the level of controls in place and operating effectively across the Council and is reflected in the Opinion on the Overall Control Environment (above).

9. A total of 54 Internal Audit reports were issued during the year of which there were 20% red assurance, 2% red/amber assurance, 20% amber assurance, 22% amber/green and 35% green assurance. Graph 1 below illustrates the mix of the assurance levels given to reports issued in 2013/14.

Graph 1 – Traffic Light Reports 2013/14



10. The table shows that 78% of the traffic lighted systems reviewed during 2013/14 were given an amber, an amber/green or a green assurance rating i.e. over 61% expected controls operating at the time of review.

11. Appendix C details all the final reports, draft reports and follow ups issued in 2013/14.

Recommendations

12. A total of 441 recommendations were made of which 432 were agreed (or alternative actions agreed) for implementation (98%) which exceeds the 95% performance target. Nine recommendations were not agreed. The specific recommendations, the management response and the audit comment included in the final report are shown in Appendix D.

Follow-ups

13. The Internal Audit policy on follow-up is to follow-up red and red/amber reports after 3 months and to follow-up amber and amber/green reports after 6 months, reassessing the traffic light of each report. Green reports are not followed up as they are low risk unless it is a core financial system review.

14. During 2013/14, a total of 364 recommendations have been followed up. Of these a total of 271 have been implemented, 61 were partially implemented/in the process of being implemented, 22 were planned for implementation, and 9, although originally agreed by management, were not implemented. This represents a 74% implementation (of recommendations still applicable) however a further 23% are in progress or were planned at the time of follow-up thus it is expected that in due course 97% will be implemented. Of the 92 recommendations partially implemented/planned/not implemented, 21 were high risk. Of these it has been confirmed that 7 have now been implemented and 4 have been substantially implemented. See Appendix D for further information.

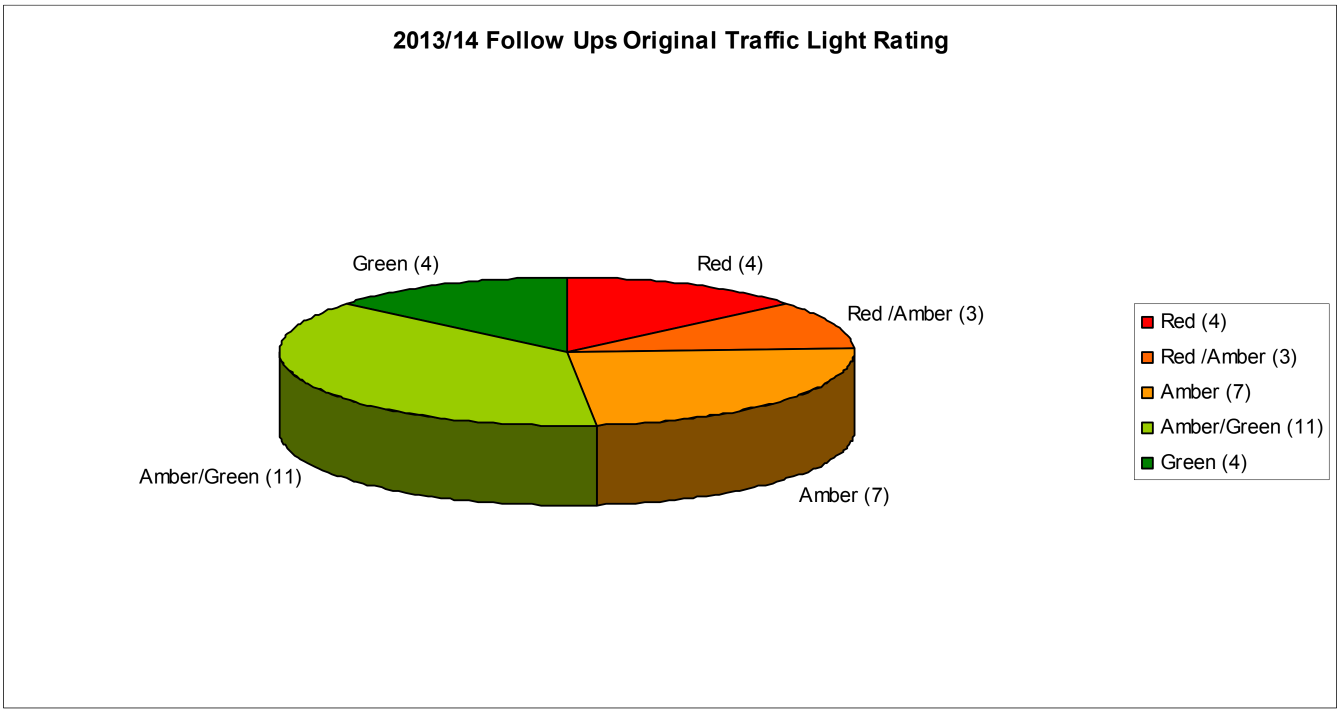
15. Of the 29 reviews followed up, 4 were red reports, 3 was a red/amber report, 7 were amber reports and 11 were an amber/green report and 4 were green reports (core financial system reports). In accordance with the Internal Audit policy on follow-ups the reports shown in table 2 and the pie charts below were reassessed as part of the follow-up and a new audit opinion issued showing the updated traffic light position:

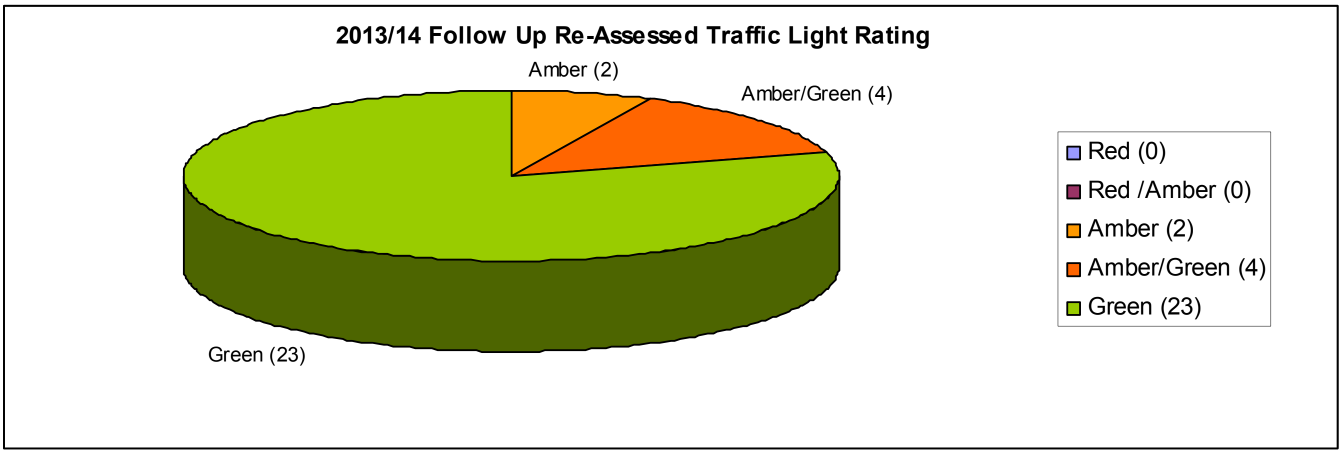
Table 2 – Re-issued Audit Opinions

Report	Original Traffic-light	Re-assessed Traffic Light
Childrens Centres	Red	Green
Debtors (CAR) Key Control	Amber	Green
Earlsmead Financial Controls	Amber/Green	Green
Longfield Financial Controls	Amber/Green	Green
Stag Lane Junior Financial Controls	Amber/Green	Green
Woodlands Financial Controls	Amber/Green	Green
Housing Rents Key Control	Green	Green
Capital Expenditure Programme	Amber	Amber/Green
Transformation Programme Engagement & Culture Change - Procurement	Red/Amber	Amber/Green
Kingsley Financial Controls	Amber/Green	Green
Heathland Financial Controls	Amber/Green	Green
Elmgrove Financial Controls	Amber/Green	Green
Vaughan Financial Controls	Amber/Green	Green
Mobile Phone	Red	Amber
Contract Monitoring C&E	Red/Amber	Green
Stanburn Junior Financial Controls	Amber/Green	Green

WLWA Income & Expenditure	Red	Amber/Green
Whitefriars Financial Controls	Amber	Green
Grange Governance/Procurement	Amber	Green
WLWA Overtime	Red/Amber	Amber
Sacred Heart Financial Controls	Amber/Green	Green
Transformation Programme Engagement & Culture Change - Business Support	Amber	Green
Client Finances – Court of Protection	Amber	Amber/Green
Council Tax Key Control	Green	Green
St John Fisher Petty Cash	Red	Green
Aylward Financial Controls	Amber/Green	Green
Payroll 12/13 Key Control	Green	Green
Treasury Management Key Control	Green	Green
Personalisation	Amber	Green

16. 25 of the 29 re-assessed reports showed an improved assurance rating and the 4 core financial system reports retained the same green assurance rating.





Emerging Risks

17. Emerging risks are areas of risk arising during the year that were not apparent at the time of the annual planning process but that are considered significant enough by management/internal audit to warrant audit input. The emerging risk areas arising during 2013/14 were:

- Staff Canteen
- Arboricultural Services
- Financial Regulations in schools
- Heathland Waivers

These emerging risks were significant and therefore have become projects in the 2013/14 Internal Audit Plan.

Audit of Core Financial Systems – Updated Report

18. As part of the 2013/14 Annual Plan Internal Audit undertook a key control review on the following systems as part of the agreed approach to the audit of the Authority's core financial systems for the financial year 2012/13 (reported in detail in the 2013/14 mid-year report):

- Payroll
- Treasury Management
- Council Tax

19. In addition to satisfy additional requirements of the External Auditors, Control self-assessments were obtained from the relevant managers for the following core financial systems:

- Housing Benefits
- NDR
- Housing Rents
- Corporate Accounts Receivable
- Corporate Accounts Payable
- Capital Programme

and systems documentation was reviewed/updated and walkthrough tests were undertaken to confirm the actual system in operation for all the above core financial systems.

20. Overall out of a total of 30 key controls reviewed, 21 (70%) were fully operating, 5 (16%) were substantially operating and 4 (14%) were partially operating. In total 14 recommendations were made, 10 of which were medium risk and 4 were low risk. Of the 14 recommendations made, 11 have been agreed for implementation.

21. For the Payroll system overall, 81% of the elements of the controls were operating effectively, 4% were substantially operating and 15% were partially operating. Each of the 9 key controls is made up of a number of individual elements that were each tested. Therefore 6 key controls are fully in place 2 key controls are substantially in place and 1 key control is partially in place. Five recommendations have been made to address the weaknesses identified, they were all rated as medium risk. Four recommendations have been agreed for implementation, 1 recommendation is awaiting the outcome of the MINERVA project within Resources, Employee Self Service is being reviewed and/or another mechanism will be put in place.

22. For the Treasury Management system overall, 72% of the elements of the controls were operating effectively, 11% were substantially operating and 17% were partially operating. Each of the 10 key controls is made up of a number of individual elements that were each tested. Therefore 6 key controls are fully in place, 1 key control is substantially in place, and 3 key controls are partially in place. Six recommendations have been made to address the weaknesses identified, 5 were rated as medium risk and 1 was rated as low risk. All recommendations have been agreed for implementation.

23. For the Council Tax system overall, 90% of the elements of the controls were operating effectively, with 10% substantially operating. Each of the 11 key controls is made up of a number of individual elements that were each tested. Therefore 9 key controls are fully in place and 2 key controls are substantially in place. Three low risk recommendations have been made to address the weaknesses identified to enhance the already strong control environment. One of the 3 recommendations has been agreed for implementation. For 1 recommendation, the target for taking action on the Schedules of Alterations from the Valuation Office Agency has been revised to 30 days which leaves the outstanding risk that the potential increase in yield from new builds may be delayed slightly due to this amendment of target. The remaining recommendation has not been agreed regarding the timescale for quality checks by the Service Manager on authorisations of write-offs. This is a low residual risk however as the quality check will continue to be carried out and forms part of the general housekeeping processes.

Other Work

24. Other work undertaken annually in the first quarter includes the completion of reviews from the previous years plan, the annual Management Assurance exercise and the annual governance review feeding into the authority's Annual Governance Statement (AGS). The results of these are reported to the GARM committee in detail separately.

25. Management Assurance: During 2012/13 a review of the management assurance process was undertaken and it was redesigned and aligned to the Corporate Risk Register. During 2013/14 risk owners and Corporate Directors were asked to provide assurance on the operation and effectiveness of key controls in place during 2013/14 to mitigate the Council's most significant risks. Evidence was provided to Internal Audit to support the self-assessments. A summary report is being prepared to be signed off by the Head of Paid Service and will be reported to the next GARM meeting and the results of the process will feed into the final Annual Governance Statement.

26. Corporate Governance: An annual review of governance is undertaken, co-ordinated by Internal Audit, feeding into the Annual Governance Statement and overseen by the Corporate Governance Group.

27. Information Governance Board: Internal audit attends and contributes to the Information Governance Board including reviewing and updating policies and procedures.

28. Improvement Boards: Provision of information on the production of draft and final IA reports and follow-ups undertaken to support quarterly improvement boards.

Professional Advice

29. A range of professional advice was provided by the IA Team across the council during the year covering such areas as recruitment and retention, capital governance, conflicts of interest, delegations, application of contract procedure rules and financial regulations etc.

Suspected Financial Irregularities

30. During 2013/14, 6 suspected financial irregularities (SFIs) were reported to Internal Audit. Investigations into 67% of these have been concluded with no significant loss to the Council. See Appendix B for details of the significant SFIs.

RELIANCE

31. The Authority's External Auditor's, Deloitte LLP, placed reliance on the work undertaken by Internal Audit as part of the 2013/14 Annual Plan in relation to the Authority's core financial systems in operation during 2012/13 for their risk assessment of the Authority.

COMPLIANCE WITH STANDARDS

32. The CIPFA Code of Practice for Internal Audit in Local Government in the UK was replaced by the Public Sector Internal Audit Standards (PSIAS) from April 2013 and a Local Government application Note was issued by CIPFA in April. Together these now constitute proper practices to satisfy the requirements of larger relevant bodies as set out in the Accounts and Audit Regulations 2011.

33. The Application Note contains a checklist for assessing conformance with the PSIAS and the Local Government Application Note and this will be used to periodically check our compliance.

34. There is also a requirement for an external assessment to be undertaken every five years and we are working with other London Boroughs to set up a series of peer reviews to satisfy this requirement.

PRODUCTIVITY

35. The days available to implement the internal audit annual plan are based on an estimation of the team's productive time. To enable this estimation to be made, and to feed into performance indicator 3 (see section below), each auditor is required to record a breakdown of their time spent eac Each element of productive time (i.e. every

project/element of the annual plan plus any additions e.g. emerging risks) and each element of non-productive time (e.g. annual leave, training, audit management) is allocated a unique code and time is recorded against each code to the nearest 15 minutes.

36. The number of audit days available for the 2013/14 plan was determined via a detailed resource calculation for each auditor taking into account available days, actual days 2012/13 and allowances for annual leave, training etc. A challenging target was set for each member of the team and the combination of these targets determined the days available for the Internal Audit Plan.

37. The year-end position shows that overall the team have achieved 1148 productive days which exceeds the target of 1090 days for 2013/14 by 58 days.

PERFORMANCE INDICATORS

38. The Internal Audit Quality Assurance and Performance Indicators Framework was developed in compliance with the CIPFA Code of Practice and has been operating since 2007/08 (although reviewed/updated at least annually). The aim of the framework is to demonstrate that the internal audit service is:
- meeting its aims and objectives
- compliant with the CIPFA Code of Practice
- meeting internal quality standards
- effective and efficient, continuously improving
- adding value and assisting the organisation in achieving its objectives.

39. The performance and the effectiveness of internal audit is monitored by the Service Manager Internal Audit to ensure that it improves over time, in terms of both the achievement of targets and generally in terms of the quality of the service provided to the user and to identify areas for improvement.

40. Table 3 below outlines the seven indicators agreed for 2013/14, including the key indicator covering achievement of the IA operational plan and the results achieved.

Table 3 – Internal Audit Performance Indicator Results 2012/13

	Indicator	**Target**	**Mid Year Results**	**Year End Results**
1	Recommendations agreed for implementation	95%	95%	98%
2	Final reports issued on/ahead of time	85%	88%	92%
3	Projects completed within budgeted time allowance	85%	88%	89%
4	Target met for issue of draft report after end of fieldwork	85%	88%	93%
5	Follow-up undertaken	100%	100%	100%
6	Plan achieved for Key Control reviews	100%	100%	100%
7	Plan achieved overall (Key indicator)	90%	45%	92%

Analysis of Results

41. All of the targets have been met, 5 (71%) have been exceeded.

Table 4 – Corporate Audit Indicators

	Indicator	Target	Mid Year Results	Year End Results
1	Implementation of recommendations	90%	84% (expected to be 97%)	74% (expected to be 97%)
2	Auditee response times to draft reports within 4 weeks	80%	45%	53%
3	Auditee response times to follow ups within 4 weeks	80%	33%	62%

Analysis of Results

42. None of the corporate targets have been met.

43. Whilst the implementation of recommendations has not met the target of 90%, it is expected to be 97% once all recommendations planned for implementation or in progress of being implemented have been fully completed.

44. During 2012/13 auditees were given one week longer to respond to draft reports (increasing from 3 weeks to 4 weeks) in an attempt to improve response times however this appeared to have had a negative rather than a positive impact as only 45% achieved the target in 2012/13 in comparison to 47% in 2011/12. This was picked up in the Lean Review of Internal Audit processes undertaken in 2012/13 and an Action Planning meeting was introduced in 2013/14 as a result two weeks after the draft report is issued to agree actions to enable reports to be finalised in a more timely manner. This has successfully improve this indicator for 2013/14 however it is still significantly below the target.

45. The year end result of auditee response times to follow ups within 4 weeks (increased from 2 weeks in 2011/12 again in an attempt to improve response times) has not met the target although it has improved from 39% in 2012/13.

Susan Dixson
Head of Internal Audit
June 2014

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IRREGULARITY INVESTIGATIONS REPORT 2013/14

1. During 2013/14, 6 cases of potential irregularity were reported to Internal Audit.

Significant SFI's

2. **90 Overpayments of Salary totalling £117,203.64:** These overpayments were not fraudulent in nature and the majority can be attributed to a lack of communication between management; HR and Payroll regarding changes in hours; staff leaving; overtime keyed incorrectly; incorrect sick pay; payments to incorrect employee or inputting errors. The overpayments were identified either by payroll staff, the employee concerned or management. Wherever possible these overpayments have been or will be recovered via the payroll system. It is anticipated that all of overpayments will be recovered. The percentage of overpayments recovered as at April 2014 was 85%. As there were 67 similar overpayments for the whole of 2012/13. See Table 1 and 2 below.

Table 1: Comparison of the number of salary overpayments over the last 5 years

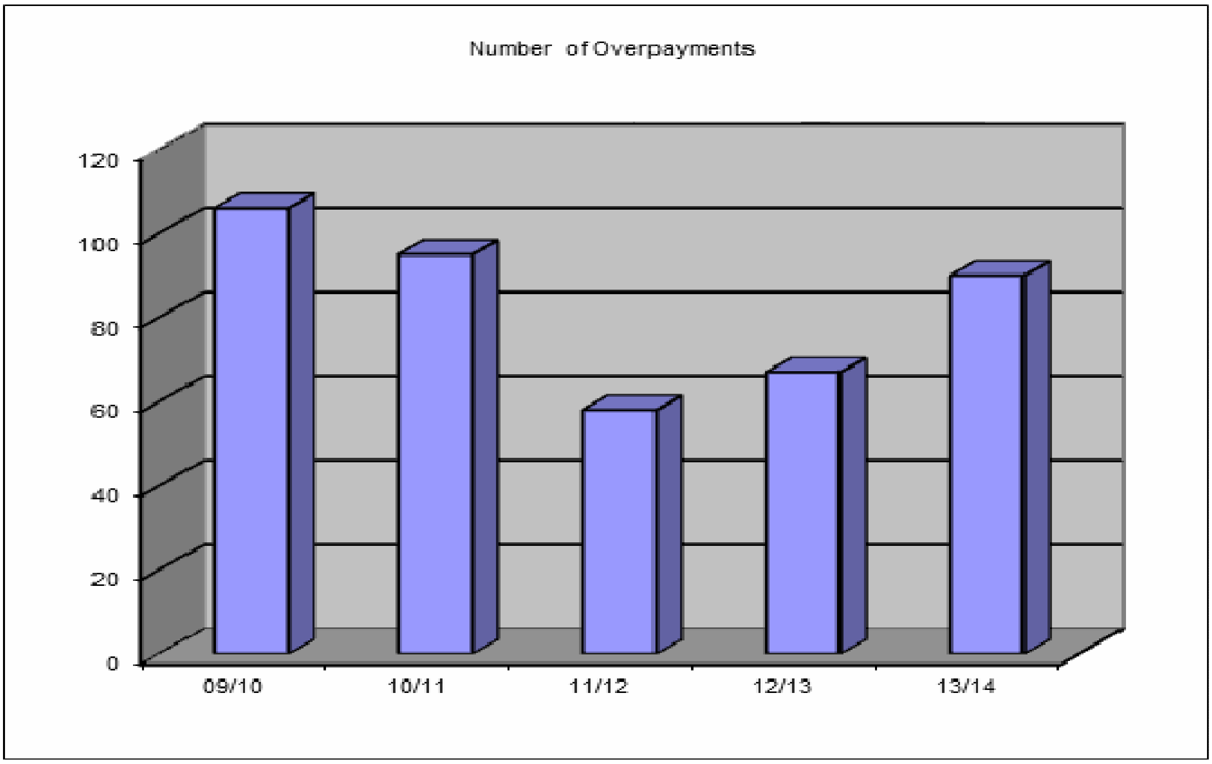
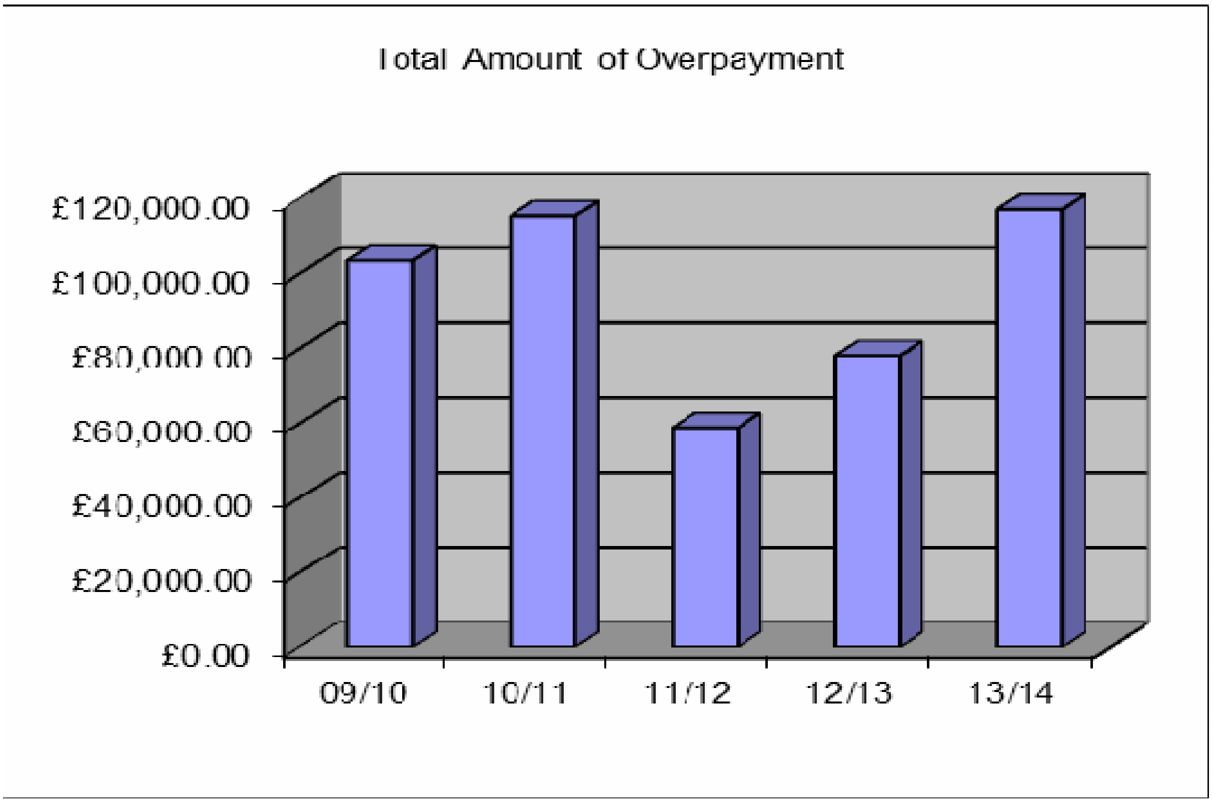


Table 2: Comparison of the total amount of salary overpayments over the last 5 years



3. **Schools:** Two separate audit investigations were launched after the receipt of whistleblowing allegations. These investigations are ongoing and will be reported in more detail at mid-year.

INTERNAL AUDIT REPORTS ISSUED IN 2013/14

1. The following reviews were finalised in 2013/14:

REPORT/ASSURANCE RATING	ISSUE DATE	SUMMARY OF CONTROLS OPERATING
Vaughan Primary School – Governance & Financial Controls Review Assurance Rating = Amber/green	2.4.13	Overall 81% of the expected controls were found to be in place and operating effectively, 11% were substantially operating, 6% were partially in place with a further 2% not operating. Although percentages indicate a green assurance, the report has been rated as amber/green due to 2 high risk recommendations. All 9 recommendations have been agreed for implementation.
Mobile Phones and Mobile Devices	11.04.13	See Appendix B.
Core Financial System Review – 2011/12 – Accounts Payable Assurance Rating = Amber/green	12.04.13	Overall, 70% of the elements of the controls were operating effectively, with a further 18% substantially operating and 12% partially operating. Although these percentages indicate a green assurance, the report has been rated as amber/green assurance due to the 2 high risk recommendations. Each of the 9 key controls is made up of a number of individual elements that were each tested. All 8 recommendations have been agreed for implementation. Additionally a further 3 recommendations relating to the extra work carried out on one-time vendors have also been agreed for implementation.
Stanburn Junior School – Governance & Financial Controls Review Assurance Rating = Amber/green	17.04.13	Overall 67% of the expected controls were found to be in place and operating effectively, 12% were substantially operating, 17% were partially in place with a further 4% not operating. All 16 recommendations have been agreed for implementation.
Transformation Programme – Engagement and Culture Change Libraries RFID Phase 1 Assurance Rating = Green	22.04.13	Overall 92% of the expected controls were found to be in place and operating effectively and 8% were substantially operating. The level of engagement within the Libraries project was effective because of the presence of a full time Change Champion, the visibility and availability of the management team to staff and the use of floorwalkers who were expert at demonstrating the customer focussed behaviours that has enabled the regular staff to make the transition. Both recommendations have been agreed for implementation
Transformation Programme – Engagement & Culture Change Independent	25.04.13	Overall 81% of the expected controls were found to be in place and operating effectively, 13% were substantially operating and 6% were partially in place. Both recommendations have been agreed for

Living (For Young Care Leavers) Report Assurance Rating = Green		implementation.
Whitefriars Community School – Governance & Financial Controls Review Assurance Rating = Amber	29.04.13	Overall 63% of the expected controls were found to be in place and operating effectively, 21% were substantially operating, 8% were partially in place with a further 8% not operating. Percentages indicate a green assurance rating however due to 4 high risk recommendations this has been given an Amber assurance rating. All 16 recommendations have been agreed for implementation.
Audit Briefing Note - Incorrect Tax Calculation April 2013 Payroll	7.05.13	Review of the recent payroll error to identify 'lessons to be learnt' from what happened. 2 recommendations have been agreed for implementation.
Grange Primary School – Governance & Procurement Review Assurance Rating = Amber	10.05.13	Overall 40% of the expected controls were found to be in place and operating effectively, 33% were substantially operating, 24% were partially in place with a further 3% not operating. All 14 recommendations have been agreed for implementation.
St John Fisher Catholic School – Governance & Financial Controls Review Assurance Rating = Amber/green	17.05.13	Overall 81% of the expected controls were found to be in place and operating effectively, 6% were substantially operating with a further 13% partially operating. Although percentages indicate a green assurance rating, this report is an amber/green due to one high recommendation. All 8 recommendations have been agreed for implementation.
The Sacred Heart Language – Governance & Financial Controls Review Assurance Rating = Amber/green	30.05.13	Overall 72% of the expected controls were found to be in place and operating effectively, 11% were substantially operating, 15% were partially in place with a further 2% not operating. Although percentages indicate a green assurance rating, the report is rated as Amber/Green due to one high risk recommendation. All 14 recommendations have been agreed for implementation.
Transformation Programme – Engagement & Culture Change Business Support Assurance Rating = Amber	7.06.13	Overall 67% of the expected controls were found to be in place and operating effectively, 8% were substantially operating and 25% were partially in place. Although these percentages would normally indicate an amber/green assurance rating there are a number of high risk recommendations therefore this has been assessed as an amber report. All 8 recommendations have been agreed for implementation although for 2 recommendations this is an agreement to take the issues forward to the Operations Board.

Core Financial System Review – 2012/13 – Council Tax Assurance Rating = Green	25.06.13	Overall, 90% of the elements of the controls were operating effectively, with 10% substantially operating. Each of the 11 key controls is made up of a number of individual elements that were each tested. Therefore 9 key controls are fully in place and 2 key controls are substantially in place. One of the 3 recommendations has been agreed for implementation. For 1 recommendation, the target for taking action on the Schedules of Alterations from the Valuation Office Agency has been revised to 30 days which leaves the outstanding risk that the potential increase in yield from new builds may be delayed slightly due to this amendment of target. The remaining recommendation has not been agreed regarding the timescale for quality checks by the Service Manager on authorisations of write-offs. This is a low residual risk however as the quality check will continue to be carried out and forms part of the general housekeeping processes.
Client Finances – Court of Protection Assurance Rating = Amber	26.06.13	Overall 58% of the expected controls were found to be in place and operating effectively, 6% were substantially operating, 12% were partially in place with a further 24% not operating. All 10 recommendations have been agreed for implementation.
St John Fisher Catholic School - Petty Cash review Assurance Rating = Red	28.06.13	Overall 35% of the expected controls were found to be in place and operating effectively, 12% were substantially operating with a further 53% partially in place. Three recommendations have been agreed for action including the two high risk recommendations. There are two medium risk recommendations that have not been agreed for action relating to the provision of tea and coffee for staff and making advances from petty cash for the holiday club.
Audit Briefing Note – Business Continuity/Disaster Recovery in Schools Assurance Rating = Amber	28.06.13	Overall it has been identified that 69% of the returned sample of schools have a business continuity/disaster recovery plan in place that is working well. However further work is needed to ensure that all schools establish an effective business continuity/disaster recovery plan that can be used in the event of an incident. 14 separate audit briefing notes were sent to the individual schools included in the testing sample which included guidance.
Cedars Manor School Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Red	28.06.13	Overall 27% of the expected controls were found to be in place with a further 73% not in place.

Glebe Primary School Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Green	28.06.13	Overall 93% of the expected controls were found to be in place with a further 7% not in place.
Grimsdyke School – Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Green	28.06.13	Overall 100% of the expected controls were found to be in place.
Kenmore Park Infant & Nursery School Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Red	28.06.13	Overall 33% of the expected controls were found to be in place with a further 7% not in place.
Kenmore Park Junior School Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Red	28.06.13	Overall 33% of the expected controls were found to be in place with a further 67% not in place.
Newton Farm Nursery Infant & Junior School Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Green	28.06.13	Overall 86% of the expected controls were found to be in place, 7% were partially in place with a further 7% not in place.
Pinner Park Infant & Nursery School Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Green	28.06.13	Overall 86% of the expected controls were found to be in place, 7% were partially in place with a further 7% were not in place.
Pinner Park Junior School Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Green	28.06.13	Overall 93% of the expected controls were found to be in place and 7% were partially in place.

Pinner Wood School Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Red	28.06.13	Overall 34% of the expected controls were found to be in place, 13% were found to be partially in place with a further 53% not in place.
St Anselms Catholic Primary School Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Red	28.06.13	Overall 27% of the expected controls were found to be in place with a further 73% not in place.
St Bernadettes Catholic Primary School Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Green	28.06.13	Overall 86% of the expected controls were found to be in place, 7% were partially in place with a further 7% not in place
Weald Junior School Business Continuity/ Disaster Recovery – Audit Briefing Note Assurance Rating = Green	28.06.13	Overall 100% of the expected controls were found to be in place.
Aylward Primary School – Governance & Financial Controls Review Assurance Rating = Amber/green	28.06.13	Overall 86% of the expected controls were found to be in place and operating effectively, 10% were substantially operating and 4% were partially in place. Although percentages indicate a green assurance rating, the report is rated as Amber/Green due to two high risk recommendations. Two of the six recommendations have been agreed for action. The high risk recommendations (relating to the need to place orders before the goods/ services are received and demonstrating that the correct number of quotes have been obtained, or a waiver agreed, under Contract Procedure Rules), have not been agreed for action. Also two recommendations relating to recording actions on the register of interests forms (for interests that have been declared) and widening the separation of duties for income have not been agreed either. Audit comments have been added to address the management responses. Therefore the level of improvement in the framework of controls is limited (even though a number of expected controls were found to be in place and operating effectively from the outset).
Payroll - Core Financial System Review 12/13	9.07.13	Overall, 81% of the elements of the controls were operating effectively, 4% were substantially operating and 15% were partially operating. Each of the 9 key

Assurance Rating = Green		controls is made up of a number of individual elements that were each tested. Therefore 6 key controls are fully in place 2 key controls are substantially in place and 1 key control is partially in place. Four of the 5 recommendations have been agreed for implementation; 1 recommendation is awaiting the outcome of the MINERVA project within Resources, Employee Self Service is being reviewed and/or another mechanism will be put in place
Treasury Management – Core Financial System Review 12/13 Assurance Rating = Green	15.07.13	Overall, 72% of the elements of the controls were operating effectively, 11% were substantially operating and 17% were partially operating. Each of the 10 key controls is made up of a number of individual elements that were each tested. Therefore 6 key controls are fully in place, 1 key control is substantially in place, and 3 key controls are partially in place. All 6 recommendations have been agreed for action.
Norbury School Business Continuity – Disaster Recovery – Audit Briefing Note Assurance Rating = Green	18.07.13	Overall 60% of the expected controls were found to be in place, 33% were partially in place with a further 7% not in place.
West Lodge Primary School Business Continuity – Disaster Recovery – Audit Briefing Note Assurance Rating = Green	18.07.13	Overall 67% of the expected controls were found to be in place, 20% were partially in place with a further 13% not in place
Planning Enforcement Assurance Rating = Green	13.08.13	Overall 67% of the expected controls were found to be in place and operating effectively, 20% were substantially operating and 13% were partially in place. All 10 recommendations have been agreed for action.
Corporate Contract Monitoring Assurance Rating = Amber/green	18.09.13	Overall 56% of the expected controls were found to be in place and operating effectively, 25% were substantially operating, 9% were partially in place with a further 10% not operating. All 13 recommendations have been agreed for action.
Personalisation Assurance Rating = Amber	18.10.13	Amber report, however there are 2 areas reviewed which have been rated as red which are Monitoring and Financial Assessments, these areas should be focussed on to ensure the recommendations are implemented as soon as possible to improve the control environment as 15 of the 23 recommendations are related to these areas. Overall 55% of the expected controls were found to be in place and operating effectively, 11% were substantially operating and 34% were partially in place. Twenty two of the 23 recommendations have been agreed for implementation and 1 recommendation is no longer applicable due to a change in the monitoring

		process. All 6 recommendations have been agreed for implementation which relate to the Online Social Care Shopping Portal Project.
Audit Briefing Note Agency Staff	5.11.13	Overall conclusion: The Council is currently paying a premium to employ agency staff over permanent/temporary/fixed term employees and does not appear to be obtaining value for money or reducing expenditure on agency staff in accordance with Council policy (Agency Worker Policy and MTFS). All 8 recommendations have been agreed for implementation.
Disabled Adaptations – Harrow Home Improvement Agency Assurance Rating = Amber/green	2.12.13	Overall 65% of the expected controls were found to be in place and operating effectively, 22% were substantially operating, 3% were partially in place with a further 10% not operating. Although percentages indicate an assurance rating of green, due to one high risk recommendation this has been brought to an amber/green. All 8 recommendations have been agreed for implementation.
Arboricultural Services Assurance Rating = Red/amber	18.12.13	Overall 48% of the expected controls were found to be in place and operating effectively, 5% were substantially operating, 26% were partially in place with a further 21% not operating. All 11 recommendations have been agreed for implementation.
Hillview Nursery Governance & Financial Controls Review Assurance Rating = Red	18.12.13	Overall 33% of the expected controls were found to be in place and operating effectively, 11% were substantially operating, 36% were partially in place with a further 20% not operating. All 20 recommendations have been agreed for implementation.
Shaftesbury High School Governance & Financial Controls Review Assurance Rating = Amber/green	18.12.13	Overall 69% of the expected controls were found to be in place and operating effectively, 21% were substantially operating, 6% were partially operating and 4% were not in place. All 12 recommendations have been agreed for implementation.
St. John's CoE School – Governance & Financial Controls Review Assurance Rating = Amber	10.01.14	Overall 69% of the expected controls were found to be in place and operating effectively, 78% were substantially operating, 18% were partially in place with a further 4% not operating. Although percentages indicate Amber/ Green assurance, the report has been rated as Amber due to the fifteen high risk recommendations. All 25 recommendations have been agreed for implementation.
Business Rates Assurance Rating = Green	13.01.14	Overall 96% of the expected controls were found to be in place and operating effectively, 10% were substantially operating, and 4% were partially in place. All 4 recommendations have been agreed for implementation.

Roxbourne Primary School Governance & Financial Controls Review Assurance Rating = Amber	20.01.14	Overall 45% of the expected controls were found to be in place and operating effectively, 17% were substantially operating, 28% were partially in place with a further 10% not operating. All 19 recommendations have been agreed for implementation.
Kenmore Park Infant and Nursery School - Governance & Financial Controls Review Assurance Rating = Amber/green	29.01.14	Overall 60% of the expected controls were found to be in place and operating effectively, 19% were substantially operating, 16% were partially in place with a further 5% not operating. All 19 recommendations have been agreed for implementation.
Implementation of Localised Council Tax Scheme Assurance Rating = Green	31.01.14	Overall 93% of the expected controls were found to be in place and operating effectively and 7% were partially in place. The one recommendation made has been agreed for implementation.
Purchase Cards Assurance Rating = Red	4.02.14	Overall 31% of the expected controls were found to be in place and operating effectively, 14% were substantially operating, 45% were partially in place with a further 10% not operating. All 22 recommendations have been agreed for implementation.
Belmont Primary School – Governance & Financial Controls Review Assurance Rating = Amber/green	7.02.14	Overall 69% of the expected controls were found to be in place and operating effectively, 19% were substantially operating, 8% were partially in place with a further 4% not operating. Although percentages indicate a Green assurance, the report has been rated as Amber/Green due to 4 high risk recommendations. All 12 recommendations have been agreed for implementation
Petty Cash / Cash Floats Assurance Rating = Amber	13.02.14	Overall 38% of the expected controls were found to be in place and operating effectively, 33% were substantially operating, 19% were partially in place with a further 10% not operating. Although percentages indicate an Amber/Green assurance, the report has been rated as Amber due to the 4 high risk recommendations made. All 6 recommendations have been agreed for implementation.
Welldon Park Infant & Nursery School – Governance & Financial Controls Review Assurance Rating = Amber	26.02.14	Overall 56% of the expected controls were found to be in place and operating effectively, 19% were substantially operating, 15% were partially in place with a further 10% not operating. Although percentages indicate Amber/ Green assurance, the report has been rated as Amber due to the six high risk recommendations. All 23 recommendations have been agreed for implementation.

Parking Enforcement Cancellation/Write Off Of Penalty Charge Notices Assurance Rating = TPO – Green Depot - Red	3.03.14	TPO - Overall, 77% of the expected controls were found to be in place and operating effectively, 15% were substantially operating, and 8% were partially in place. Depot - Overall, 36% of the expected controls were found to be in place and operating effectively, 14% were substantially operating and 7% were partially in place. All 12 recommendations have been agreed for implementation.
Marlborough Primary School – Governance & Financial Controls Review Assurance Rating = Green	11.03.14	Overall 88% of the expected controls were found to be in place and operating effectively, 9% were substantially operating, 2% were partially operating with a further 2% not operating. All 4 recommendations have been agreed for implementation.
St. George's Catholic Primary School – Governance & Financial Controls Review Assurance Rating = Amber/green	19.03.14	Overall 83% of the expected controls were found to be in place and operating effectively, 2% were substantially operating, 9% were partially operating with a further 6% not operating. Although percentages indicate a Green assurance, the report has been rated as Amber/Green due to the six high risk recommendations made. All 7 recommendations have been agreed for implementation.
Emergency Relief Payments (Harrow Help Scheme) Assurance Rating = Amber	20.03.14	Overall 57% of the expected controls were found to be in place and operating effectively, 19% were substantially operating, 19% partially operating with a further 5% not in place. Although percentages indicate an assurance of Amber/Green, the report has been rated as Amber due to 2 high recommendations. Five of the six recommendations have been agreed for implementation. The one recommendation not agreed relates to the Emergency Relief Team carrying out Experian checks on individuals where the amount being given is of significant value. Whilst it is appreciated that the majority of payments are low level amounts and for these an Experian check is not undertaken, an Experian check is recommended for the larger paid amounts and as the recommendation has not been agreed this remains an outstanding risk.
Council RetrEat Café Assurance Rating = Red	20.03.14	Overall 25% of the expected controls were found to be in place and operating effectively, 45% were partially in place with a further 30% not operating. All 14 recommendations have been agreed for implementation.

2. The following draft reports were also issued in 2013/14

REPORT/ASSURANCE RATING	ISSUE DATE	SUMMARY OF CONTROLS OPERATING
Whitmore High School Governance and Financial Controls Review	10.01.14	Amber/Green report. Overall 75% of the expected controls were found to be in place and operating effectively, 18% were substantially operating and 7% were partially in place. Although percentages indicate a Green assurance, the report has been rated as Amber/ Green due to the high risk recommendations.
Housing Benefits	20.03.14	Amber report. Overall 69% of the expected controls were found to be in place and operating effectively, 9% were substantially operating, 9% were partially in place with a further 13% not operating. Although percentages indicate an Amber/Green assurance, the report has been rated as Amber due to the six high risk recommendations made.

3. The following follow up reports were in issued in 2013/14

REPORT	DATE OF FOLLOW UP MEMO	CONCLUSION
Core Financial System – Key Control Review – Accounts Receivable – Follow-up Original assurance = Amber Re-assessed assurance rating = Green	5.04.13	It was established that the action agreed to address 5 of the 7 recommendations has been fully implemented and evidence was obtained to support this. It was established that 1 agreed action has been partially implemented. This relates to all staff responsible for raising debtor accounts either through the FB70 screen, journals or by completing a request form being reminded that their calculations for the invoice amount should be checked by a second employee to ensure the debt is correct, it was reported that a reminder of this is yet to be sent out to staff. It was further identified that 1 recommendation has not been implemented; this relates to the Shared Services Technical Team still accepting journal upload requests that have been sent by officers other than the authorising manager. It is intended that a communication will go out to the business in this respect, this is expected to be actioned in May.
Children's Centres – Follow up Original assurance = Red Re-assessed assurance rating = Green	12.06.13	It was established that the action agreed to address 17 of the 18 recommendations has been fully implemented and evidence was obtained to support this. It was reported that the remaining agreed action is implemented but evidence was not provided to support the response. This relates to banking sheets being checked by a second employee and evidence of the check being recorded.
Transformation Programme – Engagement & Culture Change Procurement - Follow up Original assurance = Red/amber Re-assessed assurance rating = Amber/Green	20.08.13	It was established that the action agreed to address 9 of the 13 recommendations has been fully implemented and evidence was obtained to support this. It was established that for 3 of the remaining 4 agreed actions, implementation is in progress. It was further identified that 1 recommendation has not been implemented, this relates to an ongoing review of the benefits achieved in the procurement project against the actual expenditure periodically throughout the rest of the project as well as a full review at the end of the project being undertaken, there is still a need to agree how this will be measured and this needs to be done with the Director of Finance & Assurance. Although percentages indicate that follow up is a Green report with 79% of expected controls operating effectively, 17% substantially operating and a further 4% partially in place (it has been assumed that the controls that were originally operating are still operating effectively during follow up and these have not been re-tested), an assurance rating of Amber/Green has been given due to one outstanding high risk recommendation

Contract Monitoring – Environment & Enterprise - Follow Up Original assurance rating = Red/amber Re-assessed assurance rating = Green	13.11.13	It was established that 6 of the 14 recommendations have been fully implemented and evidence was obtained to support this. Six recommendations (3 high risk, 3 medium risk) are part implemented/in progress and 2 (medium risk) are planned but not implemented to date.
Stag Lane Junior Governance & Financial Controls - Follow Up Original assurance rating = Amber/green Re=assessed assurance rating = Green	14.11.13	It was established that the action to address 11 of the 13 recommendations has been fully implemented and evidence was obtained to support this. The remaining 2 (medium risk) recommendations are part Implemented/in progress.
Woodlands School Governance & Financial Controls - Follow Up Original assurance rating = Amber Re-assessed assurance rating = Green	14.11.13	It was established that the action to address 11 of the 12 recommendations has been fully implemented and evidence was obtained to support this. The remaining recommendation (medium risk) is part Implemented/In progress.
Housing Rents 11/12 Key Control - Follow Up Original assurance rating = Green Re-assessed assurance rating = Green	14.11.13	It was established that the action to address 2 of the 8 recommendations has been fully implemented and evidence was obtained to support this. It was established that 2 of the 8 recommendations have been fully implemented and evidence was obtained to support this. It was reported that a further 2 recommendations have been implemented however evidence could not be provided because there has not been an opportunity to use the new practices. One recommendation is no longer applicable and the remaining 3 recommendations (2 medium risk, 1 low risk) are part implemented/in progress.

Council Tax 12/13 - Follow Up Original assurance rating = Green Re-assessed assurance rating = Green	19.11.13	Of the 3 recommendations made, only 1 recommendation was agreed for implementation. This recommendation (low risk) is planned but not implemented to date.
Elmgrove Primary Governance & Financial Controls - Follow Up Original assurance rating = Amber/green Re-assessed assurance rating = Green	19.11.13	It was established that the action to address 9 of the 11 recommendations has been fully implemented and evidence was obtained to support this. The 2 (medium risk) remaining recommendations are planned for implementation.
Heathland School Governance & Financial Controls - Follow Up Original assurance rating = Amber/green Re-assessed assurance rating = Green	19.11.13	It was established that the action to address 5 of the 8 recommendations has been fully implemented and evidence was obtained to support this. The remaining 3 (medium risk) recommendations are part Implemented/in progress.
Longfield Primary Governance & Financial Controls - Follow Up Original assurance rating = Amber/green Re-assessed assurance rating = Green	19.11.13	It was established that the action to address all 15 recommendations has been fully implemented and evidence was obtained to support this.
St John Fisher Petty Cash - Follow Up Original assurance rating	19.11.13	Only 3 of the 5 recommendations were agreed for implementation and it was established that the 3 recommendations have been fully implemented and evidence was obtained to support this.

= Red Re-assessed assurance rating = Green		
Vaughan School Governance & Financial Controls - Follow Up Original assurance rating = Amber/green Re-assessed assurance rating = Green	19.11.13	It was established that the action to address 9 of the 12 recommendations has been fully implemented and evidence was obtained to support this. One recommendation (low risk) is part implemented/in progress and the remaining 2 (1 medium risk and 1 low risk) are planned for implementation.
Stanburn Junior School Governance & Financial Controls - Follow Up Original assurance rating = Amber/green Re-assess assurance rating = Green	27.11.13	It was established that the action to address 15 of the 16 recommendations has been fully implemented and evidence was obtained to support this. The outstanding (low risk) recommendation is planned for implementation.
Capital Expenditure Programme - Follow Up Original assurance rating = Amber Re-assessed assurance rating = Amber/green	10.12.13	It was established that 8 of the 21 recommendations have been fully implemented and evidence was obtained to support this. Nine recommendations (2 high risk and 7 medium risk) are part implemented/in progress, 3 (2 high risk and 1 medium risk) are planned but not implemented to date and 1 (medium risk) is not implemented or planned for implementation.
Treasury Management Key Control - Follow Up Original assurance rating = Green Re-assessed assurance rating = Green	12.12.13	It was established that 5 of the 6 recommendations have been fully implemented and evidence was obtained to support this. The remaining recommendation (medium risk) is part implemented/in progress of implementation.
Whitefriars Community School	12.12.13	It was established that the action to address 15 of the 16 recommendations has been fully implemented and evidence was obtained to support this. The remaining recommendation

Governance & Financial Controls - Follow Up Original assurance rating = Amber/green Re-assessed assurance rating = Green		(low risk) is part Implemented/In progress.
Transformation Programme Engagement & Culture Change – Business Support - Follow Up Original assurance rating = Amber Re-assessed assurance rating = Green	14.01.14	It was established that 3 of the 8 recommendations have been fully implemented and evidence was obtained to support this. Two (high risk) recommendations are part implemented/in progress and 3 (medium risk) recommendations are also part implemented/in progress.
Payroll 12/13 Key Control - Follow Up Original assurance rating = Green Re-assessed assurance rating = Green	14.01.14	It was established that 3 of the 5 recommendations have been fully implemented and evidence was obtained to support this. One (medium risk) recommendation is part implemented/in progress and 1 (medium risk) recommendation is planned but not implemented to date.
Incorrect Tax Calculation (Payroll) - Follow Up	20.12.13	In April 2013 there was an incorrect payroll tax calculation and an audit briefing note was issued which contained 2 recommendations. It was established that both recommendations have been fully implemented and evidence was obtained to support this. Please see below table.
Aylward Primary School Governance & Financial Controls - Follow Up Review Original assurance rating = Amber/green Re-assessed assurance rating = Green	31.01.14	The report contained 6 recommendations; however of these 6 only 2 were agreed for implementation. It was established that the 2 agreed recommendations have been fully implemented and evidence was obtained to support this.

Client Finances – Court of Protection - Follow Up review Original Assurance Rating = Amber Re-assessed Assurance Rating = Amber/green	19.02.14	It was established that 3 of the 10 recommendations have been fully implemented and evidence was obtained to support this. One (high risk) recommendation is part implemented/in progress and 5 (medium risk) recommendations are also part implemented/in progress.
Earlsmead Primary School – Governance & Financial Controls Follow Up Original assurance rating = Amber/green Re-assessed assurance rating = Green	25.02.14	It was established that all 11 recommendations have been fully implemented and evidence was obtained to support this.
Mobile Phones And Mobile Devices - Follow Up Original assurance rating = Red Re-assessed assurance rating = Amber	10.03.14	It was established that 16 of the 26 recommendations have been fully implemented (including the 4 overarching recommendations) and evidence was obtained to support this. Seven (high risk) recommendations are part implemented/in progress, 2 (medium risk) recommendations are part implemented/in progress and 1 (medium risk) recommendation is planned but not implemented to date.
Personalisation – Follow Up review Original Assurance Rating = Amber Re-assessed Assurance Rating = Green	27.03.13	It was established that 21 of the 28 recommendations have been fully implemented and evidence was obtained to support this. Two high risk and one medium risk recommendation are part implemented/in progress. One (high risk) recommendation is planned but not implemented to date and three (medium risk) recommendations are also planned but not implemented to date.

HIGH RISK RECOMMENDATIONS NOT AGREED FOR IMPLEMENTATION

(Already reported mid-year)

Review	Risk Rating	Recommendation	Management Response	Audit Comment
Aylward Governance & Finance	High	Orders should be placed in advance of expenditure and before the receipt of goods other than agreed exceptions in accordance with Financial Regulations. This will ensure that the school are complying with laid down procedures and will avoid the lack of commitment on FMS6 resulting in inaccurate budgetary control information.	The orders in this instance related to contracts approved by the Governing Body and placed with contractors and leasing companies approved by the Local Authority and charges included in the annual budget. We have been following the Local Authority Procedure Note in the Schools Financial Handbook relating to Orders (Pg 43 – Exceptions) regarding these invoices. In no way, can this be a potential high risk of fraud as the ordered/leases were placed with the full approval of the governing body and in line with Local Authority procedure.	The issue for this control is not of prior authorisation of the transaction but rather of ensuring that there is a commitment for the expenditure. Where the order is not placed in advance of the receipt of goods or invoice there is a lack of commitment on the system against the cost centre budget which may result in a poor decision being made because of inaccurate information. Where the commitment is shown the budgetary information is more up to date therefore providing better quality information for decision making.
Aylward Governance & Finance	High	The FMS comments are reiterated in that the school should seek to obtain the appropriate number of quotes as required under Contract Procedure Rules in the first instance and in exceptional circumstances, where appropriate, justify and approve a waiver. This will help to demonstrate value for money and demonstrate compliance with Contract Procedure Rules.	We adhere religiously to Contract Procedure rules and have copious documentation and appropriate quotes to support this. The Governing Body and Finance & Premises Minutes together with supporting documentation confirm that all orders are appropriately researched, discussed by governors and approved. The instances cited in the audit report relate to an incorrect Form being used (Project Approval Form rather than a Waiver Request Form) and not inappropriate use of the Contract Procedure Rules. This was clearly proved to the Audit staff, but has not been accurately reflected in the report.	A waiver is used to approve an exceptional case, either in an unforeseen emergency, or where it has not been possible to obtain the relevant number of quotes and due to time constraints the decision needs to be based on fewer quotes. Therefore the waiver is a specific procedure to request approval for not applying the specific Contract Procedure Rule (e.g. for 3 quotes) on that occasion at the same time as indicating the basis for the particular supplier being accepted. Thus the approval of a waiver demonstrates compliance with Contract Procedure Rules. The school has not specifically obtained the authorisation to allow it not to comply with the Contract Procedure Rule. Therefore there is a lack of compliance with Contract Procedure Rules.

Review	Risk Rating	Recommendation	Management Response	Audit Comment
Emergency Relief Payments (Harrow Help Scheme)	High	It should be ensured that the team undertake Experian checks for significant awards that are given i.e. the amounts where further authorisation is required.	It is felt that this is not proportionate to the value of funding paid for one off payments. The process for higher value awards is aligned to Housing Benefit payments with verification of original evidence required to support the application.	Whilst it is appreciated that the majority of payments are low level amounts and for these an experian check is not undertaken, an experian check is recommended for the larger paid amounts to ensure that payments are not made to people who have undeclared assets and are therefore not entitled.

FOLLOW UPS – HIGH RISK RECOMMENDATIONS PART IMPLEMENTED/IN PROGRESS/PLANNED OR NOT IMPLEMENTED

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Accounts Receivable Key Control	The Shared Services Technical Team should not accept a journal upload request email unless it has been sent by an authorising manager. Where a journal request email is not received from a manager it should be returned to the officer informing them that the journal will not be processed until the email has been resent from the appropriate manager. Also a communication should be sent to all relevant staff informing them of the new process and that locally the journals should be signed by a manager and retained as evidence. This will ensure that the authorising officer is raising the journal. This will also minimise the reputational risk to the Authority of an inappropriate or incorrect debt being raised	A communication will go out to the business.	**Implementation Date**: October 2012 **Follow Up** February 2013 **2nd Follow up** June 2014	This has not yet been actioned. It will be looked at this once the officer involved has returned to work. **Second follow up response** Not implemented for the reasons reported above.	Slow Implementation The Service Manager does not think this is viable as there will be delays in invoices being raised. Also, there are specific staff assigned to carry out theses tasks (i.e. Business Support staff). There is also an assumption that we know who the manager is. Not implemented **Re rated as** Not implemented

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Accounts Receivable Key Control	All staff responsible for raising debtor accounts either through the FB70 screen, journals or by completing a request form should be reminded that their calculations for the invoice amount should be checked by a second employee to ensure the debt is correct. Staff should also be reminded that this check should be evidenced i.e. the 2nd officer should sign the supporting paperwork. This will minimise the risk of debt being raised incorrectly and requiring subsequent amending which would lead to customer dissatisfaction/poor reputation.	Request Forms - A reminder email will be sent to all requestioners advising them of this and advising that invoices received that have not been checked by a 2nd officer will be returned. Access Harrow will be sending a reminder to staff as well as including an item in a newsletter	**Implementation Date**: October 2012 **Follow Up** February 2013 **2nd Follow up** June 2014	Currently both CAP and SAP Support will carry out checks to verify the calculations are correct. For requests that are received outside of the webforms or Journal uploads these are copied to Civica so an audit record can be held. Reminder to be sent	Slow implementation
				Second follow up response Not sure of the benefits of this recommendation. If the calculation does not add up then the SAP support team return the invoice request.	**Re rated as** Not implemented

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Transformation Programme Engagement & Culture Change - Procurement	There will be a need to revise the planned learning development activities for the Procurement project to reschedule and repeat these once the SAP elements have been changed and developed. All officers involved in procurement both at a manager and staff level should have suitable training on the procurement aspects of SAP as well as a reminder of the more general processes of compliant procurement and training in contract management skills. Without rescheduling of this training there is a risk that behaviours in relation to procurement and contract management will not be developed and the level of savings required will not be made (or sustained).	Agreed and already started with the preparation and implementation of the SAP/SRM upgrade in early November	**Implementation Date**: Ongoing **Follow Up** February 2013 **2nd Follow up** June 2014	SAP requisition training has been completed. There are currently 120 requistioners. Following the training sessions there were open surgeries conducted and internet – procurement pages updated with good practice guides. There is now a SAP/SRM forum open for all comments. The managers training has been deferred till Autumn in order to combine it with the Managers Finance training.	Slow implementation The current Divisional Director Commerical, Contracts & Procurement has only recently started with the authority and is the 3rd officer to have been involved with this review. A meeting is being held to follow up the implementation of these outstanding high risk recommendations.

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
				Second follow up response A number of pieces of work are being progressed currently, these include: - Review of Contract Procedure rules - Contract Management Procedures - Sponsorship Code - Procurement Card Policy - Commercial & Procurement Strategy To aid the implementation of these at management level, they are being taken through the Operations Board for consideration and training sessions will be arranged to take CLG and other management levels through the new procedures. This training will be supplemented by updated procurement pages on the intranet and procurement 'surgeries'.	**Re rated as** Part implemented/in progress – on-going
Transformation Programme Engagement & Culture Change - Procurement	The monitoring of the progress, against specific timescales, of the Procurement Project through the action plan and Service Plan should continue to ensure that adequate progress is maintained and to enable blockages to be identified and resolved in future	Agreed, as per recommendation 15 above	**Implementation Date**: March 2013 **Follow Up** February 2013 **2nd Follow up** June 2014	The monitoring arrangements have been inconsistent across the Council and we are trying to consolidate the reporting to formalise the arrangements across all Directorates. The key monitoring information needs to be routinely collected and reported. (eg savings against MTFS) Service plan needs to be rewritten to reflect the changes in the transformation programme.	

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
				Second follow up response As part of the overall requirement to identify savings for the next 3 year MTFS period, the Commercial, Contracts & Procurement (CCP) Division has undertaken a significant piece of work through the ‘Using the Market’ workstream. This work has identified a number of potential saving through: Category management including opportunities for cross-cutting procurements (e.g. through a Total Facilities (TFM) solution - Supplier negotiations - Outsourcing - Revenue generation CCP will assist Service Departments to deliver savings and will record the contribution it has made in each case to demonstrate its value. At the end of the MTFS period, reductions are planned in the CCP staffing numbers but this will be further reviewed at the time. A Service Plan has been written and agreed by the Director of Resources for 2014/15 to reflect the current priorities of the Division.	**Re rated as** Implemented – on-going

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Transformation Programme Engagement & Culture Change - Procurement	There should be an ongoing review of the benefits achieved in the Procurement Project against the actual expenditure periodically throughout the rest of this project as well as a full review at the end of the project. This is partially because the savings aspect of the benefits depends on the delivery by Directorates but also the cost of the project needs to be seen in this context. However to do this there needs to be a clear process for capturing and agreeing the savings achieved that enables these specific benefits to be transparently demonstrated. Failure to achieve the benefits particularly in terms of savings and the dependency on the rest of the organisation to deliver them could have a detrimental impact on future savings or increase the level of savings that have to be made by other projects. There is a risk that significant increases to the costs of the project could result in Directorates being less inclined to achieve savings targets	Agreed	**Implementation Date**: April 2013 **Follow Up** February 2013 **2nd Follow up** June 2014	There is still a need to agree how this will be measured and this needs to be done with the Director of Finance.	Part/in progress
				Second follow up response Complete.	**Re rated as** Implemented - on-going

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Contract Monitoring – Community & Environment	In compliance with Financial Regulation and Contract Procedure Rules, it should be ensured that SAP orders are raised before work commences on site so that the commitment is raised on the system and to avoid budget overspends and this should be re-iterated to all relevant staff. It should further be ensured that work is not allowed to commence on site until the gateway documentation is fully authorised (where required) to avoid the risk of unauthorised works/services. It should further be ensured that the monthly SAP non-compliance spreadsheet is fully examined and all incidences of non-compliance highlighted and discussed.	Response as for recommendation 31 above. Agreed. A management instruction will be issued to this effect. Recognising that there may be exceptional circumstances where work needs to start before orders are placed and documentation fully completed the need for a fast track waiver will be explored and recommendations made. A management instruction will be prepared in conjunction with Finance and Legal colleagues setting out the protocol to be followed in the event that it is found after.	**Implementation Date:** December 2012 **Follow Up** February 2013 **2nd Follow up** June 2014	**Apollo contract:** Not aware of a written instruction but it was reiterated verbally by Interim Major Works Manager and staff are fully aware of what needs to be done. Formal management instruction to be issued as part of finalising process and governance review Sept 13.	Part/in progress
				Second follow up response Apollo: following a re-structure, the property team no longer exists. Education have their own team to deal with building projects, headed up by Mark Sperring. It is understood that Apollo are delivering those projects although the contract is up for renewal.	**Re rated as** Not implemented

APPENDIX D

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Contract Monitoring – Community & Environment	For all current contracts a review should be undertaken as to whether risk registers are in place for those with a value of £50,000 and over in compliance with Contract Procedure Rules, paragraph 34.2. Risk registers should therefore be drawn up for all appropriate contracts where risk registers are not already in place to assist with ensuring that risk management is fully embedded into the contract monitoring system and that risks are adequately monitored and managed. The Interim Risk Manager should be contacted in this respect to provide advice/training to C&E on setting up the contract risk registers	Agreed and actioned for 3 contracts in that training has been provided by the Interim Risk Manager and risk registers have been drawn up (and will be drawn up for the new arboricultural services contract when it commences in January 2013). For the leisure services contract which now falls under Community Health and Wellbeing, risks are managed through the Community Health & Wellbeing Contract Board and already through the quarterly meetings.	**Implementation Date:** January 2013 **Follow Up** February 2013 **2nd Follow up** June 2014	**Apollo contract:** Not yet done as the reorganisation is taking longer than anticipated at the time the implementation date was set. Anticipated implementation date Oct 13. **Fraikin contract:** Completed and previously sent to audit. **KGB contract:** Risk register in place for contracts over £50k. **GLL contract:** A Risk Register for the Contract with Greenwich Leisure Limited (GLL) is now in place. **Gristwood & Toms contract:** Risk register in place	Part/in progress
				Second follow up response As for above recommendation. Risk registers in place for other contracts	**Re rated as** Substantially implemented

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Contract Monitoring – Community & Environment	Once risk registers have been set up for all appropriate contracts, a system should be introduced to monitor and manage risks regularly (i.e. at least quarterly) to ensure that all registers are kept up to date and consistency applied in the contract management procedures	Agreed. Quarterly reviews will be carried out.	**Implementation Date:** On-going **Follow Up Due:** July 2013	**Apollo contract:** Not yet done as the reorganisation is taking longer than anticipated at the time the implementation date was set. Anticipated implementation date Oct 13. **Fraikin contract:** Reviews carried out. **KGB contract:** Risk registers to be reviewed at the same time as providing information for scorecard i.e. quarterly. **GLL contract:** Risks are reviewed at the monthly CHW Directorate Contracts Board and at the Quarterly Update Meetings with GLL. **Gristwood & Toms contract:** 6 month review	Part/in progress
				Second follow up response As for the above recommendation. In place for the other contracts	**Re rated as** Substantially implemented

APPENDIX D

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Mobile Phones	The Policy, procedures and guidance in relation to mobile phones and devices that use mobile phone lines needs to be significantly revised and strengthened. To achieve this the Policy needs to have a recognised owner, adequate consultation of all relevant parties in its development so that the roles and responsibilities are agreed and can be applied effectively across the Council. It is important that the procedural elements are clearly defined and documented. Once approved this will need to be issued to all existing and new users and signed for as this will include new procedures and it is likely that the terms and conditions of use will have changed. The attached appendix indicates the expected controls that should be included in re-designing the system and that can be used to shape the Policy, procedure and guidance documents. The Policy, procedure and guidance	A new Policy is being developed by the Mobile & Flex project team which will also incorporate the requirements of the Mobile and Flex project. Policy to be agreed. Arrangements for future administration of mobile phone usage and demand to be finalised. The development of a new policy should precede the competition exercise so that the Councils requirements are clearly identified. As this is likely to take some time to determine and the contract arrangements with Vodafone have already expired a negotiated extension of the service is recommended. (The negotiation should achieve lower costs and therefore is urgent).	**Implementation Date:** May 2013 **Follow Up** February 2013 **2nd Follow up** June 2014	A new policy has been consulted on and agreed with relevant parties, with HRD as its owner, and in such a way as to apply to the developments through the Mobile and Flex project. Communications about the new policy took place in December 2013. The procedural elements have been defined in an updated in Terms of Use document by Procurement. The Policy, Terms of Use and order request will be issued for all new users and signed for before the equipment is issued. For existing users Procurement will issue the Policy and Terms of Use to budgetholders (with a list of the authorised device users for that budget) so that the existing users can sign and return Terms of Agreement form. Procurement will follow up any forms that have not been returned/ signed with the budgetholder	Part/in progress

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
	documents need to be written in a way that would apply to a wider range of mobile technology (to fit in with future developments through the Mobile and Flex project). These should be available online and the processes and record keeping utilise as far as possible the Council IT systems (e.g. SAP, scanning etc.).			**Second follow up response** In addition to the mid year response, it is confirmed that all new users sign the necessary form. However it has not been possible to get all existing users (approx.. 1000) to sign new copies of the agreement forms.	**Re rated as** Part implemented

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Mobile Phones	For the list of users where the individual has left the Council the current budgetholder (or manager responsible for authorising the issue of the device) should be contacted to confirm that the employee has left the Council and whether the device has been passed to another current employee or to confirm that the phone line should now be terminated. In either case the budgetholder (or manager) should ensure that updated information is provided and the device returned. If it needs to be re-issued a new user name can be applied and the new user would need to sign the terms and conditions. For the 68 devices that could not be clearly identified to a postholder the current budgetholder should be	Agreed – Procurement will update the exercise to validate users and provide the data to Directorates to confirm. The 'clean up exercise' will be piloted in Resources and then rolled out across other Directorates. The ongoing management will be addressed in the new administration arrangements.	**Implementation Date:** April/May 2013 **Follow Up** February 2013 **2nd Follow up** June 2014	The tagging process has identified a number of phones/ devices that have been returned and re-issued to new users. Rather than cancelling lines they have been re-allocated and renamed to keep the cost of the contract down. The process of tagging devices is continuing (as above). There is also a new format available for the budgetholder to notify procurement of a change of user – which has been used. The new policy is aimed at employees (although where it is considered appropriate for agency staff to use a council mobile phone they would be expected to adhere to the same rules and complete the same documentation).	Part/in progress

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
	requested to confirm the correct employee name if a current employee, whether the employee has left or if the person is a consultant or agency staff. A policy decision will then be required to determine whether agency staff and consultants should be permitted to hold Council mobiles and, if so, how to control the return of these at the completion of their work for the Council.			**Second follow up response** All phones have now been tagged and an inventory is held showing he tag numbers..	**Re rated as** Implemented – on-going
Mobile Phones	A review of the user names used on the online system and documentation needs to be carried out so that each user name is distinct (and together with the mobile phone line number can be used as a unique identifier). As part of this process where the employee has multiple devices listed against their name enquiries should be made to confirm whether each device/ phone number has been allocated to an individual who can now be listed online and on documentation as being the current user. Where the phone/ device is for an individual user it would be helpful if the user name reflected exactly the way that the individual's name is given on the payroll system	Agreed – this will be addressed in the new administration arrangements.	**Implementation Date:** May 2013 **Follow Up** February 2013 **2nd Follow up** June 2014	The development of the inventory spreadsheet through the tagging process has resulted in user names and e-mail details being updated so that each device that has been tagged has a user name and an e-mail address assigned to it. Thus the number of cases of multiple devices allocated to one individual has been reduced. There are some instances where an individual has both a phone and a dongle and a distinction is being added to the user name in the inventory to distinguish these. The tagging process is still being completed (as above).	Part/in progress

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
	- as this would make comparisons between the leaver data and the mobile phone data easier. All unique users should sign the Terms and Conditions of the new Policy (once determined).			**Second follow up response** As above. Tagging process is now complete.	**Re rated as** Implemented

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Mobile Phones	A review should be carried out of the devices that currently have a generic user name or where there are more than one device for a named individual (or team) to determine two pieces of information:- • who is responsible for that device and • the name of the individual who currently holds that device or whether a unique generic name should be applied to the device. As far as possible user names should be unique and should be that of the individual who holds the phone (so that they can have clear responsibility for that device and be accountable for any personal use) and be supported by a signed copy of the Terms and Conditions of the new Policy. In exceptional circumstances where an individual has more than one device, that they are permanently responsible for, a distinction should be made in the user names. Where by necessity a device has a generic user name (e.g. a team name) this should be unique and there should be a clear person who has responsibility for the device. Where	Agreed	**Implementation Date:** May 2013 **Follow Up** February 2013 **2nd Follow up** June 2014	As a result of tagging process, Procurement now holds a "Mobile Inventory" containing details of all tagged devices, including who they are allocated to, e-mail address and IEI number. Generic user names have been made unique with an assigned responsible person on the inventory. There are some instances of multiple devices listed against some names but the process described in 19 above will address this. With this improved level of information in the inventory this data could be used by services to undertake a review process. The wording of the new draft policy reflects that all users should sign the Terms and Conditions for a team device. Procedurally, within the Terms of Use document, the person who has signed the Terms of Agreement document will ensure that all users of a team device have read and understood the terms of use and acknowledged this.	Part/in progress

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
	a device is generic all members of that team who may use the mobile device should be listed and required to sign a generic Terms and Conditions document for the new Policy. Without this proper control of the mobile phone assets cannot be enforced and there is increased likelihood that the call charges will not be fully controlled and also of personal calls not being repaid			**Second follow up response** As above	**Re rated as** Implemented

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Mobile Phones	A revised process for the application, ordering and receipt of a mobile phone/ device should be documented complete with any revisions or additions to forms required to record this (as follows). All of these documents should be held in a retrievable filing system that uses a common unique reference so that there is a clear trail between each of the documents and the online information. It would be preferable for the information and processes to utilise Council IT systems (e.g. use of SAP, scanning documents etc.) rather than being paper based	Agreed	**Implementation Date:** May 2013 **Follow Up** February 2013 **2nd Follow up** June 2014	A new policy has been consulted on and agreed in November 2013. The request/ terms of agreement form has been revised in light of this document and in line with the new Policy and now includes the phone number, phone make & model and asset number. All forms have been updated. Link between data currently captured in “Mobile Inventory” excel spreadsheet and other documentation is to be the mobile phone number. Thus documentation as received will be scanned or e-e-mails saved with the phone number used as the reference and the inventory data being used to provide the linkage between records. Hard copies of the request/Terms of Agreement form will be retained.	Part/in progress
				Second follow up response New agreements are scanned and kept on the network under the mobile phone number.	**Re rated as** Implemented

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Mobile Phones	The Terms and Conditions (currently Terms of Agreement) document that users sign should be strengthened to reflect:- • any changes to the Mobile Phone policy, • specific confirmation that the individual has received, read and understood the Policy (as well as its procedures and any guidance document) as well as other relevant Policies (e.g. Information Management and security where data is being handled) • the employee's responsibility to notify the manager of the mobile phones system prior to leaving the employment of the Council and to return the equipment to them. These should be signed prior to any equipment being issued. Given the current accessibility of records revised Terms and Conditions should be signed by all existing and new users once the policy has been formally updated, issued and agreed	Agreed – this will be addressed in the new Policy.	**Implementation Date:** May 2013 **Follow Up** February 2013 **2nd Follow up** June 2014	A new policy has been consulted on and agreed in November 2013. Request/ Terms of Agreement form has been revised in the light of the policy with reference to the Information Management and Security Policy, the Terms of Agreement section includes confirmation that:-• the individual has received, read, and understood the Policy and Terms of Use and• to return equipment no longer required or when leaving the Council's employment. A "change of user" form, has been developed so that if the budget holder wants phone to be used by a different/ new staff user, they complete a form to inform procurement of this change. The Policy, Terms of Use and order request will be issued for all new users and signed for before the equipment is issued.For existing users Procurement will issue the Policy and Terms of Use to budgetholders (with a list of the authorised device users for that budget) so that the existing users can sign and return Terms of Agreement form. Procurement will follow up any forms that have not been returned/ signed with the budgetholders.	Part/in progress

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
				Second follow up response New policy in place, new user forms in place and an inventory is held of devices. However, insufficient resources to get existing users to sign and return the new terms of agreement form as outlined previously.	**Re rated as** Substantially implemented
Mobile Phones	Where an employee leaves the council but the device is required by their successor (or another member of the team) a similar but shorter process could be used. However the device should still be returned to the manager of the mobile phones system so that the new user is clearly identified on records and the responsibilities can be shown to have transferred through a fresh signed copy of the terms and conditions	Agreed	**Implementation Date:** May 2013 **Follow Up** February 2013 **2nd Follow up** June 2014	A new policy has been consulted on and agreed in November 2013. A new "change of user" form has been designed to enable the transfer of a phone to a new user, that is authorised by the budget holder, and for the change to be tracked and recorded. To be administered by the contract manager/s. The process of obtaining fresh signed copies of the Terms of Agreement form for existing and new users, under the new Policy, is planned. As part of this changes for devices to new users will be obtained.	Part/in progress

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
				Second follow up response All in place except existing users have not been asked to sign fresh copies of the Terms of Agreement as outlined above.	**Re rated as** Part implemented
Capital Expenditure Programme	It should be ensured that the timings of the Asset Management Plan and the Capital Strategy/Capital Programme should be aligned so that information taken from the AMP is the final version and is therefore accurate and up to date	**Finance:** Agreed. Ensure that the Capital Strategy is based on the final version of the AMP.	**Implementation Date:** Implemented. Already in place for 13/14 Strategy **Follow Up** February 2013 **2nd Follow up** June 2014	Implementing a 4 year capital programme 2014/15 to 2017/18 – check AMP (Dave Masters) has been updated to align with a 4 year programme	Planned
				Second follow up response Bids submitted must take into account the current AMP.	**Re rated as** Implemented
Capital Expenditure Programme	In compliance with Financial Regulations and Contract Procedure Rules, it should be ensured that a SAP order is raised before work commences on site so that the commitment is raised on the system to avoid budget overspends. It should further be ensured that all gateway documentation is also appropriately authorised before work commences on site to ensure that the correct authorisations are obtained to avoid the potential risk of unauthorised	**Property:** Agreed. A management instruction will be issued to this effect. The reported instances were a result of the change over from SAP orders being raised by Property Services to now being raised by Children's & Families. Contract Procedure Rules will be followed. Recognising that there may be exceptional circumstances where work	**Implementation Date:** November 2012/ongoing/ December 2012 **Follow Up** February 2013 **2nd Follow up** June 2014	Still issues around budgets not being available in SAP in a timely fashion to allow orders to be raised. Issues around instructions to commence on site being made without following financial regs and current guidelines.	Part/in progress

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
	works/services	needs to start before orders are placed and documentation fully completed the need for a fast track waive will be explored and recommendations made. This will include agreement on the protocol to be followed in the event that an instance of non-compliance is discovered by a client representative or manager.		**Second follow up response** This recommendation was aimed at Property Services. Following a re-structure, the Property Services division no longer exists.	**Re rated as** Not implemented (will be picked up in 14/15 review of schools capital programme)
Capital Expenditure Programme	Every effort should be made to locate the missing file for the capital transaction testing 2011/12 as it is part of the documentation to evidence that Harrow's controls have been correctly applied and will confirm that prompt action was taken to correct any miscodings. A protocol should also be put in place as soon as possible to determine the processes to be carried out for 2012/13 and whose responsibility it is to undertake this, i.e. individual finance teams or the Interim Capital Projects Manager. If it is determined that this will be the responsibility of the Interim Capital	**Finance:** Capital Projects Manager has co-ordinated the sample selection for 12-13 up to the end of November 2012 and these have been sent to the Finance Teams to compile the evidence. Going forward, testing to be carried out on a monthly basis from December 2012. Interim Capital Projects Manager to co-ordinate sample selection and Finance Teams to compile the evidence etc.	**Implementation Date:** By end of January 2013 **Follow Up** February 2013 **2nd Follow up** June 2014	2011/12 – file(s) not found 2012/13 – process, transactions selection, copies of invoices & test undertaken and saved electronically 2013/14 – process & selection criteria to be reviewed	Part/in progress

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
	Projects Manager, it is further recommended that once the testing has been undertaken, it is sent to the finance teams for them to check the evidence and that this relates to capital as they have more detailed knowledge of their areas. All transaction testing should record all relevant information including a record of the checking date, the conclusion, any queries raised, action taken and whether it had been coded correctly. It should also be confirmed how often the capital transaction testing should be undertaken. This should be for the first two quarters of 2012/13 and then monthly thereafter			**Second follow up response** Missing file now found. Transaction testing carried out for Q2 and Q3 of 2013/14 and a process for 2014/15 has been devised by the Senior Financial Adviser – Projects but has yet to be approved.	**Re rated as** Substantially implemented
St John Fisher Governance & Financial Controls	In accordance with Financial Regulations and Contract Procedure Rules all orders should be placed in advance of expenditure and before the receipt of goods other than agreed exceptions. This will avoid the risk of overspends and will ensure that the school are complying with laid down procedures and will avoid the lack of commitment on FMS6 resulting in inaccurate budgetary control information	All staff reminded of correct procedures for ordering – particularly HT and Site Supervisor. Finance newsletter sent to all staff	**Implementation Date:** Immediate **Follow Up** February 2013 **2nd Follow up** June 2014	This is done in the main. There are some occasions where this has not happened. Discussed at Resources 20/1/14. Governors agreed that 100% is not possible – eg Royal Bank of Scotland POs. However, FO to make a list of all POs that need to be done on a termly basis, annual basis etc so that the number of instances reduces.	Part/in progress
				Second follow up response List of POs to be done on a termly basis drawn up.	**Re rated as** Implemented

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
Personalisation	The JAT team should investigate avenues available to them that would enable copies of documentation from the service user to be taken and stored on Framework-I. This will ensure that there is evidence to support the financial assessment and in the event of an appeal the Council can support their assessment. This will minimise the risk of incomplete or inaccurate information being taken into account as part of the financial assessment which could potentially lead to a service user either under or over contributing to their care. It will also create a robust audit trail of information used to undertake the assessment.	The team have been waiting the outcome of the corporate trial of iPads to enable copies of evidence to be taken. The implementation of iPads will be rolled out as soon as the pilot has been signed off and equipment can be ordered.	**Implementation Date:** Dependant on completion of ipad trial **Follow Up** February 2013 **2nd Follow up** June 2014	The ipad trail has not happened yet, however we are still trying to implement this, reliant on decisions by management	Planned
				Second follow up response Progress has been made towards this, the team have the ipads but there are currently issues around IT and data security that need to be resolved before the ipads can be put into use	**Re rated as** Part implemented/in progress
Personalisation	A protocol should be developed which details the monitoring procedure, i.e. evidence which should be provided, how this information will be checked etc. Once the protocol has been developed the monitoring officers should be formally trained to ensure they understand the procedure and their responsibilities. This will ensure that staff are aware of there responsibilities and there is a set	On the back of the decommissioning of the Homecare block arrangements, staff formally managing these areas combined with current monitoring officers have been combined to oversee the appropriate monitoring of Cash PB's and ISF's The staff have been	**Implementation Date:** January 2014 **Follow Up** February 2013 **2nd Follow up** June 2014	This is currently in final draft and is awaiting approval	Part/in progress

Review	Recommendation	Agreed Action	Relevant Dates	Follow up Response	Details
	process in place for monitoring service users	trained in various aspects to provide support, safeguarding etc to make an effective engagement with SU's. The protocol is in only developed in draft until the role is formally agreed. A new approach as agreed with Fraud about an audit approach to monitoring rather than returns submission.		**Second follow up response** This is still in progress as it cannot be finalised until the restructure has taken place, this is due to take place within the next 2 months	**Re rated as** Part implemented/in progress
Personalisation	Staff should be given formal guidance on when suspected cases of misuse should be referred to CAFT. Personalisation should work with the CAFT Team to create an aid to identify any trigger factors that would prompt a referral and agree a referral process pack to contain user information such as support plan, signed contract, monitoring forms and any supporting evidence of the financial assessment etc. This information should also be recorded on Framework-I to ensure there is a management trail. This will minimise the risk of cases not being referred to CAFT for investigation	This will be included within the procedures that are being developed as part of the monitoring process. Where a referral is made to CAFT then copies of relevant documentation will be provided as part of the referral where this is available.	**Implementation Date:** March 2014 Implemented **Follow Up** February 2013 **2nd Follow up** June 2014	There is a reinforced process from CAFT, this is included in the final draft of the procedures **Second follow up response** This is still in progress as it cannot be finalised until the restructure has taken place, this is due to take place within the next 2 months	Part/in progress **Re rated as** Part implemented/in progress

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Appendix E

INTERNAL AUDIT PLAN 2013/14 - OUTTURN

Final Plan 13/14	**Status**
Reliance/Assurance Reviews	
Payroll	Complete
Treasury	Complete
Council Tax	Complete
Housing Rents	Complete
Corporate Accounts Payable	Complete
Corporate Accounts Receivable	Complete
Business Rates	Complete
Housing Benefit	Complete
Capital Expenditure	Complete
Compliance Testing	Substantially Complete
Corporate Governance	Complete
Management Assurance	Complete 2012/13 Substantially Complete 13/14
Risk Management	Complete
IT Working Group	Complete
Information Governance Board (IGB)	Complete
Professional Advice - New /Developing Areas	
On-line Social Care Shopping Portal	Complete
E-invoicing	Complete
Public Health Integration	Replaced by Heathland Waivers
IT Reviews	
Framework – I - Application Review	Complete
IWorld/Northgate Housing Benefit – Operating System Review	c/f to14/15
IT Data Centre - Landlord Risks	c/f to14/15
Data Security Breaches	Complete
IT Change Management	c/f to 14/15
Fraud Risk	
Business Rates	Complete
Public Health – Local Enhanced Schemes/Services	Complete
Housing Benefit	Complete
Housing Assessments	Complete
Corporate Risk Based Reviews	
Data Quality	Complete
Delegations	Replaced by Staff Canteen review
Purchase Cards	Complete
Commissioning	On hold
Business Continuity/IT Disaster Recovery	Replaced by Financial Regulations School guidance
Directorate Risk Based Reviews	

Appendix E

INTERNAL AUDIT PLAN 2013/14 - OUTTURN

Cashiers	Substantially Complete
Harrow HELP Scheme	Complete
Localised Council Tax Support	Complete
Finance Restructure	Complete
Pensions	Complete
Housing Repairs Contract Management	Complete
Direct Payments – Children with Disabilities	Substantially Complete
Parking Enforcement - PCNs	Complete
Waste Management – Trade Waste	Complete
PRISM/Property restructure	Replaced by Arboricultural Services
Carbon Reduction Commitment	Complete
Disabled adaptations (Harrow Home Improvement Agency)	Complete
Schools Reviews	
Financial Control & Governance Reviews	10 complete 3 Substantially Complete
Support, Advice & Follow-up	
Suspected Financial Irregularities + Control Reviews	Complete
Professional Advice	Complete
Follow-up	Complete
Liaison with External Audit	Complete
Audit Management	Complete
WLWA Reviews	Complete
Emerging Risks	
Staff canteen	Complete
Arboricultural Services	Complete
Financial Regulation School Guidance	Substantially Complete
Heathland Waivers	Complete

KEY
Complete = Field work complete and report issued
Substantially Complete = Fieldwork complete but report not formally issued due to a legitimate reason e.g. live investigation, additional audit work identified
In progress = Fieldwork incomplete*
On hold = Fieldwork incomplete and project on hold*
c/f to 14/15 = work unable to be progress in 13/14

* As a result of maternity leave unknown when plan finalised

Performance
92% of plan completed

REPORT FOR:	**Governance, Audit, Risk Management and Standards Committee (GARMS)**
Date of Meeting:	22nd July 2014
Subject:	2014/15 Internal Audit Plan
Responsible Officer:	Simon George – Director of Finance & Assurance
Exempt:	No
Enclosures:	Appendix A: 2014/15 Final Internal Audit Plan

Section 1 – Summary and Recommendations

This report sets out the 2014/15 Internal Audit Plan.

Recommendations:

The Committee is requested to: Review and approve the 2014/15 Internal Audit Plan in accordance with the Public Sector Internal Audit Standards 2020 Communication and Approval.

Section 2 – Report

Background

2.1 This report sets out the 2014/15 Final Internal Audit Plan (Appendix A);

2.2 The draft Internal Audit Plan for 2014/15 was presented to the GARM Committee's last meeting in April for review and comment.

2.3 The final plan table also shows the results of the audit risk assessment undertaken to determine reviews to be taken forward from the draft to the final plan; the main driver for each review (which was also shown on the draft plan); a summary of the areas to be covered for each review and where the review links to the Corporate Risk Register.

2.4 The number of audit days available for the 2014/15 plan is determined via a detailed resource calculation for each auditor taking into account available days, actual days 2013/14 and allowances for annual leave, training etc. A realistic but challenging target is then set for each member of the team and the combination of these targets determines the days available for the Internal Audit Plan. 1164 audit days were identified for the 2013/14 plan and 1075 audit days have been identified for the 2014/15 plan. The decrease in audit days is the result of a member of the team being on maternity leave for the majority of the year.

Financial Implications

2.5 The functions of the Internal Audit service are delivered within the budget available.

Risk Management Implications

2.6 The work of internal audit supports the management of risks across the council and the Internal Audit Plan is derived from the review of the Corporate Risk Register, risks identified by management and risks identified by Internal Audit.

Corporate Priorities

2.7 Internal Audit contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support the priorities.

Section 3 - Statutory Officer Clearance

		On behalf of
Name: Steve Tingle	√	Chief Financial Officer
Date: 11/07/14		
		On behalf of
Name: Sarah Wilson	√	Monitoring Officer
Date: 11/07/14		

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

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Harrow COUNCIL
LONDON

INTERNAL AUDIT PLAN 2014/15

Background

Internal Audit is a statutory service. The Accounts and Audit Regulations 2011, which came into force on 31st March 2011 (previously the Accounts and Audit Regulations 2003 (as amended)[1], state that:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

'Proper practice' for internal audit is now contained within Public Sector Internal Audit Standards (PSIAS) which have been adopted and are being implemented by the Council's Internal Audit section.

The Internal Audit Service at Harrow Council is provided by a dedicated in-house team situated in the Resources Directorate.

Annual Plan Process

Annually a plan of work is developed to reflect the Internal Audit Strategy and is supported by the Delivery Plan which outlines the key service activities/development projects and service performance indicators. The plan is designed to provide the GARM Committee, the Head of Paid Service, the S151 Officer, Corporate Directors and other senior managers with assurance on the Council's control environment. Internal Audit adds value to the organisation and contributes to its objectives and priorities by providing assurance on the organisation's control environment, alerting managers to weaknesses identified in the control environment, highlighting the risks of such weaknesses and instigating action to be taken by managers to improve the control environment via the implementation of audit recommendations/advice.

A top-down risk-based approach was adopted to the development of the audit plan in –line with the recommended PSIAS practice.

How Internal Audit Links to the Corporate Vision and Priorities

The Council's Vision for 2014/15 is:

Working Together to Make a Difference for Harrow

[1] As amended by the Accounts and Audit (Amendment)[England] Regulations 2006

The specific Corporate Priorities for 2014/15 are:

- **Making a difference for the vulnerable**
- **Making a difference for communities**
- **Making a difference for local businesses**
- **Making a difference for families**

The Council's vision and corporate priorities are taken into account when developing the Internal Audit annual operational plan of work. Where appropriate specific audit reviews will be scheduled to support individual priorities. In addition each year reviews are undertaken of systems that support the delivery of the corporate priorities.

Draft Plan

The first draft of the plan is developed after:

- consideration of the risk maturity of the organisation;
- review of the Council's Corporate Plan/Priorities 2014/15;
- review of the Final Revenue Budget 2014/15 and the MTFS 2014/15 – 2016/17
- review of the current Corporate and Directorate Risk Registers;
- review of the previous Internal Audit work covering the Council's internal controls (including an indicative audit risk rating);
- identification of significant local and national issues and risks, including new legislation;
- review of Protecting the Public Purse 2013 (Audit Commission, November 2013);
- review of the External Audit plan;
- consultation with Finance Business Partners on key areas of financial risk;
- consultation with the Service Manager, Corporate Anti-Fraud on key areas of fraud prevention.
- consultation with the Head of Paid Service, Corporate Directors, the S151 Officer and other key managers as appropriate;

The draft plan was presented formally to CSB (on 19th March) and the GARM Committee (on 2nd April) for review/comment.

Final Plan

Once the consultation process is complete the final plan is developed by undertaking a detailed risk assessment of all reviews contained in the draft plan to rank the projects on the plan, based on materiality and risk, as high, medium or low.

The number of audit days available for the 2014/15 plan is determined via a detailed resource calculation for each auditor taking into account available days, actual days 2013/14 and allowances for annual leave, training etc. A realistic but challenging target is then set for each member of the team and the combination of these targets determines the days available for the Internal Audit Plan. 1164 audit days were identified for the 2013/14 plan and 1075 audit days have been identified for the 2014/15 plan taking into account maternity leave.

The internal audit resources required to undertake each proposed audit review, based on the suggested scope of each review, is estimated and a final plan is developed ensuring that the highest risk reviews are included.

The table below shows the final internal audit plan 2014/15 and includes:

- the type of review to be undertaken - Reliance/Assurance Reviews
  - Professional Advice - New /Developing Areas
  - Corporate Risk Based Reviews
  - Directorate Risk Based Reviews
  - Schools Reviews
  - Support, Advice & Follow-up
- the results of the audit risk assessment – High/Medium/Low
- the main driver for each review - KEY**:** IA - Internal Audit; EA - External Audit; CGG - Corporate Governance Group; CP - Corporate Priority; CR - Corporate Risk; M - Management and CF - Corporate Finance
- days in the plan – this is an estimate of the days required that will be refined before the start of each review once full scope of the review has been developed and agreed with management
- the indicative timing of each review – the quarter of the year in which the review is expected to start
- a summary of the expected audit coverage – again this will be refined before the start of each review

Final Plan 14/15	Risk Assessment H/M/L	Main driver	Days in plan	Indicative Timing - Quarter in which should be started	Audit Coverage
Reliance/Assurance Reviews					
Business Rates	H	IA/EA	13	Q1	Key Control Review, systems notes
Housing Benefit	H	IA/EA	18	Q1	Key Control Review, systems notes
Capital Expenditure	H	IA/EA	16	Q1	Key Control Review, systems notes
Payroll	H	IA/EA	1.5	Q1	System notes, walkthrough. CRSA
Treasury	M	IA/EA	1.5	Q1	System notes, walkthrough. CRSA
Council Tax	H	IA/EA	1.5	Q1	System notes, walkthrough. CRSA
Housing Rents	M	IA/EA	1.5	Q1	System notes, walkthrough. CRSA
Corporate Accounts Payable	H	IA/EA	1.5	Q1	System notes, walkthrough. CRSA
Corporate Accounts Receivable	H	IA/EA	1.5	Q1	System notes, walkthrough. CRSA
Compliance Testing	H	IA/M	40	Q2-Q3	Register of interests; fees & charges; budget sign-off; probation reviews
Corporate Governance	n/a	IA/CCG	30	Q1-Q4	Annual governance review, drafting AGS, AGS Action Plan
Management Assurance	n/a	IA/CCG	20	Q1-Q4	Completion of 2013/14 exercise & development of 2014/15 exercise
Risk Management	n/a	IA	100	Q1-Q4	Maintenance and update of Corporate Risk Registers
Information Governance Board (IGB)	n/a	IA	3	Q1-Q4	To ensure that the Council has effective polices & management arrangements covering Information governance
Professional Advice - New /Developing Areas					
Procure to Pay	H	M	2	Q2–Q4	To provide ongoing risk and control advice
E-invoicing	H	IA/M	2	Q2-Q3	To provide professional advice on control and risk mitigation

Legal Services Company	H	M	2	Q2-Q3	To provide professional advice on control and risk mitigation
Public Health Visiting Transfer (not in draft)	H	M	5	Q2-Q3	To provide professional advice on control and risk mitigation
Financial Regulations review/update (not in draft)	n/a	CF	5	Q1-Q2	To feed into the current review of Financial Regulations
Contract Procedure Rules review/update (not in draft)	n/a	M	2	Q1-Q2	To feed into the current review of Contract Procedure Rules
IT Reviews					
Access Control – Network/SAP/EMS/SIMS/CITRIS Remote Access	H	IA	15	Q2	Set up and removal, parameters, password configuration, reset frequency.
IWorld/Northgate Housing Benefit – Operating System Review (c/f 2013/14)	H	IA/M	10	Q3	To assess the control process built within Northgate Housing Benefits System including the localised CT Benefit module and the cloud based Harrow Emergency Scheme
IT Data Centre - Landlord Risks (c/f 2013/14)	H	M	10	Q3	Covering environmental controls and security
Public Health IT Compliance Draft Plan	H	M	5	Q3	Ensuring compliance with IT requirements
IT Change Management (c/f 2013/14)	H	IA/CF	15	Q3	Review of system in place to manage IT change
Fraud Risk					
Fighting Fraud Checklist for Governance	n/a	PPP/CAFT	5	Q3-Q4	Completion and analysis of checklist to feed into Annual Governance review
Insurance claims	H	PPP/CAFT	15	Q2	Controls in place to prevent fraud/use of claims handlers
Procurement	H	PPP	20	Q3	Assessing risk of procurement fraud and preventative controls in place.
Right to Buy	H	PPP/IA	15	Q2	A review of controls in place to prevent fraud
Council Tax Discounts	H	PPP	10	Q3	A review of controls in place to prevent fraud
Corporate Risk Based Reviews					
Freedom of Information	H	IA/M	20	Q3	Review of the policy and process employed by the Council for dealing with FOI requests to ensure appropriate and proportionate. Possible joint review with Lean Team.
Business Continuity/IT Disaster Recovery (c/f 2013/14)	H	IA/M/AGS/CR	15	Q2	Covering adequacy and effectiveness of controls over the arrangements that are in place for the prevention of system downtime through adequate resilience
Directorate Risk Based Reviews					
Leaseholder Charges	H	F	30	Q2-Q3	Risk based system review
My Community E Purse	H	M	20	Q3	Health check requested by management
Families First (Troubled Families Grant)	n/a	F	5		Grant certification
Schools Expansion Programme	H	IA/CR	30	Q3	Programme Management/Procurement
Highways Contract	H	F	20	Q4	Contract Management review
EE Restructure – maintenance of key controls (c/f 2013/14)	H	IA/CF	10	Q2-Q3	Maintenance of key controls within Directorate and to ensure appropriate controls in place for Licensing
Carbon Reduction Commitment	M	IA/M/CR20	5	Q1	Audit review and sign-off of CRC Annual Report

Schools Reviews					
Financial Control & Governance Reviews	H	IA	150	Q3,4	A four year programme of school reviews covering the adequacy, application and effectiveness of financial controls and governance procedures in place
School Governor Governance Training	M	M/IA	5	Q3	Training session to be presented at the C&F Heads & Directors meeting
School HR Policies (not in draft)	H	F/IA	8	Q2-Q3	Check that appropriate HR Policies adopt by schools
SIMS Personnel	H	M/IA	20	Q3-Q4	Review of controls to ensure robust
Support, Advice & Follow-up					
Suspected Financial Irregularities + Control Reviews	H	IA/M	70	Q1,2,3,4	Guidance to managers on investigations and the undertaking of investigations
Professional Advice	n/a	IA/M	70	Q1,2,3,4	Advice on risk mitigation & control
Follow-up	H	IA	45	Q1,2,3,4	Red, Red/Amber & Amber reports followed-up
Liaison with External Audit	n/a	IA	5	Q1,2,3,4	On-going liaison throughout the year
Audit Management	n/a	IA	160	Q1,2,3,4	e.g. planning, GARM reporting
TOTAL AUDIT DAYS			**1075**		

Implementation of the Audit Plan

The Internal Audit Plan will be implemented by the in-house team following practices that comply with the Public Sector Internal Audit Standards.

Whilst every effort is made during the planning process to identify risks facing the Council we are working in an environment of rapid change and as such it has become more important over recent years for the audit plan to be flexible to allow for emerging risks. Such risks, as they occur, will be assessed and where they are deemed to be high risk an appropriate review will be included in the ongoing plan. Where possible such reviews will replace other reviews of a lower risk or reviews that have been taken out of the plan for other reasons however where neither of these options are possible work will be undertaken as necessary with a consequence that the agreed plan will roll into the following financial year.

The Internal Audit Mid-year and Year-end reports will detail all emerging risk work and outline the impact on the agreed plan.

Susan Dixson
Head of Internal Audit
June 2014

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