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Harrow Council

Statement of Accounts

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2011 - 12

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London Borough of Harrow  
Statement of Accounts  
2011 - 2012

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## 1 Explanatory Foreword

This foreword provides a guide to the Council's accounts for the year ended 31 March 2012. The Accounts and Audit Regulations 2011 require the Statement of Accounts to be approved by 30 September 2012.

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

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

- All relevant International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) – a constituent board of the IFRS Foundation;
- The 2011/12 Updated Code of Practice on Local Authority Accounting in the United Kingdom (UK); and
- The Service Code of Practice 2011-12 (SERCOP) issued by CIPFA that establishes proper practice for consistent financial reporting below the Statement of Accounts level and has statutory recognition.

The Statement of Accounts:

- **Movement in Reserves Statement:** This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.
- **Comprehensive Income and Expenditure Statement (CIES):** This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- **Balance Sheet:** The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.

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

- **Cash Flow Statement:** The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the receipts of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.
- **Housing Revenue Account (HRA):** This statement reflects a statutory obligation to account separately for the Council's housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.
- **The Collection Fund:** It is a statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and council tax. It illustrates the way in which these have been distributed to finance services provided by the Council and the Greater London Authority (GLA).
- **The Pension Fund Account:** The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the fund. It shows contributions to the Council's Pension Fund for employees during 2011-12, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund as at 31 March 2012. The accounts do not include any liabilities relating to payment of pensions and benefits in future years. The Pension Fund and its financial position are certified in section 9.

## Review of the year

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

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

In setting the 2011-12 budget to 2015-16 medium term financial strategy the Council directed its resources towards achieving these priorities. Resources are defined in the widest sense and include money, staff, work with our partners, property and other assets and information technology.

### General Fund Revenue Account (GF)

The Council has delivered an overall under spend of £1.3m in a difficult year. The under spend is the result of careful financial management in year, including the issuance of a Spending Protocol to address emergent budget pressures in year. The under spend of £1.3m (0.7% of budget) is mainly made up of income received in advance (£0.3m) and delayed expenditure (£1.1m), which are one off in nature and the early delivery of the Budget 2012-13 savings, which are already built into base budget.

The Council has increased general fund reserves year on year including a contribution of £0.5m this year, taking the balance to £7.5m. Council Tax was kept to a zero increase for the second year running in 2011.

The Council's revenue budget outturn for 2011-12 is £171.010m against a budget of £176.954m before year end accounting adjustments. £4.6m has been allocated to establish a provision for compulsory and voluntary redundancy costs, arising from implementation of the Transformation Programme, a long term strategy to transform and modernise employment in Harrow Council which includes reducing the number of Council employment contracts to efficient and sustainable levels; and, Mutual Municipal Insurance (MMI) future liabilities. MMI was the insurer of Harrow Council prior to ceasing its underwriting operations in September 1992 and entering into a Scheme of Arrangement in 1993. The Council has taken the advice of the actuary, who considers it to be wholly appropriate and justifiable, as well as in line with other local authorities to provide for the £1.4m minimum future liability in relation to MMI, uninsured future insurance claims.

The favourable end of year position allows the Council to allocate £0.5m to General Fund Reserves and £0.8m relating to the under spend on the Transformation and Priority Initiatives Fund (TPIF) to be carried forward to bolster the fund and support invest to save and other initiatives in 2012-13.

Unusable Reserves decreased by £117.9m in the year to 31 March 2012, due to the disposal of 7 maintained schools, which have transferred to Academy status with effect from 1 August 2011 under the provisions of the Academies Act 2010.

	2011-12			
	Budget £m	Outturn £m	Outturn Variation £m	Outturn Variation %
Departmental Costs	186.753	<b>186.458</b>	<b>-0.295</b>	
Carry forward for future commitments and pressures	0.106	<b>1.910</b>	1.804	
Net Directorate outturn position	186.859	188.368	1.509	0.8
Non Departmental Costs	<b>-7.383</b>	<b>-10.192</b>	<b>-2.809</b>	38.0
<b>Net Expenditure</b>	<b>179.476</b>	<b>178.176</b>	<b>-1.300</b>	<b>-0.7</b>
<b>Contribution to</b>				
Transformation and Priority Initiative Fund	0.000	<b>0.800</b>	0.800	
General reserve	0.000	<b>0.500</b>	0.500	

## Departmental Costs

The outturn position for the directorates of £0.295m under spend represents a favourable variance of 0.2% against a net budget of £186.753m. This is after the accounting adjustments of £4.6m referred to above. £2.8m was carried forward in total, of which: £0.331m related to non ring fenced income or grant; £1.056m related to delayed expenditure in year; and £1.199m related to new pressures arising since the setting of the 2012-13 Budget.

The under spend before accounting adjustments was mainly due to:

- Children's services delivering a £3.4m favourable variance, of which £0.7m is required to be carried forward for planned expenditure and some unforeseen pressures arising since the budget was set. The under spend reflects the Directorate's commitment to deliver 2012-13 savings budget savings from their transformational projects and procurement activity as soon as possible; and
- The Assistant Chief Executive's department reported a favourable variance of £1.630m; this was mainly attributable to projects deliberately held back as part of the spending protocol; early delivery of 2012-13 savings and successful projects (such as, Concessionary Fares).

## Adults and Housing (re-designated from 1 Feb 2012 as Community, Health and Wellbeing)

Adult's Social care was judged the most improved service in London and 4<sup>th</sup> nationally. During the year the service received recognition as detailed below:

- European recognition for its work on personalisation, which culminated in Adults' services presenting its journey to Finland's first national conference on personal budgets. One in five personal budgets in London is awarded by Harrow;
- The Department of Health recognised Harrow as a national leader in re-enablement which improves users' quality of life by enabling them to live at home rather than in hospital. The service was short listed for the MJ award in the category of 'Total Place Achievement of the Year' for re-enablement; and



- Adults and Housing management team was short listed for LGC 'Management Team of the Year' awards category.

### **Children's**

- The Priority Actions for the relocation and consolidation of Children's services into the Civic Centre were completed, as were the new arrangements for Education including the Harrow Schools Improvement Partnership. Behaviour standards in Harrow schools continue to be very strong. The priority to increase provision of personal budgets to families of disabled children has been achieved. The 2011 target to narrow the educational attainment gap at Foundation Stage was achieved.

### **Corporate Directorates**

- The revenue collection rate across the year has been good, notwithstanding the economic climate, and turnaround of Housing Benefit applications remains excellent despite an increasing caseload. Preparations for Council Tax Benefit Localisation have commenced. New Concessionary Travel policies and improved procedures came into operation.

### **Environment**

- Environmental services successfully increased the recycling rates to 52% which matches the best in London;
- Pinner Memorial Park joins Roxeth Recreation Ground, Harrow Recreation Ground and Canons Park as holders of the Green Flag, which recognises the best parks and open spaces in the country. New playgrounds were unveiled in 11 Harrow parks earlier this year, after Harrow Council and residents successfully campaigned to keep its Playbuilder funding; and
- The Mayor of London visited Harrow Recreation Ground as part of the launch of the Mayor's Safer Park Awards 2012. The awards recognise and promote good practice in tackling anti-social behaviour (ASB) and increasing safety in London's parks. Increasing Pride in Harrow by investing in new technology to maintain current street cleansing and grounds maintenance levels at reduced costs. The full technology solution has been implemented across both Street Cleansing and Grounds Maintenance. This includes a new back office management system, a mobile working solution for front line staff and an end to end integration into SAP Customer Resource Management (CRM) which enables the Council to better handle customer service by ensuring that richer information regarding these services is available to residents and Access Harrow. Savings of £1.1m have already been realised, mainly in staff savings.

## Place Shaping

- The Directorate adopted the Core Strategy (which sets out the spatial vision for growth and development in the Borough to achieve at least 6,050 homes and 4,000 jobs over the planned period 2009-2026);
- Implemented the green grid programme to increase access to public gardens and parks with the help of 960 volunteer hours;
- 461 new homes received planning permission of which 64 were affordable housing;
- Supported the local community through the economic downturn by holding 4 job fairs attracting 1,500 residents and 90 employers and trainers; adopted the apprenticeship policy to support employment of apprentices by Harrow Council. The Council also secured £0.914m funding from round one of Outer London fund for Harrow Town Centre and North Harrow. 109 residents have been supported into work; and
- Supported Council wide efficiencies by consolidating and rationalising corporate buildings, generating £4.8m through capital receipts.

## Capital

Actual capital spend in the year ending 31 March 2012 was £35.3m, compared with a revised programme of £74.8m (original programme value £52.4m). The underspend of £39.5m comprised of requests to defer and carry forward capital expenditure to 2012-13 totalling £18.7m (General Fund projects £17.0m; HRA projects £1.7m). Other attribution of capital underspend included £11.1m due to project completion with lower project costs; £6.3m due to project cancellation or part delivery; and, £3.7m due to project deferment.

Expenditure during the year was funded from grants (£10.8m), usable capital receipts (£5.0m), revenue contributions (£0.5m) and borrowing from UK banks (£19.0m).

## Housing

The Council provides rented accommodation of 4,965 units. In 2011-12, average Council rents were £95.57 per week, an increase of 7.65% from 2010-11. The HRA outturn confirmed a deficit of £0.988m in 2011-12 reflected by a decrease in HRA reserves from £3.8m to £2.8m. The outturn was lower than planned due to reduced capital expenditure and lower than forecast impairment of debtors at the 31 March 2012.

To arrive at an existing use value for social housing 25% of the unadjusted vacant possession value of dwellings has been applied to valuations in 2011-12.

The Council was required to borrow £88.461m in March 2012 as part of the Government's reform of the HRA which will replace the national Subsidy with a Self Financing system. To assist with this transition, the Major Repairs Allowance of £4.147m has been carried in reserves to support capital expenditure in 2012-13 and onwards.

## Collection Fund

The outturn surplus on the Collection Fund at year end is £1.728m compared to the estimated figure of £1.684m. This is a reduction of £1.046m from last year when there was a surplus of £2.774m. Factors contributing to the surplus are the Council has collected more arrears than anticipated; the direct payment of Council Tax Benefit has effectively reduced the risk of non collection of local taxation; and a reduced level of provision for bad debts.

The Council's share of the surplus is £1.370m and the Greater London Authority's (GLA) share is £0.358m.

## Treasury Management

There was a favourable variance of £1.5m on the capital financing budget of £22.2m.

The investment portfolio achieved an average return of 1.65% in the year (1.30% in 2010-11), exceeding both the annual average 7 day and 3 month LIBID rates of 0.48% and 0.81% respectively. This resulted in interest earned of £1.287m compared to the budgeted figure of £0.498m generating a favourable variance of £0.789m. The budget was based on a rate of 0.94%.

Gross borrowing costs were in line with the budget. There was a small adverse variance of £0.390m, partly due to an in year virement of £0.142m.

The average interest rate on debt has moved over the course of the year from 4.57% to 4.30%. The approach to funding capital expenditure as set out in the 2011-12 Treasury Strategy was mainly to use internal funds in recognition of the unfavourable gap between investment returns and borrowing costs and secondly to draw longer term fixed rate debt, to take advantage of low long term rates and to reduce exposure to fluctuations in short term interest rates. The HRA settlement was entirely funded by a 50 year PWLB debt as the rate achieved of 3.48% was exceptionally low, a function of the impact of the Euro crisis and quantitative easing on gilt rates, together with the reduction of 0.75% in the surcharge over gilts normally levied on PWLB borrowing.

The Minimum Revenue Provision (MRP) showed a favourable variance of £1.116m resulting from project under spend, and slippage on completion timetables.

## Outlook for 2012-13

The Council has made significant savings in recent years. Over the three years of the Medium Term Financial Strategy (MTFS) 2012-13 to 2014-15, £30.9m of savings have been identified. Making savings on this scale is extremely challenging, but the Directors have focused on ensuring that further changes to service delivery models are innovative, robust, deliverable and minimise the risk to vulnerable people or service failure.

Harrow is experiencing the effects of the ongoing recessionary conditions. For instance the number of benefit claimants has increased from 16,600 to 20,400 from April 2008 to date, an increase of 23%. Older people and people with long term care needs are living longer, and this is placing pressure on both the local authority and the PCT within reducing

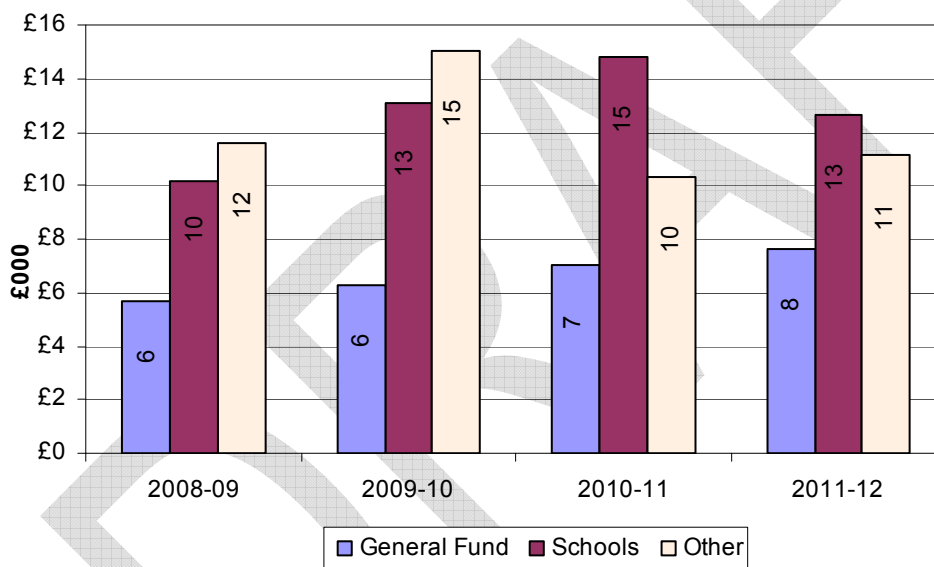
resources. The Council has been able to find the means to meet these increased costs from within its constrained resources by putting into place programmes such as reablement and personalised budgets to reduce longer term demand on services and to help people live independently for longer. The service also benefits from PCT monies included in the budget.

There is considerable risk in relation to the impact of welfare benefit changes, initially housing benefit, on the community. There is a concern that landlords will not accept reduced rents due to the amount of surplus demand and that the cap on housing benefit will therefore push families from Inner to Outer London, and perhaps from Outer London into the rest of the UK.

### 1.1.1 Financial Data

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

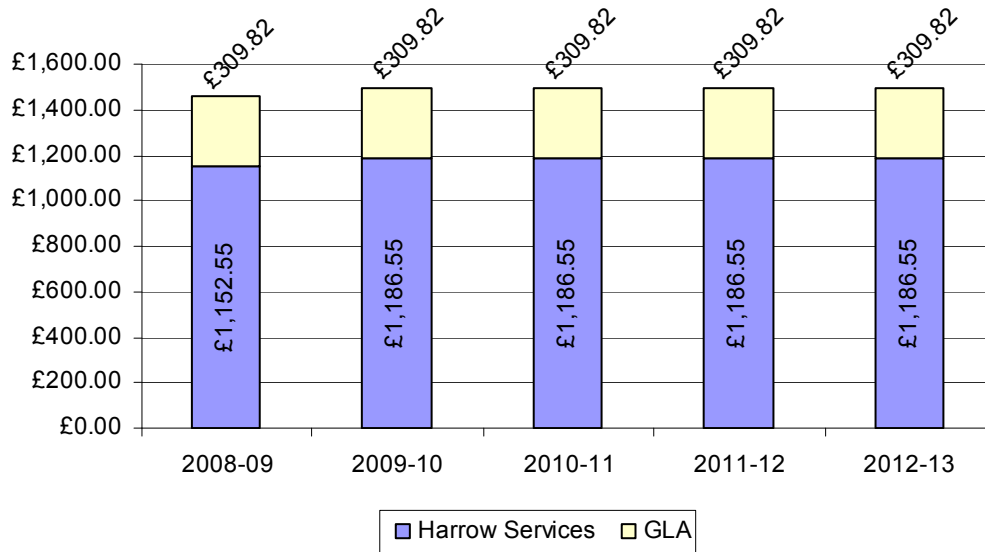
### 1.1.2 Council Revenue Balances (£000's)



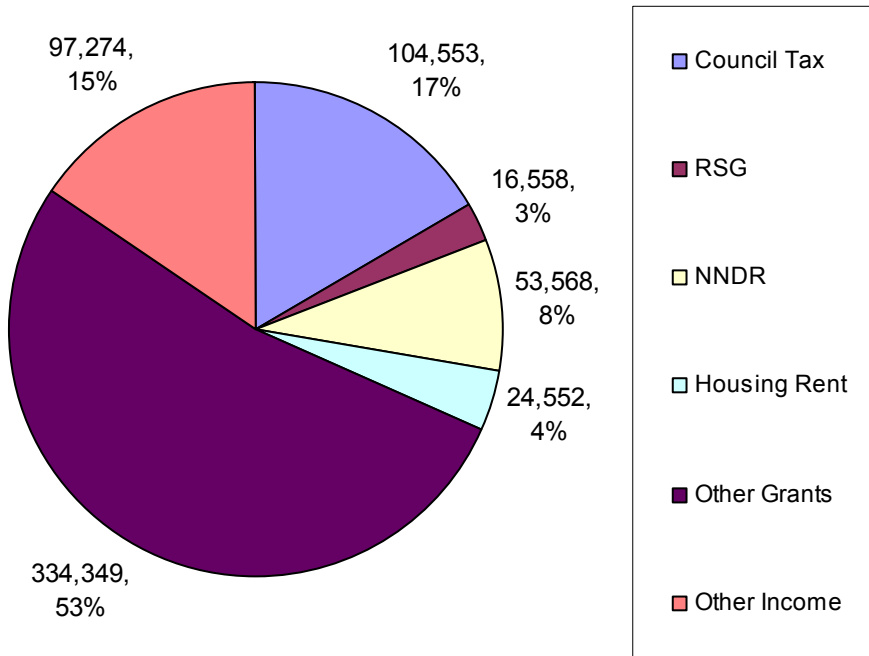
Note: the above balances, excluding General Fund, are ring fenced.

### 1.1.3 Council Tax Band D

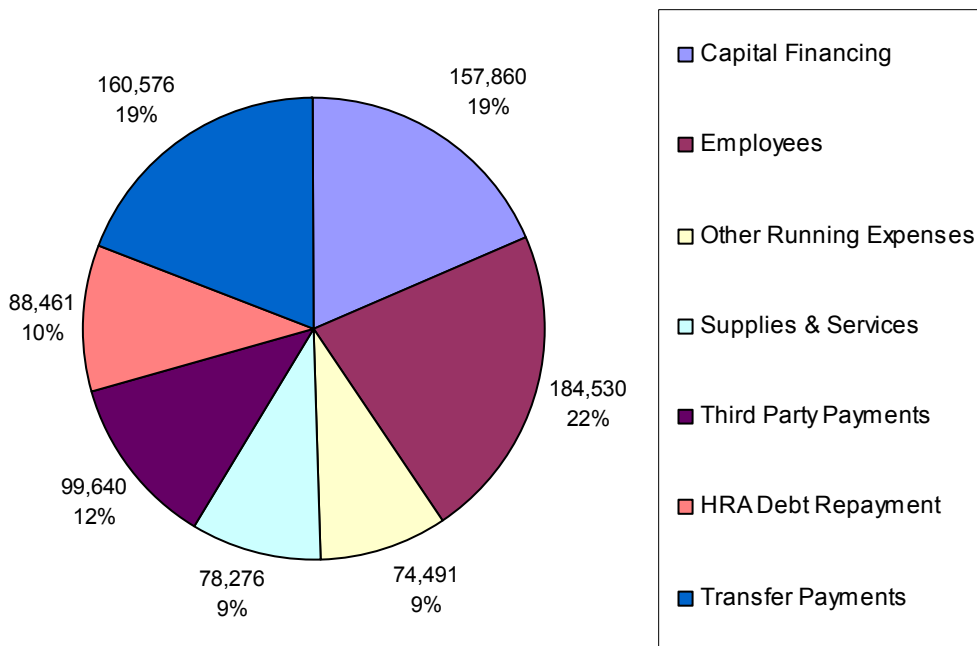
Council tax helps to pay for the services provided by Harrow Council and the Greater London Authority (GLA). The total Council Tax for Band D was £1,496.37.



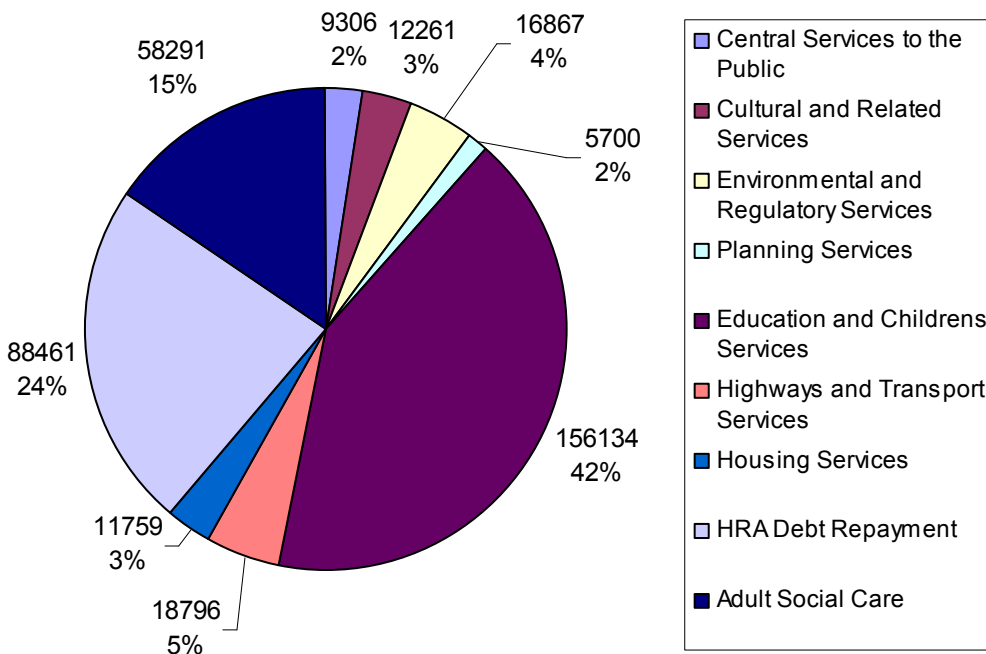
### 1.1.4 Analysis of Revenue Income (£000's)



**1.1.5 Analysis of Revenue Expenditure (£000's)**



**1.1.6 The Services Provided – analysis of expenditure**

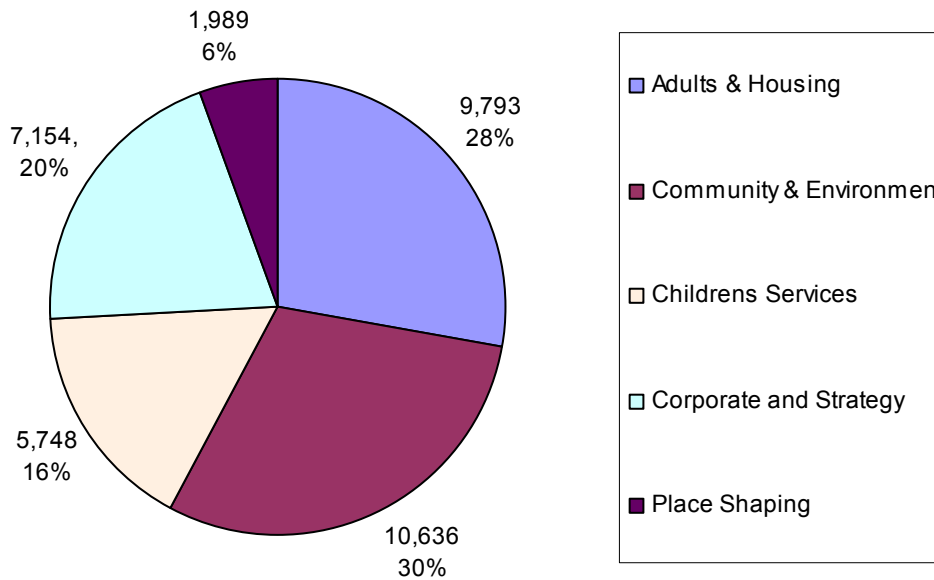


Housing Services includes both the General Fund and Housing Revenue Account lines from the CIES.

Central Services to the Public includes Central Services, Corporate and Democratic Core and Non Distributed costs lines from the CIES but excludes accounting entries for pension gains totalling a credit of £74.022m.

**1.1.7 Capital Expenditure (£000's)**

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



Further information about the accounts is available from:

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

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

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## 2 Statement of Responsibilities

### The Council's Responsibilities

- 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 Finance Officer, i.e. the Corporate Director of Resources;
- To manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets; and
- To approve the statement of accounts (delegated to the Governance, Audit & Risk Management Committee (GARM Committee)).

### The Chief Finance Officer's Responsibilities

The Chief Finance Officer 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 2011-12 (The Code).

In preparing this Statement of Accounts, the Chief Finance Officer 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 Chief Finance Officer 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.

I certify that the Statement of Accounts as set out in this document presents a true and fair view of the financial position, performance and cashflow of the council as at 31 March 2012 and its income and expenditure for the year then ended.

**Julie Alderson (ACA)**  
**Chief Finance Officer**  
**30 September 2012**

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

I can confirm that these accounts were considered and approved by the Governance, Audit and Risk Management Committee (GARMC) at the meeting held on 24 September 2012.

Signed on behalf of London Borough of Harrow Council

**Bill Phillips  
Chairman (GARMC)  
30 September 2012**

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### **3 Audit Opinion & Certificate**

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

##### **Opinion on the Authority financial statements**

We have audited the financial statements of London Borough of Harrow for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and their related notes 5.1 to 5.49, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 6.2 to 6.2.12 and Collection Fund and the related notes 7.1 to 7.1.3. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Harrow in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

##### **Respective responsibilities of the Chief Finance Officer and auditor**

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

##### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material

inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Harrow as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

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

### **Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects

### **Opinion on the pension fund financial statements**

We have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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

auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Finance Officer and auditor**

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

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

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

### **Respective responsibilities of the Authority and the auditor**

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

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

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

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

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

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

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

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

## **Conclusion**

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

## **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have:

- completed our consideration of matters brought to our attention by local authority electors in respect of prior year accounts; and
- completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack.

We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Paul Schofield, Engagement Lead

For and on behalf of Deloitte LLP

Appointed Auditor

St Albans, United Kingdom

DATE

#### **4 Presentation of Financial Statements**

The authority is required to present a complete set of financial statements annually (including comparative information). The objectives of the financial statements are to provide information about the financial position, financial performance and cash flows of an authority that is useful to a wide range of users in making and evaluating decisions about the allocation of resources.

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#### 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
<b>Balance at 31 March 2010</b>	-6,294	-15,011	-13,108	-4,784	-6,167	0	-2,500	-47,864	-420,878	-468,742
<b>Movement in reserves during 2010-11</b>										
(Surplus) or deficit on the provision of services	-18,307	0	-1,691	125,101	0	0	0	105,103	-76	105,027
Other Comprehensive Expenditure and Income	-67,509	0	0	0	0	0	0	-67,509	0	-67,509
<b>Total Comprehensive Expenditure and Income</b> (note 4.2)	<b>-85,816</b>	<b>0</b>	<b>-1,691</b>	<b>125,101</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>37,594</b>	<b>-76</b>	<b>37,518</b>
Adjustments between accounting basis & funding basis under regulations (Note 5.7)	89,787	0	0	-124,097	-81	0	1,654	-32,737	32,737	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>3,971</b>	<b>0</b>	<b>-1,691</b>	<b>1,004</b>	<b>-81</b>	<b>0</b>	<b>1,654</b>	<b>4,857</b>	<b>32,661</b>	<b>37,518</b>
Transfers to/from Earmarked Reserves (note 5.8)	-4,677	4,677	0	0	0	0	0	0	0	0
<b>Increase/Decrease in 2010-11</b>	<b>-706</b>	<b>4,677</b>	<b>-1,691</b>	<b>1,004</b>	<b>-81</b>	<b>0</b>	<b>1,654</b>	<b>4,857</b>	<b>32,661</b>	<b>37,518</b>
<b>Balance at 31 March 2011 carried forward</b> (note 4.3)	<b>-7,000</b>	<b>-10,334</b>	<b>-14,799</b>	<b>-3,780</b>	<b>-6,248</b>	<b>0</b>	<b>-846</b>	<b>-43,007</b>	<b>-388,217</b>	<b>-431,224</b>
<b>Balance at 31 March 2011 carried forward</b> (note 4.3)	<b>-7,000</b>	<b>-10,334</b>	<b>-14,799</b>	<b>-3,780</b>	<b>-6,248</b>	<b>0</b>	<b>-846</b>	<b>-43,007</b>	<b>-388,217</b>	<b>-431,224</b>
<b>Movement in reserves during 2011-12</b>										
(Surplus) or deficit on the provision of services	118,115	0	2,167	90,853	0	0	0	211,135	0	211,135
Other Comprehensive Expenditure and Income	63,160	0	0	0	0	0	0	63,160	0	63,160
<b>Total Comprehensive Expenditure and Income</b> (note 4.2)	<b>181,275</b>	<b>0</b>	<b>2,167</b>	<b>90,853</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>274,295</b>	<b>0</b>	<b>274,295</b>
Adjustments between accounting basis & funding basis under regulations (Note 5.7)	-182,846	0	0	-89,865	-61	-4,148	-1,003	-277,923	277,923	-0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-1,571</b>	<b>0</b>	<b>2,167</b>	<b>989</b>	<b>-61</b>	<b>-4,148</b>	<b>-1,003</b>	<b>-3,628</b>	<b>277,923</b>	<b>274,295</b>
Transfers to/from Earmarked Reserves (note 5.8)	921	-921	0	0	0	0	0	0	0	0
<b>Increase/Decrease in 2011-12</b>	<b>-650</b>	<b>-921</b>	<b>2,167</b>	<b>989</b>	<b>-61</b>	<b>-4,148</b>	<b>-1,003</b>	<b>-3,627</b>	<b>277,923</b>	<b>274,296</b>
<b>Balance at 31 March 2012 carried forward</b> (note 4.3)	<b>-7,650</b>	<b>-11,255</b>	<b>-12,632</b>	<b>-2,791</b>	<b>-6,309</b>	<b>-4,148</b>	<b>-1,849</b>	<b>-46,634</b>	<b>-110,294</b>	<b>-156,928</b>

#### 4.2 Comprehensive Income and Expenditure Statement (CIES)

Presentation of Financial Statements

2010-11				2011-12			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Notes	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
25,087	-23,460	1,627	Central Services		25,351	-24,122	1,229
14,586	-2,707	11,879	Cultural and Related Services		14,701	-2,440	12,261
21,589	-3,108	18,481	Environmental and Regulatory Services		19,502	-2,635	16,867
10,361	-3,387	6,974	Planning Services		9,032	-3,332	5,700
341,710	-204,701	137,009	Children's and Education Services		330,434	-174,300	156,134
31,793	-13,791	18,002	Highways and Transport Services		29,561	-10,765	18,796
139,569	-127,049	12,520	Housing Services (General Fund)		145,567	-133,766	11,801
145,062	-25,690	119,372	Housing Services (HRA) (note 6.1)		27,593	-27,635	-42
			Local Authority Housing Settlement Payment to Government for HRA Self Financing	6.2.4	88,461	0	88,461
0	0	0	Adult Social Care		77,502	-19,211	58,291
83,254	-20,216	63,038	Corporate and democratic core		12,975	-2,361	10,614
11,777	-1,253	10,524	Non distributed costs	5.45&5.46	7,386	-9,923	-2,537
-68,249	-114	-68,363					
<b>756,539</b>	<b>-425,476</b>	<b>331,063</b>	<b>Cost Of Services (Section 10.3)</b>		<b>788,065</b>	<b>-410,490</b>	<b>377,575</b>
12,885	-1,291	11,594	Other Operating Expenditure	5.9	7,072	-644	6,428
21,941	-2,442	19,499	Financing and Investment Income and Expenditure	5.10	48,697	-32,305	16,392
0	-257,129	-257,129	Taxation and Non-Specific Grant Income	5.11	0	-189,260	-189,260
		<b>105,027</b>	<b>Deficit on Provision of Services</b>				<b>211,135</b>
		2,001	Deficit on revaluation of non current assets	5.28.1			281
		-69,510	Actuarial (gains)/losses on net pension liability	5.28.4			62,879
		<b>-67,509</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>63,160</b>
		<b>37,518</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>274,295</b>

### 4.3 Balance Sheet

31-Mar-11 £000		Notes	31-Mar-12 £000
885,739	Property Plant and Equipment	5.12	<b>759,882</b>
23,681	Investment Property	5.15	<b>24,389</b>
18,000	Long Term Investments	5.16	<b>18,000</b>
3,604	Long Term Debtors	5.17	<b>3,394</b>
<b>931,024</b>	<b>Long Term Assets</b>		<b>805,665</b>
65,557	Short Term Investments	5.18	<b>58,701</b>
141	Inventories	5.19	<b>169</b>
21,279	Short Term Debtors	5.20	<b>20,540</b>
25,497	Cash and Cash Equivalents	5.21	<b>10,786</b>
<b>112,474</b>	<b>Current Assets</b>		<b>90,196</b>
-33,658	Short Term Borrowing	5.22	<b>-11,177</b>
-66,159	Short Term Creditors	5.23	<b>-64,488</b>
-3,632	Provisions	5.24	<b>-6,905</b>
<b>-103,449</b>	<b>Current Liabilities</b>		<b>-82,570</b>
-3,929	Provisions	5.24	<b>-4,558</b>
-261,963	Long Term Borrowing	5.25	<b>-350,359</b>
-236,820	Other Long Term Liabilities	5.26	<b>-293,911</b>
-6,113	Capital Grants Receipts in Advance	5.40	<b>-7,535</b>
<b>-508,825</b>	<b>Long Term Liabilities</b>		<b>-656,363</b>
<b>431,224</b>	<b>Net Assets</b>		<b>156,928</b>
-43,007	Usable Reserves	5.27	<b>-46,634</b>
-388,217	Unusable Reserves	5.28	<b>-110,294</b>
<b>-431,224</b>	<b>Total Reserves</b>		<b>-156,928</b>

### 4.4 Cash Flow Statement

2010-11 £000		Notes	2011-12 £000
-105,027	Net deficit on the provision of services	4.2	<b>-211,135</b>
125,605	Adjustments to net deficit on the provision of services for non cash movements	5.29	<b>148,288</b>
-11,374	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	5.29	<b>-11,121</b>
9,204	Net cash flows from Operating Activities		<b>-73,968</b>
-46,027	Investing Activities	5.30	<b>-5,120</b>
39,045	Financing Activities	5.31	<b>64,377</b>
2,222	Net increase in cash and cash equivalents		<b>-14,711</b>
23,275	Cash and cash equivalents at the beginning of the reporting period	5.21	<b>25,497</b>
25,497	Cash and cash equivalents at the end of the reporting period		<b>10,786</b>

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## **5 Notes to the Financial Statements**

### **5.1 Accounting Policies**

The Council's objective is to ensure that for all material items:

- The appropriate accounting policies have been adopted, given the Council's circumstances to ensure the Accounts give a true and fair view;
- The accounting policies adopted are reviewed regularly to ensure that they remain appropriate; and
- Sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

#### **5.1.1 Estimation Techniques**

These are the methods adopted by the Council to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves.

The Council has determined the estimation techniques that most closely reflect the economic reality of the transactions or other events to which the relevant accounting policy refers.

#### **5.1.2 General Principles**

The Statement of Accounts summarises the Council's transactions for the 2011-12 financial year and its position as at 31 March 2012. 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 2011/12 and the Service Reporting Code of Practice 2011/12 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.

### **5.1.3 Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature 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.

### **5.1.4 Investments**

The Council has adopted the CIPFA Code of Practice for Treasury Management. Investments are made in accordance with this Code and the Council's Treasury Strategy Statement is approved by Members each year.

### **5.1.5 Exceptional Items**

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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.

### **5.1.7 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.

MRP is the amount of money the Council has to set aside each year in respect of its capital borrowing debt. The MRP is a technical accounting entry which impacts on General Fund balances and Council Tax levels. The Capital Financing and Accounting Regulations place a duty on Local Authorities to make an MRP which is considered to be prudent and places a responsibility with the Council to approve an Annual MRP Strategy. This was approved on 10 February 2011.

### **5.1.8 Employee Benefits**

#### Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include 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.

#### 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 Non Distributed Costs line in 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.

#### Post Employment Benefits

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

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

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



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

### The Local Government Pension Scheme

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

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

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

The assets of Harrow Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- 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.

#### (e) 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.

### **5.1.9 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.

### 5.1.10 Intangible Assets

The Council does not have any Intangible assets.

### 5.1.11 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. When conditions are satisfied, the grant or contribution is credited to the relevant service line in the Comprehensive Income and Expenditure Statement.

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.

Where a revenue grant meets the recognition criteria set out in paragraph 5(i) above, it should be recognised in the Comprehensive Income and Expenditure Statement immediately unless there is a condition (as opposed to a restriction) that the council has not satisfied. A condition arises where the grant must be returned to the grantor if not used as set out in the terms of the grant. Where the terms of the grant set out how it must be used but do not require the grant to be returned to the grantor where the terms are not complied with, this is a restriction and the grant should be recognised in the Comprehensive Income and Expenditure Statement immediately.

### 5.1.12 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO costing formula. Work in progress is subject to an interim valuation of the year-end recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### 5.1.13 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.

### 5.1.14 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.

Finance leases are accounted for on an annual basis according to the point in the year at which the lease commences.

## The Council as Lessee

### Finance Leases

Property, plant and equipment held under finance leases is recognised on either 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.

### Academies

The Council has granted a 125 lease agreement in respect of maintained schools which have become Academies under the Academies Act 2010. The Council does not receive any lease rentals for Academies.

### 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.

### **5.1.15 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 2011-12 (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.

### **5.1.16 Property, Plant and Equipment**

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

#### Recognition

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

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located; and
- the borrowing costs incurred whilst assets are under construction.

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

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



- infrastructure assets, community assets and assets under construction – depreciated historical cost;
- dwellings – fair value, determined using the basis of existing use value for social housing (Existing Use Value - Social Housing (EUV-SH)); and
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.

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

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

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

### Impairment

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

Where impairment losses are identified, they are accounted for 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.

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).

Depreciation is calculated on the following basis:

- 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 has not been depreciated;
- Community assets are held at nominal value and therefore are not depreciated;
- Newly acquired or completed assets are depreciated in the year following acquisition or completion; and
- The Council dwellings have been depreciated by an amount equal to the Major Repairs Allowance.

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 in 2010-11.

### Componentisation

The objective of component accounting is to follow proper accounting practice by ensuring that Property Plant & Equipment is accurately and fairly included in a council's Balance Sheet and that the Comprehensive Income and Expenditure Statement properly reflects the consumption of economic benefits of those assets (i.e. the cost of their use) over their

individual useful lives, through depreciation charges. Componentisation in local authority accounts applies to revaluations from 1 April 2010 and also to acquisitions and enhancements from the same date.

The Council has adopted the approach outlined in CIPFA LAAP Bulletin 86 to develop a policy in relation to the identification of potential components of fixed assets and then assess whether from not using a shorter useful economic life a material misstatement in the accounts would arise.

The policy allows for the following de-minimis criteria to be applied to General Fund properties before componentisation of assets will be applied

	<b>De-minimis Threshold</b>	<b>Reasoning</b>
1	Main building asset de-minimis value of £4m.	If the value of the building is below £4m it is not subject to component accounting.
2	Main asset remaining Useful Economic Life (UEL) de-minimis level at 20 years.	It would be uneconomical to replace a component where the main asset life is 20 years or less.
3	De-minimis life for a component is less than 75% of the life of the parent asset.	For example - if the life of the main asset is 40 years the life of a component needs to be 30 years or less for componentisation to apply.
4	De-minimis cost of a component is 20% or more of the main building asset.	If the value of the asset is £5m the value of the component needs to be at least £1m.

There are 14 buildings where the value at 31.3.12 exceeds £4m but there are no components such as flat roofs or mobile classrooms that exceed the de-minimis criteria identified in the policy.

For HRA dwellings an exercise was carried out to identify the main components such as kitchens, bathrooms, central heating etc and assign a useful economic life and value to these potential components. The value of depreciation calculated on the basis of estimated componentisation was then compared with the value of the Major Repairs Allowance (MRA) as a proxy for depreciation. The outcome of this process was to proceed with the MRA as the basis of depreciation in 2011-2012.

An estimate for depreciation was also made assuming components are valued at their market value, and not at the lower EUV-SH. This yielded a depreciation figure approximately £2m higher than the MRA and would, if applied, have resulted in a higher depreciation charge against the Income and Expenditure account, funded by a transfer from the Capital Adjustment Account. The Council considers this methodology to be a fairer reflection of the commercial reality of component renewal and in keeping with the

requirements of councils to prepare 30 year Business Plans as a result of the Self Financing Reforms implemented in April 2012.

The valuation of land and buildings has been carried out separately for all assets.

### Disposals

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

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

### **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 – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually 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.

#### 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. The Council has the following reserves:

#### Usable Reserves

- Capital Grants Unapplied
- Capital Receipts Reserves
- Earmarked Reserves
- General Fund Balance
- Housing Revenue Account
- Locally Managed School Reserves
- Major Repairs Reserves

#### Unusable Reserves

- Accumulated Absences Account
- Capital Adjustment Account
- Collection Fund Adjustment Account
- Financial Instrument Adjustment Account
- Pension Reserve
- Revaluation Reserve

### 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). The key features relevant to accounting for Council Tax in the core financial statements are:

- In its capacity as a billing council the Council acts as agent; it collects and distributes Council Tax income on behalf of the major preceptors and itself;
- While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing council, or paid out of the Collection Fund to major preceptors;

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

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

## **5.2 Critical Judgements in Applying Accounting Policies**

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

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

- The Council has reviewed its significant contractual arrangements and has determined that none of these give rise to a service concession under IFRIC 12 or embedded lease arrangements under IFRIC 14; and
- The Council has not identified any material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that would require it to prepare group accounts.

### **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 Authority 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 2012 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.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
Provisions	Provisions are defined as probable future liabilities based on past events and there are therefore inherent uncertainties related to provisions that have been made and the amounts set aside.	If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's revenue account.
Arrears	Provisions have been made for debt owed to the Council for which payment may not be received. However, particularly in the current economic climate, it is not certain that allowances made would be sufficient	Any deterioration in the collection rates may lead to a larger number of debtors not being able to pay the Council than already provided for. These would have to be written off to reduce the balance of outstanding debt and be charged to the Comprehensive Income and Expenditure Statement
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 interact in complex ways. The actuaries review the assumptions triennially and changes are adjusted for in the accounts

#### **5.4 Carbon Reduction Commitment Allowances**

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

#### **5.5 Heritage Assets**

The Code of Practice on Local Authority Accounting adopted FRS 30 Heritage Assets in 2011-12. A tangible heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. An intangible heritage asset is an asset with cultural, environmental or historical significance.

The Code requires authorities to recognise heritage assets where the Council has information on the cost or value of the asset. Where information on cost or value is available it requires initial recognition of tangible heritage assets in accordance with IAS 16 Property Plant and Equipment and initial recognition of intangible heritage assets in accordance with IAS 38 Intangible Assets.

Where information on cost or value is not available and the cost of obtaining the information outweighs the benefit to the users of the financial statements, the Code does not require that the asset is required on the Balance Sheet.

Heritage Assets with de minimis value are not recognised in the Balance Sheet. These are defined as assets below £100,000 in value.

The Code does however require that appropriate disclosure is made where heritage assets are not recognised on the Balance Sheet.

#### **5.6 Events after the Balance Sheet Date (Action)**

The Statement of Accounts was authorised for issue by the Director of Finance on xx/ September 2012. Events taking place after this date are not reflected in the Financial Statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the Financial Statements and notes have been adjusted in all material respects to reflect this information.

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

For 2011-12 the only accounting policy change that needs to be reported relates to amendments to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).

## 5.8 Adjustment between accounting basis and funding basis under regulations

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

2010-11	Usable Reserves					Movement in Unusable Reserves £000
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the CIES:</b>						
Depreciation	-30,233	-3,987	0	0	0	-34,220
Impairment	-93,512	-120,916	0	0	0	-214,428
Movements in the market value of Investment Properties	490	47	0	0	0	537
Capital grants and contributions	72,400	289	0	0	1,654	74,343
Revenue expenditure funded from capital under statute	-5,834	0	0	0	0	-5,834
Non Current assets written out on disposal	-3,655	-5,015	0	0	0	-8,670
<b>Insertion of items not debited or credited to the CIES:</b>						
Minimum Revenue Provision	12,062	23	0	0	0	12,085
Capital expenditure charged against the General Fund and HRA balances	290	0	0	0	0	290
<b>Adjustments involving the Capital Receipts Reserve:</b>						
Transfer of sale proceeds credited to the CIES	5,052	1,327	-6,349	0	0	30
Use of the Capital Receipts Reserve to finance new capital expenditure			5,462	0	0	5,462
Less Administrative Cost of disposals	-106	-10	116	0	0	0
Less payments to the Capital Receipt Pool	-690		690	0	0	0
<b>Adjustment involving the Major Repairs Reserve</b>						
Reversal of Major Repairs Allowance credited to the HRA	0	3,932	0	-3,932	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	3,932	0	3,932
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>						
Premiums and Discounts on Debt Restructure	-249	220	0	0	0	-29
<b>Adjustments involving the Pensions Reserve:</b>						
Charges made for retirement benefits in accordance with IAS19	45,085	-377	0	0	0	44,708
Employer's pensions contributions payable in the year	19,363	350	0	0	0	19,713
<b>Adjustments involving the Collection Fund Adjustment Account:</b>						
	795	0	0	0	0	795
<b>Adjustment involving the Accumulating Compensated Absences Account</b>						
	1,020	20	0	0	0	1,040
<b>Total Adjustments</b>	<b>22,278</b>	<b>-124,097</b>	<b>-81</b>	<b>0</b>	<b>1,654</b>	<b>-100,246</b>

## 5.9 Transfers to/from Earmarked Reserves

	Balance at 31-Mar-10	Transfers Out 2010-11	Transfers In 2010-11	Balance at 31-Mar-11	Transfers Out 2011-12	Transfers In 2011-12	Balance at 31-Mar-12
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund:</b>							
Compensatory Added Years Transformation and Priority Initiatives Fund	-1,069	75	-13	-1,007	59	0	-948
Borough Elections	-227	227	0	0	0	-106	-106
Building Schools for the future	-400	400	0	0	0	0	0
Harvist reserve_harrow Share	-10	0	-13	-23	12	-13	-24
NW London Education Business Partnership	-93	0	0	-93	0	-151	-244
PFI Schools	-3,971	2,336	-2,101	-3,736	527	-319	-3,528
Personal Injury Reserve	-110	0	0	-110	0	0	-110
Projects in progress	-3,613	3,402	-2,001	-2,212	1,384	-2,375	-3,203
Bad Debt Reserve	-175	175	0	0	0	0	0
Insurance reserve	-500	0	0	-500	0	0	-500
Litigation and employment related Reserve	-776	221	0	-555	555	0	0
Local Housing Allowance	0	0	-300	-300	300	0	0
Revenue Grant Reserve	-2,718	2,669	0	-49	49	-354	-354
Revenue Contribution for Capital from Schools	0	0	-818	-818	499	-39	-358
PFI Neighbourhood Resource Centre	-292	838	-1,047	-501	0	-195	-696
<b>Subtotal General Fund Reserves</b>	<b>-15,011</b>	<b>11,252</b>	<b>-6,575</b>	<b>-10,334</b>	<b>5,486</b>	<b>-6,407</b>	<b>-11,255</b>
Balances held by schools under a scheme of delegation	-13,108	0	-1,691	-14,799	2,167	0	-12,632
<b>Total</b>	<b>-28,119</b>	<b>11,252</b>	<b>-8,266</b>	<b>-25,133</b>	<b>7,653</b>	<b>-6,407</b>	<b>-23,887</b>

**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.

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

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

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

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

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

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

**Accumulation of smaller earmarked reserves:** Reserves under £400,000 are established for various minor miscellaneous purposes.

### 5.10 Other Operating Expenditure

2010-11 £000		2011-12 £000
	<b>Levies</b>	
748	London Boroughs Grants Committee	411
330	London Pension Fund Authority	298
6,983	West London Waste Authority (WLWA)	5,918
264	Lee Valley Regional Park Authority	258
172	Environment Agency	172
8,497	Sub Total Levies	7,057
690	Payments to the Government Housing Capital Receipts Pool	15
2,407	Losses/(gains) on the disposal of non current assets	-644
11,594	<b>Total</b>	6,428

### 5.11 Financing and investment income and expenditure

2010-11 £000		2011-12 £000
13,636	Interest payable and similar charges	13,980
8,305	Pensions interest cost and expected return on pensions assets ( Note 5.47.2)	5,347
-1,121	Interest receivable and similar income	-1,409
-1,321	Income and expenditure in relation to investment properties and changes in their fair value	-1,526
19,499	<b>Total</b>	16,392

### 5.12 Taxation and non specific grant incomes

2010-11 £000		2011-12 £000
-104,716	Council tax income	-104,553
-59,172	Non domestic rates	-53,568
-11,960	Area Based Grant	0
-8,592	Revenue Support Grant	-16,558
	Council Tax Freeze Grant	-2,585
-72,689	Capital grants and contributions	-11,996
-257,129	<b>Total</b>	-189,260

## 5.13 Property, Plant and Equipment

2011-12

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Constructi on and Equipment	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
At 1 April 2011	317,068	646,041	100,585	171,641	567	13,576	1,249,478	30,035
Additions	6,084	6,553	8,067	6,078	319	6,160	33,261	177
revaluation increases/(decreases) recognised in	0	597	0	0	0	0	597	9
revaluation increases/(decreases) recognised in								
the Surplus/Deficit on the Provision of Services	-1,476	-5,349	0	0	-319	0	-7,144	-1,199
Derecognition - Disposals	0	-129,601	-3,913	0	0	0	-133,514	0
Derecognition - Other	0	0	0	0	0	0	0	0
Assets reclassified from Asset Under Construction	185	4,474	5,034	1,048	0	-10,741	0	0
other movements in cost or valuation	0	0	0	0	0	0	0	0
<b>At 31 March 2012</b>	<b>321,861</b>	<b>522,715</b>	<b>109,773</b>	<b>178,767</b>	<b>567</b>	<b>8,995</b>	<b>1,142,678</b>	<b>29,022</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2011	-42,267	-194,532	-61,417	-64,957	-566	0	-363,739	-5,437
Depreciation charges for 2011-12	-4,148	-4,589	-13,455	-8,390	0	0	-30,582	-327
Depreciation written out to the Revaluation Reserve	0	-109	0	0	0	0	-109	0
depreciation written out to the Surplus/Deficit on								
the Provision of Services	0	0	0	0	0	0	0	0
impairment losses/(reversals) recognised in the	0	0	0	0	0	0	0	0
impairment losses/(reversals) recognised in the								
Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
derecognition - disposals	0	11,666	157	0	0	0	11,823	0
derecognition - other	0	0	0	0	0	0	0	0
other movements in depreciation and impairment	0	-189	0	0	0	0	-189	0
<b>At 31 March 2012</b>	<b>-46,415</b>	<b>-187,753</b>	<b>-74,715</b>	<b>-73,347</b>	<b>-566</b>	<b>0</b>	<b>-382,796</b>	<b>-5,764</b>
<b>Net Book Value</b>								
At 31 March 2012	275,446	334,962	35,058	105,420	1	8,995	759,882	23,258
At 31 March 2011	274,801	451,509	39,168	106,684	1	13,576	885,739	24,598

2010-11	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
At 1 April 2010	438,085	672,091	89,890	163,000	567	59,538	1,423,171	31,217
Additions	5,126	26,199	8,022	7,231	0	5,498	52,076	357
revaluation increases/(decreases) recognised in the Revaluation Reserve	0	1,224	0	0	0	0	1,224	0
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-121,179	-84,773	0	0	0	0	-205,952	-1,554
Derecognition - Disposals	-300	-2,628	0	0	0	0	-2,928	0
Derecognition - Other	-4,710	-13,403	0	0	0	0	-18,113	0
Assets reclassified from Asset Under Construction	46	47,331	2,673	1,410	0	-51,460	0	15
other movements in cost or valuation	0	0	0	0	0	0	0	0
<b>At 31 March 2011</b>	<b>317,068</b>	<b>646,041</b>	<b>100,585</b>	<b>171,641</b>	<b>567</b>	<b>13,576</b>	<b>1,249,478</b>	<b>30,035</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2010	-38,551	-190,743	-45,131	-57,011	-566	0	-332,002	-5,121
Depreciation charges for 2010-11	-3,932	-5,922	-16,286	-7,946	0	0	-34,086	-316
Depreciation written out to the Revaluation Reserve	0	-134	0	0	0	0	-134	0
depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
derecognition - disposals	216	2,267	0	0	0	0	2,483	0
derecognition - other	0	0	0	0	0	0	0	0
other movements in depreciation and impairment								
<b>At 31 March 2011</b>	<b>-42,267</b>	<b>-194,532</b>	<b>-61,417</b>	<b>-64,957</b>	<b>-566</b>	<b>0</b>	<b>-363,739</b>	<b>-5,437</b>
<b>Net Book Value</b>								
<b>At 31 March 2011</b>	<b>274,801</b>	<b>451,509</b>	<b>39,168</b>	<b>106,684</b>	<b>1</b>	<b>13,576</b>	<b>885,739</b>	<b>24,598</b>
<b>At 31 March 2010</b>	<b>399,534</b>	<b>481,348</b>	<b>44,759</b>	<b>105,989</b>	<b>1</b>	<b>59,538</b>	<b>1,091,169</b>	<b>26,096</b>



The Council disposed of 7 maintained schools which have transferred to Academy status with effect from 1 August 2011 under the provisions of the Academies Act 2010. The net book value of disposed assets was £117,591K (valuation at cost £129,035 less accumulated depreciation £11,444K).

### 5.13.1 Depreciation

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer: 20-80 years;
- vehicles, plant and equipment: 5 years;
- infrastructure – straight-line allocation: 10-80 Years;
- Freehold land has not been depreciated;
- Newly acquired or completed assets are depreciated in the year following acquisition or completion; and
- Council Housing dwellings have been depreciated by an amount in excess of the Major Repairs Allowance following a review of the componentisation policy for Council dwellings.

### 5.13.2 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 2011. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – fair value, determined using the basis of Existing Use Value for 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.

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 2011 and 31 March 2012. This together with the impairment review, has resulted in a downward revaluation during the year of £1.5m (2010-11 resulted in a £121.2m downward revaluation).

### Rolling Revaluation

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant and Equipment £000	Infrastructu re Assets £000	Asset Under Construction £000	Total £000	Investment Property £000
Valued at historical cost	0	0	35,058	105,420	8,995	149,473	0
Valued at fair value:							
As at 31st March 2012	273,516	2,010	0	0	0	275,526	24,389
As at 1st April 2011		57,947	0	0	0	57,947	0
As at 1st April 2010	0	275,005	0	0	0	275,005	0
Total Cost or Valuation	<b>273,516</b>	<b>334,962</b>	<b>35,058</b>	<b>105,420</b>	<b>8,995</b>	<b>757,951</b>	<b>24,389</b>

### 5.13.3 Impairment losses

2010-11				2011-12		
General Fund £000	HRA £000	Total £000		General Fund £000	HRA £000	Total £000
95,620	121,202	216,822	Total Impairment	5,701	1,476	7,177
			Impairment Charged to Revaluation Reserve	-1,008	0	-1,008
<b>-2,108</b>	<b>-286</b>	<b>-2,394</b>				
93,512	120,916	214,428	Impairment charged to Provision of Service	<b>4,693</b>	<b>1,476</b>	<b>6,169</b>

**5.13.4 Capital Financing**

2010-11 £000		2011-12 £000
292,920	Opening Capital Financing Requirement	<b>306,668</b>
	<i>Capital Investment</i>	
52,113	Property, Plant and Equipment	<b>31,911</b>
3,674	Vehicle, Plant and Equipment - Leased	<b>1,249</b>
5,834	Revenue Expenditure Funded from Capital under Statute	<b>3,409</b>
0	Settlement Determination 2012 - payments (HRA)	<b>88,461</b>
	<i>Sources of finance</i>	
-5,461	Capital receipts	<b>-4,988</b>
-26,101	Government grants and other contributions	<b>-10,872</b>
	Sums set aside from revenue:	
-4,222	• Direct revenue contributions	<b>-499</b>
-12,089	• Minimum Revenue Provision	<b>-12,670</b>
306,668	<i>Closing Capital Financing Requirement</i>	<b>402,669</b>
	<i>Explanation of movements in year</i>	
6,703	Increase in supported borrowing	<b>0</b>
15,460	Increase in unsupported borrowing	<b>18,961</b>
0	Settlement Determination 2012 - payments (HRA)	<b>88,461</b>
3,674	Assets acquired under finance leases	<b>1,249</b>
-12,089	Minimum Revenue provision	<b>-12,670</b>
13,748	<i>Increase in Capital Financing Requirement</i>	<b>96,001</b>

**5.13.5 Property Plant and Equipment Statistical Analysis**

31-Mar-11 Number	<b>Fixed Asset</b>	31-Mar-12 Number
	<b><u>Council Dwellings</u></b>	
59	Car Ports	<b>59</b>
10	Community Centres	<b>10</b>
4,966	Dwellings	<b>4,965</b>
900	Garages	<b>898</b>
1	Travellers' Caravan Site	<b>1</b>
	<b><u>Other Land and Buildings</u></b>	
18	Adults - Residential/Day Centres	<b>18</b>
1	Central Depot	<b>1</b>
11	Childrens Services	<b>10</b>
1	Civic Amenity Site	<b>1</b>
1	Civic Centre Complex	<b>1</b>
2	Community Halls	<b>2</b>
3	Day Nursery	<b>3</b>
8	High Schools	<b>1</b>
1	Hostel for the Homeless Count	<b>1</b>
1	Leisure Centre Complex	<b>1</b>
8	Libraries	<b>7</b>
18	Off Street Car Park	<b>18</b>
4	Offices	<b>2</b>
41	Other Land and Buildings (GF)	<b>45</b>
26	Other Land and Buildings (HRA)	<b>26</b>
6	Playing Fields	<b>6</b>
30	Primary Schools	<b>30</b>
10	Public Conveniences	<b>10</b>
9	School keeper houses	<b>7</b>
4	Special School	<b>4</b>
1	Swimming Pool (unattached)	<b>1</b>
1	Teachers Centre	<b>1</b>
1	Youth Club	<b>1</b>
	<b><u>Infrastructure Assets</u></b>	
481	Highways (km)	<b>489</b>
	<b><u>Community Assets</u></b>	
33	Allotments	<b>33</b>
8	Cemetries	<b>8</b>
579	* Parks & Open Spaces (hectares) Note 1	<b>579</b>
	<b><u>Investment Properties</u></b>	
1	Community Halls	<b>1</b>
41	Investment Properties	<b>42</b>
	<b><u>* Heritage Assets</u></b> Note 5.51	
5	Scheduled Ancient Monuments	<b>5</b>
14	Civic Insignia	<b>14</b>
12	War Memorials	<b>12</b>
	<b>Voluntary aided schools and Academies not included in the assets of the authority, as shown below:</b>	
2	High Schools (Voluntary aided)	<b>1</b>
0	High Schools (Voluntary aided - Academy)	<b>1</b>
0	High Schools (Academies)	<b>7</b>
9	Primary Schools (Voluntary aided)	<b>9</b>
	* Not shown in last years accounts	

Note 1 Includes the area of the Headstone Manor Ancient Scheduled Monument

## 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-11	Directorate	31-Mar-12
£000		£000
2,773	Corporate Finance & Strategy	4,743
1,653	Children's Services	1,824
2,016	Adults and Housing Services	3,109
857	Community & Environment Services	145
0	Place Shaping	65
<u>7,299</u>		<u>9,886</u>

## 5.14 Leases

### 5.14.1 The council as Lessee

#### 5.14.1.1 Finance Leases

The majority of the Council's finance leases relate to its fleet of vehicles, for which there were new acquisitions during the year. The remainder of assets acquired under finance leases are photocopiers and office equipment, some of which are located at its schools.

The assets acquired under finance leases are carried in the balance sheet, at the following net amounts:

31-Mar-11		31-Mar-12
£000		£000
6,905	Vehicles, Plant, Furniture and Equipment	6,085
10	Other Land and Buildings	410
<u>6,915</u>		<u>6,495</u>

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:

31-Mar-11		31-Mar-12
£000		£000
	Finance lease liabilities (net present value of minimum lease payments):	
1,486	• current	1,467
5,743	• non current	5,404
936	Finance costs payable in future years	632
<u>8,165</u>	Minimum lease payments	<u>7,503</u>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31-Mar-12	31-Mar-11	31-Mar-12	31-Mar-11
	£000	£000	£000	£000
Not later than one year	1,740	1,836	1,467	1,486
Later than one year and not later than five years	5,021	5,650	4,662	5,068
Later than five years	742	679	741	675
	<u>7,503</u>	<u>8,165</u>	<u>6,870</u>	<u>7,229</u>

Minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011-12 £2m contingent rents were payable by the authority (2010-11 £2.2m). The finance lease liability represents the repayment of capital due at present value.

#### 5.14.1.2 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.

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

2010-11		2011-12
£000		£000
750	Not later than one year	502
970	Later than one year and not later than five years	1,228
2,421	Later than five years	3,152
<u>4,141</u>		<u>4,882</u>

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:

2010-11		2011-12
£000		£000
10	Democratic Representation and Management	4
2	Children's and Education Services	5
10	Adult Social Care	21
325	Cultural and Related Services	317
415	Environmental and Regulatory Services	405
8	Highways and Transport Services	12
6	Housing Services ( HRA)	4
<u>776</u>		<u>768</u>

## 5.14.2 The Council as Lessor

### 5.14.2.1 Finance Leases

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

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

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

### 5.14.2.2 Operating Leases

The Council leases out property under operating leases for the following purposes:

- for the provision of community services, such as sports facilities and community centres;
- for economic development purposes; and

45 of the operating leases (44 in 2010-11) have been classified as investment properties, generating a rental stream of £0.640m in 2011-12 (£0.661m in 2010-11). These include flats, small commercial properties and car parking spaces. The balance of properties is included in Vehicles, Plant, Furniture and Equipment, for which only nominal rental income is charged.

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

31-Mar-11		31-Mar-12
£000	<b>Land and Buildings</b>	£000
1,189	Not later than one year	<b>1,347</b>
3,745	Later than one year and not later than five years	<b>3,748</b>
14,301	Later than five years	<b>13,775</b>
<u>19,235</u>		<u><b>18,870</b></u>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

The Council leases out one office building at £0.051m per annum and one piece of land at a peppercorn rent under a sublease.

## 5.15 Private Finance Initiatives and Similar Contracts

The Council has entered into three PFI contracts.

### 5.15.1 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 Council pays a unitary charge for these services which are subject to payment deductions for service and availability failures and to indexation based on the GDP deflator. The Council receives an annual Government grant which is credited to revenue in the year of receipt.

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 assets under the Sancroft contract do not revert back to the Council and therefore cannot be treated as a Service Concession Arrangement under IFRIC 12. Under the current accounting rules the contract does not also 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.

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Principal Repayment and contingent Rent	Total
	£000	£000	£000	£000	£000
Sancroft					
Payable in 2012/13	1,180	14	114	176	1,484
Payable within 2 to 5 years	5,058	166	400	738	6,362
Payable within 6 to 10 years	7,153	200	322	1,323	8,998
Payable within 11 to 15 years	4,103	96	63	898	5,160
					-
					-
<b>Total</b>	<b>17,494</b>	<b>476</b>	<b>899</b>	<b>3,135</b>	<b>22,004</b>

### 5.15.2 Special Schools & Neighbourhood Resource Centres

The special schools PFI arrangement 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.

Three Neighbourhood Resource Centres (NRC) 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 NRC PFI is a LIFT contract and these assets are brought onto the balance sheet as a result of Audit Commission Guidance of 13 March 2009: Accounting for LIFT Schemes under International Financial Reporting Standards.



Under both 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. The Council receives a Government Grant on an annuity basis with the impact of the grant evened out over the contract period by use of a sinking fund.

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 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.

The Council is committed to make the payments shown in the table on the next page to the providers for the duration of the contract. These payments will vary depending on actual inflation, performance and any agreed variations. The movements in the liabilities vary from year to year as the repayments are affected by the finance lease interest and the fluctuating lifecycle replacement costs.

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Principal Repayment and contingent Rent	Total
	£000	£000	£000	£000	£000
<b>Schools</b>					
Payable in 2012/13	747	155	1,146	284	2,332
Payable within 2 to 5 years	3,178	757	4,340	1,328	9,603
Payable within 6 to 10 years	4,440	1,171	4,764	2,306	12,681
Payable within 11 to 15 years	5,024	2,350	3,715	2,436	13,525
Payable within 16 to 20 years	5,684	1,498	2,267	5,030	14,479
Payable within 21 to 25 years	1,955	159	261	2,435	4,810
<b>Total</b>	<b>21,028</b>	<b>6,090</b>	<b>16,493</b>	<b>13,819</b>	<b>57,430</b>

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Principal Repayment and contingent Rent	Total
	£000	£000	£000	£000	£000
<b>NRC</b>					
Payable in 2012/13	211	4	506	161	882
Payable within 2 to 5 years	755	117	1,923	959	3,754
Payable within 6 to 10 years	991	294	2,105	1,854	5,244
Payable within 11 to 15 years	1121	352	1,627	2,834	5,934
Payable within 16 to 20 years	1269	562	987	3,896	6,714
Payable within 21 to 25 years	836	237	138	2,066	3,277
<b>Total</b>	<b>5,183</b>	<b>1,566</b>	<b>7,286</b>	<b>11,770</b>	<b>25,805</b>

### 5.16 Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

2010-11 £000		2011-12 £000
-792	Rental income from investment property	-826
8	Direct operating expenses arising from investment property	8
<u>-784</u>	Net gain	<u>-818</u>

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

2010-11 £000		2011-12 £000
24,822	Balance at start of the year	23,681
-1,678	Disposals	0
537	Net gains/losses from fair value adjustments	708
<u>23,681</u>	Balance at end of the year	<u>24,389</u>

### 5.17 Long Term Investments

31-Mar-11 £000		31-Mar-12 £000
10,000	Maturity date within 2 years	12,000
8,000	Maturity date within 2 - 3 years	6,000
<u>18,000</u>	Balance at end of the year	<u>18,000</u>

**5.18 Long term debtors**

31-Mar-11		31-Mar-12
£000		£000
150	Employees Car Loans	141
97	House Purchase Loans to Individuals	69
3,181	West London Waste Authority	3,049
176	Other Loans	135
<u>3,604</u>	<b>Total</b>	<u>3,394</u>

**5.19 Short term investments**

31-Mar-11		31-Mar-12
£000		£000
65,554	Temporary Investment - Managed in-house	58,698
3	Internal Investments	3
<u>65,557</u>	<b>Total</b>	<u>58,701</u>

**5.20 Inventories**

31-Mar-11		31-Mar-12
£000		£000
26	Balance outstanding at start of year	141
234	Purchases	106
-119	Recognised as an expense in the year	-78
<u>141</u>	<b>Balance outstanding at year-end</b>	<u>169</u>

**5.21 Short term debtors**

31-Mar-11		31-Mar-12
£000		£000
6,792	Central government bodies	4,679
2,087	Other local authorities	2,100
670	NHS bodies	480
2,974	Public corporations and trading funds	3,234
8,756	Other entities and individuals	10,047
<u>21,279</u>	<b>Total</b>	<u>20,540</u>

**5.22 Cash and cash equivalents**

31-Mar-11		31-Mar-12
£000		£000
128	Cash held by the Authority	147
-3,982	Bank current accounts	-2,861
29,351	Short-term deposits with Banks and Building Societies	13,500
<u>25,497</u>	<b>Total Cash and Cash Equivalents</b>	<u>10,786</u>

**5.23 Short term borrowing**

31-Mar-11 £000		31-Mar-12 £000
0	Public Works Loan Board	-1,632
-65	Other Financial Institutions	-1,192
-14,707	West London Waste Authority	-7,710
-18,750	Pension Fund	-572
-136	Other Loans	-71
<b>-33,658</b>	<b>Total</b>	<b>-11,177</b>

**5.24 Short Term Creditors**

31-Mar-11 £000		31-Mar-12 £000
-11,674	Central government bodies	-7,459
-2,957	Other local authorities	-3,003
-1,114	NHS bodies	-421
-15,249	Public corporations and trading funds	-18,182
-35,165	Other entities and individuals	-35,423
<b>-66,159</b>	<b>Total</b>	<b>-64,488</b>

**5.25 Provisions**

	Outstanding Legal Cases £000	Insurance £000	Employment £000	Other Provisions £000	Total £000
<b>Short Term</b>					
<b>Balance at 1 April 2011</b>	-638	-1,261	-1,350	-383	<b>-3,632</b>
Additional provisions made in 2011-12	-575	-2,400	-3,911	-57	<b>-6,943</b>
Transferred to Long Term	0	631	0	0	<b>631</b>
Amounts used in 2011-12	17	1,524	973	137	<b>2,651</b>
Unused amounts reversed in 2011-12	75	0	313	0	<b>388</b>
<b>Balance at 31 March 2012</b>	<b>-1,121</b>	<b>-1,506</b>	<b>-3,975</b>	<b>-303</b>	<b>-6,905</b>
<b>Long Term</b>					
<b>Balance at 1 April 2011</b>	0	-3,929	0	0	<b>-3,929</b>
Transferred from Short Term	0	-629	0	0	<b>-629</b>
<b>Balance at 31 March 2012</b>	<b>0</b>	<b>-4,558</b>	<b>0</b>	<b>0</b>	<b>-4,558</b>

Details of the main provisions included in the above table are:

- Litigation provision is in respect of various outstanding legal, planning and other cases;
- The Council operates an insurance programme that requires a significant degree of self-funding. Provisions have been made to cover the costs of the Council's potential liabilities. The Council's insurance programme consists of a range of insurance covers in three broad classes; liability, property and motor. The Council's

maximum potential liability is limited by a series of aggregate stop loss covers with the Council's insurers that are triggered off when the total of all claims under the cover exceeds that amount for the period of insurance. It is Council policy not to insure "pound swapping" items (e.g. theft and "all risks" on equipment), or terrorism risks on properties other than the Civic Centre complex. The level of insurance provision covers the actual claims submitted and also the claims reported but not submitted. In 2011-12 additional provision of £1.1M has been made to cover the cost of payments to Municipal Mutual Insurance in respect of future claims .

- Employment related provision covers a potential liability to employees in respect of redundancies, tribunal cases and part time pension claims. The Council has made a provision of £3.5m in respect of planned redundancy costs arising from the budget and medium term financial strategy.
- Other provisions relate to the disrepair provision for claims made by Council tenants in respect of repairs to Council property and the provision for claims in relation to charges made in the past for accommodation under the Mental Health Act (s117).
- A provision was set up for MMI, the former insurer of Harrow Council prior to ceasing its underwriting operations in September 1992. MMI entered into a Scheme of Arrangement in 1993. Subsequently, the Council has taken the advice of the actuary, who considers it to be wholly appropriate and justifiable, to provide for £1.1m of the £1.4m minimum future liability in relation to MMI, uninsured future insurance claims.

## 5.26 Long term borrowing

31-Mar-11 £000		31-Mar-12 £000
	Source of Loan:	
-130,000	Public Works Loan Board*	-218,461
-131,963	Other Financial Institutions	-131,898
<u>-261,963</u>	<b>Total</b>	<u>-350,359</u>
	Analysis of loans by maturity:	
-65	1-2 years (1.4.2012 - 31.3.2014)	-10,065
-16,098	2-5 years (1.4.2013 - 31.3.2017)	-6,033
-32,000	5-10 years (1.4.2016 - 31.3.2022)	-32,000
-213,800	More than 10 years (1.4.2022 onwards)	-302,261
<u>-261,963</u>	<b>Total</b>	<u>-350,359</u>

## 5.27 Other long term liabilities

31-Mar-11 £000		31-Mar-12 £000
-18,571	PFI Lease Liability ( Note 5.15)	-18,220
-5,743	Vehicles, Plant, Furniture & Equipment Lease Liability	-5,404
-212,506	IAS19 Pension Liability ( Note 5.29.4)	-270,287
<u>-236,820</u>	<b>Total</b>	<u>-293,911</u>

<b>PFI Lease Liability</b>	Special Schools £000	NRC £000	Total £000
Balance outstanding at start of year	12,704	6,198	18,902
Lease repayments during the year	-1,395	-616	-2,011
Finance Charge	1,167	514	1,681
Balance outstanding at year-end	<u>12,476</u>	<u>6,096</u>	<u>18,572</u>
Analysed as follows:			
Due within one year	244	108	352
Due after more than one year	12,232	5,988	18,220
	<u>12,476</u>	<u>6,096</u>	<u>18,572</u>

**2010-11**

Analysed as follows:

Due within one year	228	102	330
Due after more than one year	12,475	6,096	18,571
	<u>12,703</u>	<u>6,198</u>	<u>18,901</u>

**Vehicle, Plant, Furniture & Equipment Liability**

31-Mar-11 £000		31-Mar-12 £000
-5,068	Later than one year and not later than five years	-4,663
-675	Later than five years	-741
<u>-5,743</u>		<u>-5,404</u>

**5.28 Usable reserves**

31-Mar-11 £000		Note	31-Mar-12 £000
-7,000	General Fund	4.1	-7,650
-10,334	Earmarked Reserves General Fund	5.8	-11,255
-14,799	Earmarked Reserves Locally Managed Schools	5.8	-12,632
-3,780	Housing Revenue Account	6.1	-2,791
0	Major Repairs Reserve	5.8	-4,148
-6,248	Capital Receipts Reserve	5.27.1	-6,309
-846	Capital Grants Unapplied	5.27.2	-1,849
<u>-43,007</u>	<b>Total Usable Reserves</b>		<u>-46,634</u>

### 5.28.1 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 the year-ending 31 March 2012.

General Fund	HRA	Total		General Fund	HRA	Total
2010-11	2010-11	2010-11		2011-12	2011-12	2011-12
£000	£000	£000		£000	£000	£000
-1,469	-4,698	-6,167	Balance unapplied at 1 April	-1,465	-4,783	-6,248
0	-46	-46	Interest on Affordable Housing	0	-59	-59
-5,047	-336	-5,383	Receipts in year - Others	-5,014	-95	-5,109
0	-920	-920	Receipts in year - Right to Buy	0	-28	-28
106	11	117	Disposal Costs	132		132
0	690	690	Pooling payment to the DCLG	0	15	15
4,945	286	5,231	Applied during the year - others	4,882	93	4,975
0	230	230	Applied during the year - Right to Buy	0	13	13
<b>-1,465</b>	<b>-4,783</b>	<b>-6,248</b>	<b>Balance unapplied at 31 March</b>	<b>-1,465</b>	<b>-4,844</b>	<b>-6,309</b>

### 5.28.2 Capital Grants 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.

2010-11		2011-12
£000		£000
-2,500	Balance unapplied at 1 April	-846
	Transfer from Capital Grants Receipts in Advance	-1,448
-615	Receipts in year	-643
2,269	Applied during the year	1,088
<b>-846</b>	<b>Balance unapplied at 31 March</b>	<b>-1,849</b>

### 5.29 Unusable reserves

31-Mar-11			31-Mar-12
£000			£000
-13,417	Revaluation Reserve	5.28.1	-12,597
-97	Deferred Capital Receipts		-69
-596,384	Capital Adjustment Account	5.28.2	-374,431
4,445	Financial Instruments Adjustment Account	5.28.3	4,656
212,506	Pensions Reserve	5.28.4	270,287
-2,200	Collection Fund Adjustment Account	5.28.5	-1,370
6,930	Accumulating Compensated Absences Adjustment Account	5.28.6	5,160
<b>-388,217</b>	<b>Total Unusable Reserves</b>		<b>-108,364</b>

### 5.29.1 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.

2010-11				2011-12		
General Fund	HRA	Total		General Fund	HRA	Total
£000	£000	£000		£000	£000	£000
-15,292	-448	-15,740	<b>Balance at 1 April</b>	-12,939	-478	-13,417
-3,253	-365	-3,618	Upward revaluation of assets	-1,551	-54	-1,605
			Downward revaluation of assets not charged to the Surplus/Deficit on the Provision of Services			
			Downward revaluation charged to the revaluation reserve	1,008	0	1,008
2,394	0	2,394	Reversal of prior years downward revaluation charged to Provision of Services	946	27	973
2,805	286	3,091	Investment Properties			
0	0	0	Recognition of assets not previously on Balance Sheet	-94	0	-94
			Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-12,630	-505	-13,135
-13,346	-527	-13,873	Difference between fair value depreciation and historical cost depreciation	108	1	109
132	2	134	Accumulated gains on assets sold or scrapped	429	0	429
275	47	322	Amount written off to the Capital Adjustment Account	537	1	538
407	49	456				
<b>-12,939</b>	<b>-478</b>	<b>-13,417</b>	<b>Balance at 31 March</b>	<b>-12,093</b>	<b>-504</b>	<b>-12,597</b>



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

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

2010-11			2011-12		
£000	£000	£000	£000	£000	£000
General Fund	HRA	Total	General Fund	HRA	Total
-402,653	-359,777	-762,430	-361,669	-234,715	-596,384
					<b>Balance at 1 April</b>
					Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:
28,434	3,958	32,392	24,847	4,173	Asset Depreciation
1,800	29	1,829	1,644	26	Leasing Depreciation
93,512	120,916	214,428	4,693	1,476	Asset Impairment
					Non Current assets written out on Disposal
3,655	5,015	8,670	121,692	0	Revenue expenditure funded from capital under statute
5,834	0	5,834	3,409		Sums directed by the Secretary of State to be credited to the HRA that are not expenditure in accordance with the Code
0	0	0	0	88,461	Revaluation reserve on disposal to the CI&E Statement
-275	-47	-322	-429		
132,960	129,871	262,831	155,856	94,136	249,992
-132	-2	-134	-108	-1	-109
132,828	129,869	262,697	155,748	94,135	249,883
					Depreciation written out of the Revaluation reserve
					Net written out amount of the cost of non current assets consumed in the year
-4,945	-516	-5,461	-4,884	-106	-4,990
0	-3,932	-3,932	0	0	0
-71,785	-289	-72,074	-9,873	-32	-9,905
-2,269	0	-2,269	-1,088	0	-1,088
-12,065	-23	-12,088	-12,645	-25	-12,670
-290	0	-290	-499	0	-499
41,474	125,109	166,583	126,759	93,972	220,731
0	0	0			
-490	-47	-537	-708		-708
-361,669	-234,715	-596,384	-235,618	-140,743	-376,361
					<b>Balance at 31 March</b>

### 5.29.3 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.

2010-11		2011-12
£000		£000
4,416	<b>Balance at 1 April</b>	4,445
	Premiums and Discounts incurred in previous financial years to be charged against the Balance in accordance with statutory requirements	
249	General Fund	249
-220	HRA	-38
<u>4,445</u>	<b>Balance at 31 March</b>	<u>4,656</u>

#### 5.29.4 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 eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid, by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

2010-11		2011-12
£000		£000
346,437	<b>Balance at 1 April</b>	212,506
-69,510	Actuarial (gains) or losses on pensions assets and liabilities	62,879
-44,708	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	13,282
-19,713	Employer's pensions contributions and direct payments to pensioners payable in the year	-18,380
<u>212,506</u>	<b>Balance at 31 March</b>	<u>270,287</u>

### 5.29.5 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.

2010-11 £000		2011-12 £000
-1,405	<b>Balance at 1 April</b>	-2,200
-795	Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year	830
<u>-2,200</u>	<b>Balance at 31 March</b>	<u>-1,370</u>

### 5.29.6 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.

2010-11 £000		2011-12 £000
7,970	<b>Balance at 1 April</b>	6,930
-7,970	Settlement or cancellation of accrual made at the end of the preceding year	-6,930
6,930	Amounts accrued at the end of the current year	5,160
<u>6,930</u>	<b>Balance at 31 March</b>	<u>5,160</u>

**5.30 Cash flow statement – operating activities**

2010-11		2011-12
£000		£000
13,636	Interest payable & similar charges	13,731
-1,121	Interest and Investment income	-1,371
-1,321	Other investment income	-1,526
	<b>Non-Cash Transactions</b>	
-64,421	Contribution from Pension Reserve	-5,098
386	Increase in Provision	3,904
250,224	Capital Financing charges	153,003
-74,343	Capital Grants	-10,993
-1,020	Accumulated Absence	-1,770
2,407	Gains/Loss (-) on disposal of non-current assets	-644
-2,243	Collection Fund	-1,148
690	Other adjustments	15
0	<b>Items on an accrual basis</b>	0
-115	Increase/Decrease (-) in Inventories	-28
7,367	Increase/Decrease (-) in Debtors	877
-4,521	Increase (-)/Decrease in Creditors	-664
125,605	<b>Adjustments for non cash movements</b>	148,288
1,430	Interest received	1,825
-13,588	Interest paid	-13,763
784	Other Investment income	817
-11,374	<b>Adjustments for investment and financing activities</b>	-11,121

**5.31 Cash flow statement – investing activities**

2010-11		2011-12
£000		£000
-49,514	Purchase of property, plant and equipment, investment property and intangible assets	-30,667
-18,816	Purchase of short-term and long-term investments	6,855
0	Other payments for investing activities	0
6,238	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,063
109	Proceeds from short-term and long-term investments	210
15,956	Other receipts from investing activities	13,419
-46,027	<b>Net cash flows from investing activities</b>	-5,120

**5.32 Cash flow statement – financing activities**

2010-11 £000		2011-12 £000
37,640	Cash receipts of short- and long-term borrowing	<b>88,396</b>
3,090	Other receipts from financing activities	<b>400</b>
<b>-1,377</b>		
	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	<b>-1,938</b>
<b>-308</b>	Repayments of short- and long-term borrowing	<b>-22,481</b>
39,045	<b>Net cash flows from financing activities</b>	<b>64,377</b>

**5.33 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.

Although there was a restructure at directorate level implemented from 1 February 2012 the reporting structure was not revised in 2011-12 and the figures reported to Cabinet were analysed across directorates on the same basis as 2010-11.

## 5.33.1 Directorate income and expenditure 2011-12 and comparative

2011-12	Adults and Housing Services	Childrens Services	Community and Environment Services	Corporate Services	Place Shaping	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-14,159	-12,441	-18,288	-14,033	-3,770	-62,691
Government grants	-6,150	-158,522	-1,735	-154,521	-107	-321,035
<b>Total Income</b>	<b>-20,309</b>	<b>-170,963</b>	<b>-20,023</b>	<b>-168,554</b>	<b>-3,877</b>	<b>-383,726</b>
Employee expenses	17,598	125,747	23,312	13,406	4,561	184,624
Other service expenses	61,335	191,576	39,327	164,593	885	457,716
Support service recharges	8,484	6,993	8,609	7,509	2,815	34,410
<b>Total Expenditure</b>	<b>87,417</b>	<b>324,316</b>	<b>71,248</b>	<b>185,508</b>	<b>8,261</b>	<b>676,750</b>
<b>Departmental Costs</b>	<b>67,108</b>	<b>153,353</b>	<b>51,225</b>	<b>16,954</b>	<b>4,384</b>	<b>293,024</b>
<b>2010-11 Comparative Figures</b>						
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-17,785	-15,003	-21,487	-4,259	-3,474	-62,008
Government grants	-3,577	-185,741	-1,403	-146,137	-656	-337,514
<b>Total Income</b>	<b>-21,362</b>	<b>-200,744</b>	<b>-22,890</b>	<b>-150,396</b>	<b>-4,130</b>	<b>-399,522</b>
Employee expenses	20,785	159,630	25,528	13,094	4,836	223,873
Other service expenses	64,218	171,870	37,234	160,579	748	434,649
Support service recharges	7,892	6,091	10,082	7,155	3,078	34,298
<b>Total Expenditure</b>	<b>92,895</b>	<b>337,591</b>	<b>72,844</b>	<b>180,828</b>	<b>8,662</b>	<b>692,820</b>
<b>Departmental Costs</b>	<b>71,533</b>	<b>136,847</b>	<b>49,954</b>	<b>30,432</b>	<b>4,532</b>	<b>293,298</b>

### 5.33.2 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.

2010-11 £000		2011-12 £000
293,298	Net expenditure in the Directorate Analysis (note 5.33.1)	<b>293,024</b>
45,281	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	<b>90,792</b>
-7,516	Amounts included in the Analysis not included in the CIES	<b>-6,241</b>
	Cost of Services	
<b>331,063</b>	<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>377,575</b>



### 5.33.3 Reconciliation to subjective analysis 2011-12 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.

2011-12	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Cost of services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-62,691	-27,581	0	-90,272	0	-90,272
Interest and investment income	0	0	817	817	-2,935	-2,118
Income from council tax	0	0	0	0	-103,406	-103,406
Government grants and contributions	-321,035	0	0	-321,035	-85,855	-406,890
<b>Total Income</b>	<b>-383,726</b>	<b>-27,581</b>	<b>817</b>	<b>-410,490</b>	<b>-192,196</b>	<b>-602,686</b>
Employee expenses	184,624	4,804	0	189,428	0	189,428
Other service expenses	307,922	105,033	0	412,955	0	412,955
Support Service recharges	32,724	2,914	0	35,638	0	35,638
Depreciation, amortisation and impairment	151,480	5,622	0	157,102	0	157,102
Interest Payments	0	0	0	0	19,327	19,327
Precepts & Levies	0	0	-7,058	-7,058	7,058	0
Payments to Housing Capital Receipts Pool	0	0	0	0	15	15
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	-644	-644
<b>Total expenditure</b>	<b>676,750</b>	<b>118,373</b>	<b>-7,058</b>	<b>788,065</b>	<b>25,756</b>	<b>813,821</b>
<b>Surplus or deficit on the provision of services</b>	<b>293,024</b>	<b>90,792</b>	<b>-6,241</b>	<b>377,575</b>	<b>-166,440</b>	<b>211,135</b>

2010-11

	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Cost of services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Interest and investment income	0	0	783	783	-2,442	-1,659
Income from council tax	0	0	0	0	-104,716	-104,716
Government grants and contributions	-337,514	-1,000	0	-338,514	-152,413	-490,927
<b>Total Income</b>	<b>-337,514</b>	<b>-1,000</b>	<b>783</b>	<b>-337,731</b>	<b>-259,571</b>	<b>-597,302</b>
Employee expenses	223,873	-75,267	0	148,606	0	148,606
Other service expenses	305,612	22,166	197	457,012	0	457,012
Support Service recharges	34,298	197	0	34,495	0	34,495
Depreciation, amortisation and impairment	129,037	124,875	0	124,875	0	124,875
Interest Payments	0	0	0	0	21,942	21,942
Precepts & Levies	0	0	-8,496	-8,496	8,496	0
Payments to Housing Capital Receipts Pool	0	0	0	0	690	690
Gain or Loss on Disposal of Fixed Assets	0	47	0	47	2,407	2,454
<b>Total expenditure</b>	<b>692,820</b>	<b>72,018</b>	<b>-8,299</b>	<b>756,539</b>	<b>33,535</b>	<b>790,074</b>
Surplus or deficit on the provision of services	355,306	71,018	-7,516	418,808	-226,036	192,772

### 5.34 Road charging schemes under the Transport Act 2000

The London Borough of Harrow assumed responsibility for the enforcement of the on-street parking under the Road Traffic Act on 4 July 1994. Decriminalisation of the off-street car parking came into force in the Borough on 3 July 1995.

The Road Traffic Act 1984 stipulates that the authority must keep a separate account of any income or expenditure related to those parking activities and this includes income from Penalty Charge Notices (PCN's) (and other additional parking charges) and expenditure on enforcement as applied through the 1991 Act.

The Parking Account may be run at a surplus or at a deficit in any one year. Any deficit, though, must be made good from the general fund at the end of the financial year. Section 55(4) of the 1984 Act controls the use of any surplus on the account. The 1991 Act requires a statement to be provided to the Secretary of State annually to show how any deficit or surplus has been financed or used. The surplus generated in 2011-12 is being re-invested in the development of on-street parking provision, road and highway improvements and public transport in the borough.

2010-11 £000		2011-12 £000
-5,613	Penalty Charge Notices	-5,584
-1,094	On street meters	-1,132
-287	Residents Permits	-295
<u>-6,994</u>	Total income	<u>-7,011</u>
1,454	Enforcement contract/costs	1,379
33	TCfL: Core levy and service charges	61
20	Meter repairs/maintenance	12
107	Notice posting and administration	111
1,009	Other overheads	1,248
<u>2,623</u>	Total expenditure	<u>2,811</u>
<u>-4,371</u>	Total (surplus) for the year ending 31 March 2011	<u>-4,200</u>
	<u>Utilisation of Surplus</u>	
0	Design and implementation of traffic management schemes	0
4,371	Concessionary fares	4,200
<u>4,371</u>		<u>4,200</u>

### 5.35 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. Funds contributed are those normally used for the service represented in the pooled budget and allow the organisations involved to act in a more cohesive way.

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

2010-11 £000		2011-12 £000
	Funding provided to the pooled budget:	
-325	• Harrow Contribution	-455
-17	• Schools Contribution	-25
-11	• Misc Income	-73
-644	• Harrow PCT	-674
<u>-997</u>		<u>-1,227</u>
	Expenditure met from the pooled budget:	
1,058	• Gross Expenditure	1,076
<u>61</u>	Deficit for the year	<u>-151</u>

### 5.36 Agency Services

2010-11 £000		2011-12 £000
234	Expenditure Incurred on Provision of Agency Services	252
-234	Management Fee payable for these services	-252
<u>0</u>	Net Surplus arising on agency arrangements	<u>0</u>

The Council provides agency services for the following bodies:

- West London Waste Authority – Accounting and Payroll Services
- Northwick Park Hospital Disability Team – Administrative and Social Work Services
- North West Hospital Trust – Social Work Services
- Central and North West London NHS Foundation Trust – Social Work Services
- Royal National Orthopaedic Hospital – Social Work Services
- Harrow Primary Care Trust (PCT) – Social Work Services

### 5.37 Members' allowances

The total amount of Members' allowances paid in 2011-12 was £0.822m (£0.810m in 2010-11). Additional information on the Members' Allowance Scheme 2010-11 may be found in a leaflet available at Council libraries.

2010-11 £000		2011-12 £000
810	Allowances	822
<u>810</u>	Total	<u>822</u>

### 5.38 Remuneration

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

#### 5.38.1 Remuneration bands

The number of employees in 2011-12 whose remuneration, excluding pension contributions was £50,000 or more are detailed below in bands of £5,000. The bandings only include the remuneration of senior employees that have not been disclosed separately in note 5.38.2. The number of employees that exceeded the £50,000 threshold due to redundancy or voluntary severance payments are shown in a separate column. These employees left the employment of the Council during the financial year. School staff are also shown separately.

Remuneration band	Number of employees					
	LB Harrow				School Staff	
	Number in band	Due to Lump Sum	Number in band	Due to Lump Sum	Number in band	Number in band
	2011-12	2011-12	2010-11	2010-11	2011-12	2010-11
£50,000 - £54,999	36	0	45	0	33	81
£55,000 - £59,999	53	2	49	1	21	53
£60,000 - £64,999	19	1	21	0	12	32
£65,000 - £69,999	11	0	12	0	14	20
£70,000 - £74,999	7	2	9	0	9	12
£75,000 - £79,999	2	0	2	1	10	12
£80,000 - £84,999	2	0	4	0	7	5
£85,000 - £89,999	3	0	2	0	5	5
£90,000 - £94,999	6	0	2	0	3	5
£95,000 - £99,999	2	0	4	0	3	2
£100,000 - £104,999	2	0	1	0	0	1
£105,000 - £109,999	0	0	0	0	0	1
£110,000 - £114,999	2	0	2	0	1	0
£115,000 - £119,999	1	0	2	0	0	1
£140,000 - £144,999	0	0	0	1	0	0
£195,000 - £199,999	0	0	0	1	0	0
	<b>146</b>	<b>5</b>	<b>155</b>	<b>4</b>	<b>118</b>	<b>230</b>

#### Notes

1. No school based members of staff were paid over £50,000 as a result of payment of a lump sum in 2011-12 or 2010-11.
2. The staff of 7 High Schools transferred from the employment of the Council to 7 new Academy Schools from 1 August 2011.

### 5.38.2 Senior officer remuneration

#### Remuneration Disclosures for Senior Officers whose salary is £150,000 or more per year

Position Held	Notes	Salary,(including Fees and Allowances)		Benefits in Kind		Total Remuneration excluding employers pension contributions		Employers Pension Contribution		Total Remuneration including employers pension contributions	
		£	£	£	£	£	£	£	£	£	£
		2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Michael Lockwood (Chief Executive)		190,709	194,617	1,239	1,348	191,948	195,965	35,326	34,857	227,274	230,822
Julie Alderson (Corporate Director Resources)	1	180,928		207		181,135	0	4,455		185,590	0
		<b>371,637</b>	<b>194,617</b>	<b>1,446</b>	<b>1,348</b>	<b>373,083</b>	<b>195,965</b>	<b>39,781</b>	<b>34,857</b>	<b>412,864</b>	<b>230,822</b>

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

Position Held	Notes	Salary,(including Fees and Allowances)		Benefits in Kind		Total Remuneration excluding employers pension contributions		Employers Pension Contribution		Total Remuneration including employers pension contributions	
		£	£	£	£	£	£	£	£	£	£
		2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Corporate Director - Community and Environment	2	141,795	138,906	1,265	1,278	143,060	140,184	26,728	25,606	169,788	165,790
Director of Legal & Governance Services	3	129,856	137,704	1,251	1,239	131,107	138,943	24,478	25,537	155,585	164,480
Corporate Director - Community, Health & Well Being	4	141,795	135,480	1,239	0	143,034	135,480	26,728	25,606	169,762	161,086
Corporate Director Finance	5	see note	131,006	0	0	0	131,006		24,367	0	155,373
Corporate Director - Place Shaping	6	141,795	142,338	0	0	141,795	142,338	26,728	26,374	168,523	168,712
Corporate Director - Children's Services	7	137,667	132,072	0	0	137,667	132,072	25,950	24,565	163,617	156,637
Assistant Chief Executive	8	122,403	109,443	1,258	1,239	123,661	110,682	23,248	20,668	146,909	131,350
		<b>815,311</b>	<b>926,949</b>	<b>5,013</b>	<b>3,756</b>	<b>820,324</b>	<b>930,705</b>	<b>153,860</b>	<b>172,723</b>	<b>974,184</b>	<b>1,103,428</b>

**Notes**

- Note 1 A new post of Corporate Director of Resources was established from 1 Feb 2012 and the Interim Corporate Director of Finance was appointed to this post on a fixed term contract. The Council paid a fee of £35,547 (£10,000 of which represented the transfer fee) to the employment agent, Gatenby Sanderson over the period to 31 March 2012. Note 5 refers.
- Note 2 The Corporate Director of Community and Environment left the Council in April 2012. An exit payment was made in accordance with the Council's redundancy scheme package and is included in the exit payments note as a commitment.
- Note 3 The Director of Legal & Governance Services pay included a one off Government paid returning officer fee in respect of the May Parliamentary Election in 2010-11.
- Note 4 A new post of Corporate Director of Community, Health & Well Being was created with effect from 1 Feb 2012 and the existing Corporate Director Adults and Housing was appointed to the position.
- Note 5 The former Corporate Director Finance left the Council on 13 March 2011 and was replaced by an Interim Corporate Director Finance (from March 2011 to 31 Jan 2012). This post was deleted with the post holder appointed into the newly created post of Corporate Director of Resources from 1st Feb 2012. Note 1 refers.
- Note 6 The Corporate Director Place Shaping's pay in 2010-11 included a payment under the council's long service award scheme.

### 5.39 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 auditors:

2010-11 £000		2011-12 £000
	Fees Payable to external auditors in respect of:	
458	External audit services carried out by the appointed auditor for the year	377
110	Certification of grant claims and returns for the year	110
568	Total	487

### 5.40 Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by Department for Education (DfE) and known as the Dedicated Schools Grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2011-12 are as follows

	Central Expenditure £000	ISB £000	Total £000
Final DSG for 2011-12			-140,672
<b>Less</b>			
Deficit brought forward from 2010-11			109
Carry forward to 2012-13 agreed in advance			537
Agreed budgeted distribution in 2011-12	-14,564	-125,462	-140,026
<b>Less</b>			
Actual central expenditure	11,841		11,841
Actual ISB deployed to schools		127,078	127,078
Surplus excluding agreed carry forward	-2,723	1,616	-1,107
Surplus Carry forward to 2012-13			-1,644

### 5.41 Grants income

#### 5.41.1 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. These are grants where conditions attached to the grant have been met within the year, or where there were no conditions attached to the use of the grant income by the awarding body.



## Notes to the Financial Statements

2010-11 £000	Grant	Awarding Body	2011-12 £000
-680	Schools Sports Coordinator Grant	Big Lottery Fund	0
-17	Chartered London Institute of Teaching	Chartered London Institute of Teaching	0
-144,949	Dedicated Schools Grant	Department for Education	-138,919
-15,005	Standards Fund	Department for Education	-2,154
-6,228	School Standards Grant	Department for Education	0
-5,929	Surestart, Early Years and Childcare & Aiming High for Disabled Children	Department for Education	0
-939	London Pay Addition Grant	Department for Education	0
-494	Children & Young Peoples Grant	Department for Education	0
-222	Targeted Mental Health in Schools	Department for Education	0
-186	Contact Point	Department for Education	0
-1,543	Private Finance Initiative	Department of Communities and Local Gov.	-1,543
-960	Supporting People Grant	Department of Communities and Local Gov.	0
-379	Homelessness Grant	Department of Communities and Local Gov.	-600
-300	Housing Advice Service	Department of Communities and Local Gov.	0
-293	NNDR - Cost of collection allowance	Department of Communities and Local Gov.	-269
-282	Planning Development Grant	Department of Communities and Local Gov.	0
-445	Local Area Agreement	Department of Communities and Local Gov.	0
-966	Neighbourhood Resource Centre PFI	Department of Health	-966
-962	Social Care Transformation Grant	Department of Health	0
-236	Sancroft Private Finance Initiative	Department of Health	-236
-141	Aids Support Grant	Department of Health	0
-26	Bus Services Operators Grant	Department of Transport	0
0	Section 31 Grant Extra Road Maintenance	Department of Transport	-287
-106,598	DWP Rent Allowance	Department of Work and Pensions	-112,416
-2,337	Housing benefit admin grant	Department of Work and Pensions	-2,307
-20,066	Council Tax Benefit	Department of Work and Pensions	-20,473
-664	DWP Non HRA Rate Rebate	Department of Work and Pensions	-1,185
-15,515	DWP HRA Rent Rebate	Department of Work and Pensions	-16,673
-578	Unaccompanied Asylum Seekers Grant	Home Office - UK Border Agency	-485
-272	Xcite Projects	Learning and Development Agency	0
-155	V Talent	Millenium Volunteers	0
-888	Safeguarded Adults Learning	Skills Funding Agency	-686
-8,022	Young People's Learning Agency	Young People's Learning Agency	-3,885
-621	Youth Justice Board Grant	Youth Justice Board	-355
0	New Homes Bonus 2011/12	Department of Communities and Local Gov.	-679
0	New Homes Bonus 2012/13	Department of Communities and Local Gov.	-139
0	Local Services Support Grant - Lead Flood Authorities	Department of Communities and Local Gov.	-124
0	Housing Benefit Reforms Transitional Grant Funding 2012/13	Department of Communities and Local Gov.	-82
0	Repossession Prevention Fund	Department of Communities and Local Gov.	-55
0	Adults Personal Social Services	Department of Health	-4,293
0	Early Intervention Grant	Department for Education	-7,816
0	Pupil Premium Grant	Department for Education	-2,207
0	GLA Safer Stronger Communiites	Greater London Authority	-219
-1,616	Other		-1,982
<b>-338,514</b>	<b>Total</b>		<b>-321,035</b>

## 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 where conditions attached to the grant have been met within the year or where there were no conditions attached to the use of the grant income by the awarding body.

2010-11 £000	Grant	Awarding Body	2011-12 £000
-882	Adult and Community Learning Capital Project	Skills Funding Agency	0
-130	Adult Social Care Single Capital Pot	Department of Health	-497
-284	Aiming High for Disability Capital Grant	Department for Education	-147
-119	Bridges Parapet Protection	London Underground	0
-3,047	Cookery in Curriculum	Department for Education	-84
-3,167	Devolved Formula Capital	Department for Education	-1,564
0	LA Capital Maintenance and Basic Need Grant	Department for Education	-1,604
-514	Disabled Facilities Grant	Department for Communities and Local Government	-582
-194	Empty Property Grants	The Mayor's Targeted Funding Stream	-188
-230	Extensions Grant	The Mayor's Targeted Funding Stream	-32
-2,337	FE Capital CMF 16-19	Young People's Learning Agency	0
-575	Hatch End Arts Centre Pool Modernisation	Department for Education	0
-1,014	HIV Capital Grant	Department of Health	-1,447
-279	ICT Harnessing Technology	Department for Education	0
-191	Local Area Agreement Performance Reward Grant	Department for Communities and Local Government	0
-5,496	Local Implementation Plan	Transport for London	-3,745
-104	Mental Health Social Care Capital Pot	Department of Health	0
-1,590	Modernisation LA	Department for Education	0
-622	Playbuilder Capital Grant	Department for Education	0
-6,765	Primary Capital	Department for Education	-253
0	Harrow and North Harrow OLF		-323
0	LWARB - Recycling Grant		-335
-122	Social Care Reform Grant	Department of Health	0
-2,856	Sure Start Grant	Department for Education	0
-4,269	Targeted Capital Fund - 14-19	Department for Education	
-4,161	Targeted Capital Fund - Kitchens	Department for Education	-925
-33,116	Targeted Capital Fund - OSP	Department for Education	
-625	Misc.	Misc.	-270
<b>-72,689</b>	<b>Total Capital Grants included in Comprehensive Income and Expenditure Account</b>		<b>-11,996</b>

A number of capital grants have been received by the Council where conditions attached to the grant remain outstanding at 31 March 2012. These grants are included within long term liabilities in the balance sheet.

**5.41.2 Capital grants receipts in advance**

31-Mar-11 £000		31-Mar-12 £000
-84	Cookery in Curriculum	0
-2,378	Devolved Formula Grant	-1,375
-253	Primary Capital	0
-925	Targeted Capital Kitchens	0
0	LA Capital Maintenance and Basic Need Grant	-5,260
-132	Sure Start Grant 2009-11	0
-196	Empty Property Grants	-207
-1,448	HIV Capital Grants	0
-107	Other Grants	-26
-590	Section 106 Capital Receipts	-667
<b>-6,113</b>		<b>-7,535</b>

**5.42 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.

During the year no Council Members, chief officers nor their close relations, or members of the same household have declared any material related party transactions other than those disclosed below. The Member register of interest can be viewed on the Harrow Council website.

**Members**

The following Members have an interest in voluntary sector bodies to which the Council has advanced grants in 2011-12:

<b>Member</b>	<b>Organisation</b>	<b>Interest</b>
ClIr Margaret Davine	Age Concern Harrow	Member
ClIr Manji Kanji Kara	Age Concern Harrow	Appointee
ClIr Victoria Silver	Age Concern Harrow	Appointee
ClIr Elizabeth Nana Asante-Twumasi	Age Concern, Harrow	Director
ClIr David Michael Gawn	Harrow Association of Disabled People	Appointee
ClIr Susan Elizabeth Anderson	Harrow Association of Disabled People	Friend
ClIr Susan Mary Hall	Harrow Association of Disabled People	Appointee
ClIr Zarina Sheikh	Harrow Association of Disabled People	Appointee
ClIr Brian Edward Gate	Harrow Association of Voluntary Service	Trustee
ClIr Bill Phillips	Harrow Association of Voluntary Services	Member

Cllr Musarrat Husain Akhtar	Harrow Citizen's Advice Bureau	Appointee
Cllr Brian Edward Gate	Harrow Citizens' Advice Bureau	Member of Management Committee
Cllr David Perry	Harrow Equalities Centre	Appointee
Cllr Lily Joyce Nickolay	Harrow Equalities Centre	Appointee
Cllr Krishna James (Mrs)	MIND in Harrow, Rethink	Member
Cllr David Michael Gawn	Relate London North West	Appointee
Cllr Margaret Davine	Relate London North West	Appointee
Cllr Mavis Lurline Champagnie	Relate London North West	Appointee

The value of grants in 2011-12 awarded to bodies where Members have an interest was as follows:

Organisation	Grant
	£000
Age Concern Harrow	28
Harrow Association of Disabled People	36
Harrow Association of Voluntary Service	19
Harrow Citizens Advice Bureau	80
Harrow Equalities Centre	63
MIND in Harrow , Rethink	30
Relate London North West	19

The following Members are employees or appointees of other organisations with which the Council has material transactions:

Cllr Margaret Davine	Central and NW London NHS Foundation Trust	Appointee
Cllr Paul Simon Osborn	Lee Valley Regional Park Authority	Appointee
Cllr Phillip William O'Dell	West London Waste Authority	Appointee
Cllr Rajeshri Navin Shah	Community Mental Health Team	Employee
Cllr James Adam Bond	London Underground Ltd	Employee
Cllr Susan Elizabeth Anderson	NHS Harrow	Employee
Cllr Jeremy Julian Miles	Support for Living	Employee
Cllr Phillip William O'Dell	West London Waste Authority	Appointee
Cllr Stephen Anthony James Greek	Greater London Authority	Employee
Cllr Navin Fakirchand Shah	Greater London Authority	Employee
Cllr Barry Macleod-Cullinane	London Councils Ltd	Employee

The following Members hold positions on other authorities :

Cllr Brian Edward Gate	London Councils' Children and Young People Forum	Deputy
Cllr Mitzi Jane Green	London Councils' Children and Young People Forum	Appointee
Cllr Phillip William O'Dell	London Councils' Crime & Public Protection	Lead Member
Cllr Mr Ajay Maru	London Councils' Crime & Public Protection Panel	Deputy

Cllr Krishna James (Mrs)	London Councils' Culture, Tourism and London 2012 Forum	Deputy
Cllr David Perry	London Councils' Culture, Tourism and London 2012 Forum	Appointee
Cllr Keith Frederick Ferry	London Councils' Economic Development Forum	Appointee
Cllr Mr Ajay Maru	London Councils' Economic Development Forum	Deputy
Cllr Thayapara Idaikkadar	London Councils' Grants Committee (Associated Joint Committee)	Deputy
Cllr David Perry	London Councils' Grants Committee (Associated Joint Committee)	Appointee
Cllr Elizabeth Nana Asante-Twumasi	London Councils' Greater London Employment Forum	Deputy
Cllr Graham Douglas Henson	London Councils' Greater London Employment Forum	Appointee
Cllr Margaret Davine	London Councils' Health and Adult Services Forum	Appointee
Cllr Krishna James (Mrs)	London Councils' Health and Adult Services Forum	Deputy
Cllr Bob Currie	London Councils' Housing Forum	Appointee
Cllr Victoria Silver	London Councils' Housing Forum	Deputy
Cllr Margaret Davine	London Councils' Leaders' Committee (s101 Joint Committee)	Deputy
Cllr Phillip William O'Dell	London Councils' Leaders' Committee (s101 Joint Committee)	Deputy
Cllr Bill (William) Stephenson	London Councils' Leaders' Committee (s101 Joint Committee)	Appointee
Cllr Jeremy Julian Miles	London Councils' Transport & Environment Committee	Deputy
Cllr Nizam Ismail	London Councils' Transport & Environment Committee (Associated Joint Committee)	Deputy
Cllr Phillip William O'Dell	London Councils' Transport & Environment Committee (Associated Joint Committee)	Appointee
Cllr Navin Fakirchand Shah	London Fire Emergency Planning Authority (LFEPA)	Member
Cllr Susan Mary Hall	LFEPA	Chairman of the Community Safety Committee
Cllr Margaret Davine	Local Government Association - General Assembly Meetings	Deputy
Cllr Stephen Anthony James Greek	Local Government Association - General Assembly Meetings	Deputy
Cllr Susan Mary Hall	Local Government Association - General Assembly Meetings	Appointee
Cllr Graham Douglas Henson	Local Government Association - General Assembly Meetings	Deputy
Cllr Phillip William O'Dell	Local Government Association - General Assembly Meetings	Appointee
Cllr Paul Simon Osborn	Local Government Association - General Assembly Meetings	Deputy

Cllr Bill (William) Stephenson	Local Government Association - General Assembly Meetings	Appointee
Cllr Barry Macleod-Cullinane	Local Government Association's General Assembly Meetings	Representative
Cllr Keith Frederick Ferry	Local Government Association - Urban Commission	Appointee

## Officers

- Jennifer Hydari, Divisional Director of Finance, held Treasurers positions with West London Waste Authority, Edward Harvist Trust, Middlesex Guildhall Collection, Harrow's Mayor's Charity from 1 March 2011; and
- Hugh Peart, Director of Legal and Governance, is the Honorary Secretary of the Edward Harvist Trust.

Details of the transactions between the Council and its related parties are as follows.

### 5.42.1 West London Waste Authority

2010-11 £000		2011-12 £000
6,554	Payments to and from WLWA	5,918
14,707	Cash Balances Invested With the Council as at 31 March 2010	7,710
3,181	Long Term Lending to WLWA	3,049

### 5.42.2 London Borough of Harrow Pension Fund

2010-11 £000		2011-12 £000
16,905	Employers Pension Contributions to the Fund	15,563
-639	Administration expenses paid by the Fund	-676
18,750	Cash Due to the Fund	572

### 5.42.3 Central Government and other Local Authorities

Central government provides the statutory framework within which the Council operates. The majority of the funding is in the form of ring fenced grants from Central government, which prescribes the terms of many of the transactions that the Council has with other parties (e.g. 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 Income and Expenditure Statement.

### Greater London Authority

The Greater London Authority (GLA) has responsibility for Transport for London, London Development Agency, Metropolitan Police Authority and the London Fire and Emergency Planning Authority (LFEPA). Councillor Navin Shah was a member of the LFEPA. Collection Fund payments were made to the GLA of £27.516m and Business Rates Crossrail of £1.130m. Grant and reimbursement income of £3.675m was received from Transport for London.

### London Councils Grants Committee

The Committee was composed of 33 members from London Borough Councils and the Corporation of London. Councillor David Perry was appointed by the Council. During the year payments totalling £0.390m were made to the Committee.

### London Councils

London Councils is formed largely of members from the London borough councils. Councillor Bill Stephenson represents Harrow Council on the Leadership Committee of London Councils. During the year, subscriptions totalling £0.193m were paid by the Council.

### 5.43 Other Bodies

In addition to the transactions already outlined the Council made payments to the following organisations referred to in the related parties disclosure in 2011-12:

	2011-12 £000
Central and North West London NHS Foundation Trust	4,497
Lee Valley Regional Park Authority	258
Community Mental Health Team	36
London Underground Ltd	9
NHS Harrow	1,780
Support for Living	848

## 5.44 Trust Funds

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

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

### 2011/12

	Income £000	Expenditure £000	Assets £000	Liabilities £000
<b>Harrow Recreation Ground Trust</b> 13th April 1910 Harrow Recreation Ground was put in trust. The grounds provide building facilities and open space for sport and recreation for the benefit of General Public	0	0	83	0
<b>Middlesex Guildhall Collection Trust</b> The trust was formed on 14th September 1992 after the abolition of the Greater London Council. The main objects of the trust is to preserve and display the Middlesex Collection in public locations as permitted by the deed.	1	5	52	0
<b>Pinner War Memorial Park Trust</b> The Pinner War Memorial Park was donated to the Council on trust in 1949 to hold as public open recreation space in memory of the fallen of two world wars.	0	0	25	0
<b>Harrow Weald Common Conservators</b> Harrow Weald Common Conservators was established by Act of Parliament in 1899 to conserve and maintain Harrow Weald Common	0	0	19	0
<b>Total</b>	<b>1</b>	<b>5</b>	<b>179</b>	<b>0</b>

### 2010/11

	Income £000	Expenditure £000	Assets £000	Liabilities £000
<b>Harrow Recreation Ground Trust</b> 13th April 1910 Harrow Recreation Ground was put in trust. The grounds provide building facilities and open space for sport and recreation for the benefit of General Public	1	0	83	0
<b>Middlesex Guildhall Collection Trust</b> The trust was formed on 14th September 1992 after the abolition of the Greater London Council. The main objects of the trust is to preserve and display the Middlesex Collection in public locations as permitted by the deed.	3	2	56	0
<b>Pinner War Memorial Park Trust</b> The Pinner War Memorial Park was donated to the Council on trust in 1949 to hold as public open recreation space in memory of the fallen of two world wars.	0	0	25	0
<b>Harrow Weald Common Conservators</b> Harrow Weald Common Conservators was established by Act of Parliament in 1899 to conserve and maintain Harrow Weald Common	0	0	20	0
<b>Total</b>	<b>4</b>	<b>2</b>	<b>184</b>	<b>0</b>



Other Third party Funds - Administrators	2010-11 Capital Value of Fund	2011-12 Capital Value of Fund
--	--	--

**Edward Harvist Trust**

The Edward Harvist Charity dates back to 1610. The Charities investment is held in a permanent endowed fund. The income from the investment is distributed to five Boroughs who then make grants to appropriate organisations and individuals for the public benefit to improve the lives of the said inhabitants.

Total

£000	£000
------	------

57	0
57	0

**5.45 Borrowing costs**

In line with the accounting policy (5.1.15), borrowing costs amounting to £0.111m were capitalised during 2011-12 at 4.57% (actual borrowing cost).

**5.46 Termination benefits**

The Transformation Programme has been designed by the Council to reduce costs in the foreseeable future. The Authority had a demonstrable commitment to terminate the contracts of a number of staff in 2011-12 incurring a liability of £3.761m at 31 March 2012 (£0.984m in 2010-11) for the payment of termination benefits in compensation for loss of office.

**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	
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
							£000	£000
£0 - £20,000	8	16	120	90	128	106	1246	879
£20,001 - £40,000	2	6	15	27	17	33	480	938
£40,001 - £60,000	1	3	1	4	2	7	101	318
£60,001 - £150,000	1	2	0	3	1	5	118	365
Total	12	27	136	124	148	151	1945	2500

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

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

	2010-11 £000	2010-11 No.	2011-12 £000	2011-12 No.
Exit Payments paid in year	1,945	148	2,500	151
2010-11 Liability for designated posts	984	45	-955	-44
2011-12 Liability for designated posts			1,921	59
2011-12 Liability where posts not yet identified Included in Cost of Services			1,840	
	2,929	193	5,306	166

In addition to the cost of the exit payments there is an additional 'strain' cost on the pension fund relating to the cost of early retirement. It is not the policy of this Council to make a payment into the Pension Fund to meet the cost of any pension strain and any accrued liabilities are addressed through the triennial valuation of the fund.

The cost of the strain has been quantified as £0.347m for 26 employees retiring early in 2011-12 (£0.421m for 17 employees in 2010-11).

## 5.47 Defined benefit pension schemes

### 5.47.1 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.

### 5.47.2 Transactions relating to post-employment 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.

The cumulative amount of actuarial losses recognised in the Movement in Reserves Statement for the year 2011-12 is £232.278m.

2010-11 £000		2011-12 £000
	Cost of Services:	
18,179	• current service cost	14,902
-71,424	• past service costs	0
232	• settlements and curtailments	-6,967
	Financing and Investment Income and Expenditure	
39,467	• interest cost	34,872
-31,162	• expected return on scheme assets	-29,525
-44,708	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	13,282
	Other Post Employment Benefit Charged to the CIES	
69,510	• actuarial gains and (losses)	-62,879
24,802	Total Post Employment Benefit Charged to the CIES	-49,597
	<b>Movement in Reserves Statement</b>	
		2011-12
44,708	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	-13,282
19,713	Actual amount charged against the General Fund Balance for pensions in the year: Employers' Contributions payable to scheme	18,380

#### 5.48 Reconciliation of present value of the scheme liabilities

2010-11 £000		2011-12 £000
775,538	Opening balance at 1 April	644,631
18,179	Current service cost	14,902
39,467	Interest cost	34,872
6,034	Contributions by scheme participants	5,480
-93,743	Actuarial (gains) and losses	39,920
-29,652	Benefits paid	-26,144
0	Liabilities extinguished on settlement	-12,199
-71,424	Past service costs gains	0
232	Losses on curtailments	583
644,631	Closing balance at 31 March	702,045

### 5.48.1 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 £6.663m (2010-11: £32.466m).

2010-11 £000		2011-12 £000
429,100	Opening balance at 1 April	432,124
31,162	Expected rate of return	29,525
-24,233	Actuarial losses	-22,959
0	Assets distributed on settlement	-4,649
19,713	Employer contributions	18,380
6,034	Contributions by scheme participants	5,480
-29,652	Benefits paid	-26,143
432,124	Closing balance at 31 March	431,758

### 5.48.2 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 of £702.048m 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 £270.287. 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;

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £15.241m.

	2011-12 £000	2010-11 £000	2009-10 £000	2008-09 £000	2007-08 £000
Present value of liabilities	-702,045	-644,631	-775,538	-490,024	-496,877
Fair value of assets	431,758	432,124	429,100	300,448	388,504
Net deficit in the scheme	-270,287	-212,507	-346,438	-189,576	-108,373

### 5.48.3 Basis for estimating assets and liabilities

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

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

The principal assumptions used by the actuary have been:

2010-11		2011-12
	Long-term expected rate of return on assets in the scheme:	
7.5%	Equity investments	6.2%
4.9%	Bonds	3.3%
5.5%	Property	4.4%
4.6%	Cash	3.5%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
21.6	Men	21.6
23.6	Women	23.6
	Longevity at 65 for future pensioners:	
23.6	Men	23.6
25.9	Women	25.9
2.8%	Rate of inflation	2.5%
4.6%	Rate of increase in salaries (1% p.a. up to 31 March 2015 reverting to 4.6% p.a. thereafter)	4.3%
2.8%	Rate of increase in pensions (CPI)	2.5%
5.5%	Rate for discounting scheme liabilities	4.8%
	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%

#### 5.48.4 Scheme Assets

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

31-Mar-11		31-Mar-12
%		%
76%	Equity investments	74%
11%	Bonds	13%
8%	Property	9%
5%	Other assets	4%
100%		100%

#### 5.48.5 History of experience gains and losses

	2011-12	2010-11	2009-10	2008-09	2007-08
	%	%	%	%	%
Differences between the expected and actual return on assets	22,862	-77,174	-101,636	112,482	35,922
Experience gains and (losses) on liabilities	-1.41	4.03	-0.16	-0.34	-4.02

## Teachers' Pension

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

In 2011-12 the Council paid £7.343m (£9.563m in 2010-11) to the Teachers' Pension Agency in respect of Employers Contributions on teachers pension costs. The current contribution rate remains unchanged at 14.10% which was effective from 1 January 2007.

In addition, the Council is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2011-12 these amounted to £0.710m (£0.705m in 2010-11) representing 1.29% (0.98% in 2010-11) of gross pay. Seven of the Council's maintained schools moved to Academy status from 1 August 2011 reducing the cost of teachers gross pay.

The assets and liabilities for the Teachers' Scheme cannot be identified at individual employer level and for the purposes of Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme. The accrued liability in respect of pension contribution as at 31 March 2012 was £0.796m (2010-11 £1.163m).

### **5.49 Contingent liabilities**

At 31 March 2012 the Council had no material contingent liabilities.

## 5.50 Financial instruments

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

	Long-term		Current	
	31-Mar-12 £000	31-Mar-11 £000	31-Mar-12 £000	31-Mar-11 £000
<b>Investments</b>				
Loans and receivables	18,000	18,000	58,701	65,557
Cash and cash equivalents	0	0	13,647	29,479
<b>Total investments</b>	<b>18,000</b>	<b>18,000</b>	<b>72,348</b>	<b>95,036</b>
<b>Debtors</b>				
Loans and receivables	3,394	3,604	0	0
Financial assets carried at contract amounts	0	0	13,644	10,776
<b>Total Debtors</b>	<b>3,394</b>	<b>3,604</b>	<b>13,644</b>	<b>10,776</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	-350,359	-261,963	-14,038	-37,640
<b>Total borrowings</b>	<b>-350,359</b>	<b>-261,963</b>	<b>-14,038</b>	<b>-37,640</b>
<b>Other Long Term Liabilities</b>				
PFI and finance lease liabilities	-23,624	-24,315	-1,819	-1,816
<b>Total other long term liabilities</b>	<b>-23,624</b>	<b>-24,315</b>	<b>-1,819</b>	<b>-1,816</b>
<b>Creditors</b>				
Financial liabilities carried at contract amount	0	0	-42,097	-44,481
<b>Total creditors</b>	<b>0</b>	<b>0</b>	<b>-43,916</b>	<b>-46,297</b>

The balance on the current category of financial liabilities consists of part of the creditors balance. The reason for exclusions is that many creditors relate to statutory functions, not contractual arrangements as covered by the new Financial Reporting Standards.

Similarly, and for the same reason, the balance on current loans and receivables consists of short term loans and certain elements of debtors. The short term loans amount to £58.7m (£65.6m in 2010-11)

For further details of gross amounts held under debtors and creditors, and the corresponding provisions for bad debt, please refer to notes 5.21 and 5.24. These notes provide a more comprehensive picture as they include all debtor and creditor amounts irrespective of whether they are due to contractual or statutory activities.

### Fair Value of Assets and Liabilities

The fair value of an instrument is determined by calculating the Net Present Value of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation, for an instrument with the same duration.

The calculations are made with 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-12		31-Mar-11	
	Carrying Amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Financial Liabilities	-350,359	-344,187	-261,963	-260,489
Financial Assets	89,325	90,604	113,036	113,785

The above table includes fair value of investment and debt portfolio and excludes trade debtors and creditors.

### Nature and extent of risks arising from financial instruments

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. The Treasury Management and Investment Strategy for 2011-12 was approved by the Council in February 2011.

### Credit Risk

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

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



	Amount at 31-Mar-12	Historical experience of default	Historical experience adjusted for market conditions at 31-Mar-12	Estimated maximum exposure to default and uncollectability 31-Mar-12
	£000	%	%	£000
UK Banks	63,587	0.00	0.10	63
UK Building Societies	20,000	0.00	0.10	20
UK Money Market Funds	5,735	0.00	0.10	6
Customers	11,162	5.04	33.48	562
Total				<u>651</u>

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. There are no impaired debtors. The past due date amount can be analysed by age as follows:

Amount at 31-Mar-11		Amount at 31-Mar-12
£000		£000
3,475	Less than three months	4,804
1,214	Three to six months	703
1,196	Six months to one year	1,752
3,383	More than one year	3,903
<u>9,268</u>	<b>Total Debtors</b>	<u>11,162</u>

### 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.

Note 5.26 gives further details on 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 held in the form of Lenders Option Borrowers Option (LOBOs) loans, at favourable rates (approximately 24% of the total debt portfolio). Following the initial fixed term, the lender has the option to reset interest rates and Harrow is then able to repay at no cost. These LOBO loan structures entail exposure to re finance at potentially high interest costs.

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

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

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

### **5.51 Heritage Assets**

The Council is adopting the standard FRS30 Accounting for Heritage Assets for the first time in the 2011-12 Accounts.

The definition of a heritage asset for this standard to apply *is a tangible 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 (other than operational heritage assets) shall normally be included in the balance sheet at their current value. Where it is not practical to obtain a valuation at a reasonable cost then heritage assets should be valued at cost. However where this information is not available and the historical cost information cannot be obtained, the asset can be excluded from the balance sheet. Non material heritage assets are also excluded from the balance sheet in line with the Council's policy on valuation of plant property and equipment.

Valuations may be made by any method that is appropriate. There is no requirement for valuations to be carried out or certified by external valuers, nor is there any prescribed minimum period between valuations. However where heritage assets are valued at their current value that value has to be reviewed with sufficient frequency to ensure the valuation is up to date.

Operational heritage assets (i.e. those that in addition to being held for their heritage characteristics are also used for other activities or provide other services) are accounted for as operational assets and are valued in the same way as other assets of that type. Operational heritage assets include the historic parks and gardens owned by the Council and listed buildings that are leased to other organisations.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a heritage asset or doubts arise to its authenticity the value of the asset has to be reviewed or if the value increased above the deminimis for inclusion in the balance sheet.

The Heritage Assets identified under FRS30 are shown in the following table:

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Site	Category	Balance Sheet Value
<b>Headstone Manor Site:</b> Manor House Tithe Barn Granary Small Barn	Scheduled Ancient Monument , Listed Buildings with historic and environmental qualities	Not valued due to lack of cost information and practicality of obtaining valuation
<b>Grim's Dyke Earthwork</b>	Scheduled Ancient Monument with historic and environmental qualities within the grounds of an investment property	
<b>Pinner Hill Ice House</b>	Scheduled Ancient Monument with historic and environmental qualities within the grounds of an investment property	
<b>Pear Wood Earthwork</b>	Scheduled Ancient Monument with historic and environmental qualities within the grounds of a community asset	
<b>Pinner Deer Park</b>	Scheduled Ancient Monument with historic and environmental qualities within the grounds of a community asset	
<b>14 items of Civic Insignia</b>	Items with Historic and Artistic qualities	De minimis for inclusion in balance sheet
<b>12 War Memorials on Council Premises</b>	Items with Historic and Artistic qualities ,also Environmental for the memorial garden	Not valued due to lack of cost information and practicality of obtaining valuation

Historic Parks and Gardens are open spaces listed by English Heritage as being of national importance. In Harrow there are four such historic parks and gardens;

- Canons Park, Edgware
- Harrow Park (formerly Flambards), Harrow on the Hill
- Bentley Priory, Harrow Weald
- Grimsdyke Hotel Garden, Stanmore

All these properties are owned by the Council. The Grimsdyke Hotel is an investment property and the other three gardens are operational community assets and so are not included in the accounting definition of heritage assets despite these properties have heritage characteristics.

There are no other known items with an insurance value of over £10,000 that could potentially be considered as heritage assets.

### **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. There are nine scheduled ancient monuments in Harrow spread across seven sites. The most significant of the scheduled ancient monuments in Harrow Council's area is Headstone Manor and the whole site is a heritage asset within the definitions of FRS30. The other listed scheduled ancient monuments are within Harrow Council sites and are also considered to be heritage assets. For all of these heritage assets there is either no information available on cost or it is not practical to obtain a valuation at reasonable cost therefore these items have been excluded from the balance sheet.

Site	Description
Grim's Dyke Earthwork	Grim's Dyke is 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.
Pinner Hill Ice House	The ice house at Pinner Hill is 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. The structure comprises a cylindrical brick chamber & dome and access passage which originally linked back to the service quarters of the house. It represents one of only two well preserved survivals of ice houses in the Greater London area. It is situated on the Pinner Hill Golf Course.
Pear Wood Earthwork	This earthwork is a linear bank and ditch, similar to Grim's Dyke, located within Pear Wood at Stanmore.
Headstone Manor Moated Site	<p>This scheduled ancient monument reflects the rarity of surviving moated sites in London. The moat is complete and water filled, varying in width between 7m and 14m, forming an island platform of some 65 square metres which is accessed by a red brick bridge. 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 is itself a grade I listed building built circa 1310 and altered/added to in the 17th and 18th Centuries. The building is of significance not only because it is the earliest surviving timber framed building in Middlesex, with examples of high quality work from each of these periods, but because it forms part of an intact domestic complex comprising the Grade II* listed timber-framed Tithe Barn dating from 1506, and a small barn with 14th Century foundations. Up until the early 20th Century Headstone Manor had been a working farm with many other ancient farm buildings, but was subsequently destroyed after falling into disrepair.</p> <p>The area of the wider farm complex, to the south west of the moat, is therefore also included in the scheduled ancient monument designation.</p>
Pinner Deer Park	In the 13th Century the area of Pinner Park Farm was in the Manor of Harrow, owned by the Archbishop of Canterbury. The earliest documentary reference to Pinner Deer Park dates from 1273/74 and describes some 250 acres surrounded by a bank and double ditch. During the 15th Century the park was converted to agricultural land and the ditch and fences were replaced with hedgerows; a survey in 1986 revealed that some of the existing hedgerows date back to the late Medieval Period. The Deer Park was transferred to Henry VIII in

	1546 and was then owned and tenanted out by various families. The boundary of the old deer park is largely reflected in the boundary of the farmland at Pinner Park Farm which exists today, and therefore represents a rare survival of ancient landscape in Greater London.
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The Headstone Manor site is a heritage asset in its entirety. The Ice House is situated in Pinner Hill Golf course which is an investment property and Grimsdyke Mansion Hotel where part of the Grim's Dyke is situated is also an investment property. The other ancient scheduled monuments are situated within areas that are community assets.

### Listed Buildings

The following listed buildings that belong to Harrow Council are considered to be heritage assets:

Site	Type of Building	Listing
Headstone Manor - Manor House	Heritage Asset	Grade I - Grade I buildings are of exceptional interest, sometimes considered to be internationally important
Headstone Manor - The Tithe Barn	Heritage Asset	Grade II* - Grade II* buildings are particularly important buildings of more than special interest
Headstone Manor - The Granary and Headstone Manor The Small Barn	Heritage Asset	Grade II - Grade II buildings are nationally important and of special interest

The whole of the Headstone Manor site has been designated as a heritage asset under FRS30.

## Civic Insignia

The Council owns 14 items of Civic Insignia. The individual value of these items does not exceed the threshold for consideration in the Council's balance sheet but these should be considered as a heritage asset in terms of being kept primarily for their contribution towards knowledge and culture.

The items are as follows:

- Deputy Mayoress Pendant
- Deputy Mayor Pendant
- Mayoress Pendant
- Mayoress Chain
- 9ct Gold Pendant
- Mayor's Chain and Pendant
- Past Mayor's Pendant
- Honorary Freeman Pendant
- Rose Bowl
- Silver Casket
- Silver Spitfire Model
- Mace
- Candelabra
- Bowl Stand

The items can be viewed by appointment through the Mayor's Office. There is a formal policy for the safe keeping and security of these items.



## 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	Description
Burma Star Association	Civic Centre (Joint responsibility with Burma Star Association)	Plaque stainless steel
Hamilton And Co Limited Roll Of Honour (Reprint)	Civic Centre	List of personnel that joined up in WW1
Harrow Peace Memorial (El Alamein Stone)	Civic Centre	Rectangular stone resting on a steel frame which stands on a blue brick plinth
Kodak Mural	Civic Centre	Small square pictures of wartime scenes associated with the area
Holocaust Memorial	Civic Centre	Brass mounted on wood
Royal Commercial Travellers Schools Plaque - WW1	Elliott Hall Arts Centre	Wooden plaque with gold letters
Royal Commercial Travellers School Honour Board	Elliott Hall Arts Centre	Large wooden plaque
Theodore Bayley Hardy VC	Elliott Hall Arts Centre	Brass plaque
Royal Commercial Travellers Schools Window	Elliott Hall Arts Centre	Engraved foliage at top
Pinner Books Of Remembrance	West House	Book of remembrance in two volumes
Civilian War Dead Of Harrow - Memorial Garden	Harrow Weald Cemetery	Small memorial garden. It is located within a cemetery and it has with 3 stone tablets set in a low wall
Harrow Weald Street Shrine - WW1	Harrow Weald	Free standing timber frame on wooden feet with central marble panel with names

These memorials are considered to be heritage assets but are excluded from the balance sheet on the grounds of the historical cost being unavailable or it not being practical to obtain a valuation.

### **5.52 Carbon Reduction Commitment Allowance**

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and expense are recognised. The liability for 2011-12 for Schools is £0.157m and for other Council properties is £0.079m.

### **5.53 Segment Reporting**

The Council analyses the financial performance of its operations in the Comprehensive Income and Expenditure Statement using the service analysis included in the Service Reporting Code of Practice. It also analyses the income and expenditure of its operations according to segment reporting which is consistent with how operations have been internally reported and managed by the Council's Cabinet (management). The Council manages and reports on its operations on a directorate basis. A directorate is therefore the appropriate term for a reportable segment (segment) in the Council's accounts.

Each segment engages in operational activities from which the Council may earn revenues or which involve it distributing economic benefits or service potential through the provision of services to other entities and individuals. Management take decisions about resources to be allocated to and managed by each segment and appraise the performance of each segment.

Income and expenditure is analysed in a subjective format for each reportable segment. A reportable segment is one where either its gross expenditure or income is 10% or more of the totals within the Net Expenditure of Continuing Operations in the Comprehensive Income and Expenditure Statement – it cannot be combined with other segments. The segment analysis will include items such as depreciation which are not reported to management.

Where a segment has less than 10% of gross expenditure or income the Council can choose whether to report it separately or combine it with other segments for disclosure where segments share similar economic characteristics. Support services are excluded from being segments in their own right since their primary objective is not to earn revenues or provide services to the public – the segments fully absorb support services to reflect total costing principles.

The segment analysis is reconciled to a subjective analysis of the Surplus or Deficit on the Provision of Services.

## 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.

#### Summary of Income and Expenditure

2010-11 £000		Note	2011-12 £000	£000
	<b>Expenditure</b>			
6,139	Repairs and maintenance		6,778	
7,112	Supervision and management		7,650	
174	Rents, rates, taxes and other charges		170	
6,582	Negative HRA Subsidy payable	6.2.3	7,258	
3,958	Depreciation of non current assets	6.2.5	4,173	
121,203	Impairment of non current assets		1,503	
-286	Reversal of past impairment losses		-27	
32	Debt management costs		24	
148	Movement in the allowance for bad debts		65	
0	Sums directed by the Secretary of State that expenditure in accordance with the Code		88,461	
<u>145,062</u>	<b>Total Expenditure</b>		<u>116,055</u>	
	<b>Income</b>			
-22,201	Dwelling rents (gross)	6.2.1	-24,552	
-774	Non-dwelling rents (gross)	6.2.2	-659	
-1,962	Charges for services and facilities		-1,510	
-753	Contributions towards expenditure		-912	
<u>-25,690</u>	<b>Total Income</b>		<u>-27,633</u>	
119,372	<b>Net cost of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement</b>		88,422	
197	HRA's share of Corporate and Democratic Core		192	
<u>119,569</u>	<b>Net cost of HRA Services</b>		<u>88,614</u>	
	<b>HRA share of operating income &amp; expenditure included in the Whole Authority Comprehensive Income &amp; Expenditure Statement</b>			
3,698	Loss on sale of HRA Fixed Assets		0	
2,227	Interest payable and similar charges	6.2.6	2,357	
-104	Interest & investment income		-84	
-289	Capital Grant income		-32	
<u>125,101</u>	<b>Deficit for the year on HRA services</b>		<u>90,855</u>	

## Statement of Movement on the HRA Balance

2010-11 £000		Note	2011-12 £000
-4,784	<b>Balance on HRA at end of the previous year</b>		-3,780
125,101	Deficit for the year on the HRA Income & Expenditure Statement		90,855
-3,458	Adjustment between accounting basis and funding basis under regulations	6.2.12	49
121,643	Net increase or decrease before transfers to/(from) reserves		90,904
-120,639	Transfer to/(from) reserves	6.2.12	-89,914
1,004	<b>Decrease in year on the HRA</b>		990
-3,780	<b>Balance on HRA at end of the current year</b>		-2,790

## 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 0.70% of lettable properties were vacant (2010-11 0.89%). The average depooled rents were £95.57 per week in 2011-12 (£86.60 in 2010-11). There was an average rent increase of 10.36% over the previous year. The average increase, after taking into account service charges, was 7.65%.

### 6.2.2 Non-dwelling Rents

This includes garages. At the year-end 50.68% of garages were vacant compared with 46.30% in 2010-11.

### 6.2.3 HRA Subsidy

This represents the amount of negative subsidy payable to the Government by the Council. It represents notional rent and other income against expenditure deemed by the Government to have been incurred for management, maintenance and charges for capital.

2010-11 £000		2011-12 £000
	<b>Notional Expenditure</b>	
9,600	Management and maintenance	10,198
3,932	Major Repairs Allowance	4,148
2,292	Charges for capital	2,141
<u>15,824</u>	<b>Total notional expenditure</b>	<u>16,487</u>
	<b>Notional Income</b>	
-22,314	Rents	-23,774
-8	Other	-3
<u>-22,322</u>	<b>Total notional income</b>	<u>-23,777</u>
	<b>Other</b>	
6,498	HRA subsidy	7,290
84	Prior year adjustment	0
0	Interest on Self Financing Settlement	-32
<u>6,582</u>	<b>Total Subsidy payable</b>	<u>7,258</u>

The £0.032m adjustment relates to interest on the Self Financing Settlement which has been recompensed to the Council.

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

The Government has dismantled the HRA Subsidy framework in favour of a system of Self Financing effective from 1<sup>st</sup> April 2012. As a result the Council was required to make a one off payment, the Self Financing Settlement, of £88.461m to the Secretary of State. This amount is required to be disclosed in the Income & Expenditure account and reversed through the Statement of Movement on HRA Balances. This has been financed through PWLB borrowing and is therefore reflected in the Council's Capital Financing Requirement (note 5.13.4).

## 6.2.5 Depreciation

	Land £000	Dwellings £000	Garages & Halls £000	Shops £000	Non operational assets £000	Total 2011-12 £000
Net book value as at 1 April 2011 (Restated)	92,777	168,376	13,648	3,930	64	<b>278,795</b>
Revaluations and restatements	-1,422	7,349	-1,134	27	0	<b>4,820</b>
Value at 31 March 2012	91,355	175,725	12,514	3,957	64	<b>283,615</b>
Disposals	0	0	0	0	0	<b>0</b>
Gross book value as at 31 March 2012	91,355	175,725	12,514	3,957	64	<b>283,615</b>
Depreciation for year	0	-4,148	0	-25	0	<b>-4,173</b>
Net book value as at 31 March 2012	91,355	171,577	12,514	3,932	64	<b>279,442</b>

The valuation of HRA fixed assets has been prepared on the basis of Existing Use Value and calculated in accordance with the Guidance on Stock Valuation for Resource Accounting published by DCLG in 2010 (This recognises their value as social housing). The HRA portfolio has been adjusted in line with the 5 year rolling programme of valuations as set out in the Accounting Policies (note 5.14).

In accordance with IFRS, an assessment of the depreciation charge using asset componentisation was made for HRA dwellings. This resulted in a depreciation charge in excess of the MRA being applied. This represents a change from the approach used in 2010-11 where MRA was used as a proxy. This is due to using the full replacement value of components as the depreciable amount, as opposed to the EUV-SH value, as this is being considered a fairer reflection of the consumption of the components. Non dwellings have been depreciated in line with the Standard Accounting Policies.

Charges for impairment of HRA assets were £1.503m (2010-11 £121.203). There was no amortisation of revenue expenditure funded from capital resources during the financial year. No non operational land is held within the HRA.

## 6.2.6 Interest Payable

Interest charges payable on borrowings are charged to the HRA and are determined in accordance with the item 8 Credit and Item 8 Debit (General) determination made by the Secretary of State. This includes £0.032m interest in respect of the Self Financing Settlement and is recompensed to the Council through the Subsidy.

## 6.2.7 Major Repairs Reserve

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

	Balance 01-Apr-11 £000	Transfer to Reserve £000	Capital Expenditure £000	Balance 31-Mar-12 £000
Movements	0	-4,148	0	-4,148

The Council has chosen to hold the full amount of the Major Repairs Allowance in the Major Repairs Reserve due to borrowing restrictions which came into force from 1<sup>st</sup> April 2012, as part of the dismantling of the HRA Subsidy framework in favour of a system of Self Financing.

### 6.2.8 Capital Expenditure and Funding Statement

2010-11 £000		2011-12 £000
	<b>HRA Capital Expenditure</b>	
5,302	Dwellings	<b>6,094</b>
<u>5,302</u>	<b>Total</b>	<u><b>6,094</b></u>
	<b>Financed by:</b>	
3,932	Major Repairs Reserve	<b>0</b>
516	Capital receipts - Right to Buy & Affordable Housing	<b>13</b>
249	Grant - extensions and conversions	<b>125</b>
605	Borrowing	<b>5,956</b>
<u>5,302</u>	<b>Total</b>	<u><b>6,094</b></u>

### 6.2.9 Capital Receipts

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

2010-11 £000		2011-12 £000
0	<b>Balance at 1 April</b>	<b>0</b>
	Receipts in year:	
920	Houses	<b>28</b>
-690	Paid to DCLG Pool	<b>-15</b>
-230	Applied in the year	<b>-13</b>
<u>0</u>	<b>Balance at 31 March</b>	<u><b>0</b></u>

### 6.2.10 Pensions (IAS 19)

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

Note 5.45 gives further details.

## 6.2.11 Housing Revenue Account Statistics

2010-11 Total	Housing Stock	Houses	Flats	Bungalows	2011-12 Total
105	4 or more bedrooms	103	1	1	<b>105</b>
1,393	3 bedrooms	1294	98	1	<b>1,393</b>
1,466	2 bedrooms	559	882	26	<b>1,467</b>
2,002	1 bedroom	0	1864	136	<b>2,000</b>
<b>4,966</b>	LBH managed stock as at 1 April *				<b>4,965</b>
959	Garages				<b>957</b>
	<b>Summary of change in stock</b>				
5,058	Stock as at 1 April				<b>4,966</b>
	<b>Less</b>				
-5	Sales				<b>0</b>
-87	Stock transfers				<b>0</b>
0	Conversions				<b>-1</b>
<b>4,966</b>	<b>Total HRA stock at 31 March</b>				<b>4,965</b>
	<b>Measures of performance &amp; information for disclosure notes to HRA</b>				
£46.04	Average weekly costs per dwelling of management and maintenance				<b>£50.59</b>
£1.253m	Rent arrears (current and former tenants)				<b>£1.223m</b>
98.36%	Rent collection rate (BVPI 66a)				<b>99.03%</b>
	Current tenant arrears as percentage of the authorities rent roll (whether dwellings occupied or not)				<b>1.55%</b>
2.06%					<b>0.43%</b>
0.94%	Rent loss through voids				<b>£0.166m</b>
£0.035m	Write offs in year				<b>£0.638m</b>
£0.786m	Provision for bad debts				

\*Included in the LBH managed stock is one property transferred from London Borough of Ealing under the 1994 boundary changes.



## 6.2.12 Statement of Movement on the HRA Balance

2010-11 £000		2011-12 £000
	<b>Adjustment between accounting basis and funding basis under regulations</b>	
220	Difference between amortisation of premiums & discounts determined in accordance with the Code and those determined in accordance with statute	38
	<b>Difference between any other item of income &amp; expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements</b>	
20	Accumulated Compensated Absences Adjustment	11
-3,698	Gain / (loss) on sale of HRA fixed assets	0
-3,458		49
	<b>Transfer to / (from) earmarked reserves</b>	
	<b>HRA share of contributions to/from Pensions reserve :</b>	
-377	Net charges made for retirement benefits in accordance with IAS19	-388
350	Employer's contributions payable in the year	405
0	<b>Sums directed by the Secretary of State to be credited to the HRA that are not expenditure in accordance with the Code</b>	-88,461
	<b>Transfer to / (from) the Capital Adjustment Account</b>	
-120,869	Impairment	-1,476
289	Capital expenditure funded by Grants	32
23	Voluntary set aside	25
-29	Finance Lease Depreciation	-26
-3,958	Depreciation transfer	-4,173
3,932	Transfer to / (from) the Major Repairs Reserve	4,148
-120,639		-89,914
-124,097		-89,865

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## 7 Collection Fund

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

### Statement of Income and Expenditure

2010-11 £000	Notes	2011-12 £000
	<b>Income</b>	
-112,101	Income from Council Tax	-112,917
-19,828	Council Tax Benefits (transfer from General Fund)	-20,123
-42,863	Income Collectable from Business Ratepayers	-47,092
-1,206	Income Collectable from Business Ratepayers - BRS	-1,219
<b>-175,998</b>	<b>Total Income</b>	<b>-181,351</b>
	<b>Expenditure</b>	
	Precepts and demands	
102,473	Local Demand (Harrow)	103,405
26,757	Greater London Authority	27,000
	<b>Business Rates</b>	
42,606	Payment to the National Pool	46,836
1,195	Payment to the GLA - BRS (Crossrail)	1,210
257	Costs of Collection - NNDR	256
11	Costs of Collection - BRS	9
	<b>Contributions</b>	
1,826	Towards previous year's Collection Fund surplus	2,494
	<b>Bad and Doubtful Debts</b>	
1,381	Council Tax Write Offs	737
-1,510	Council Tax Provisions	450
<b>174,996</b>	<b>Total Expenditure</b>	<b>182,397</b>
-1,002	Movement on Fund balance: Surplus(-)/Deficit for the year	1,046
-1,772	Surplus(-) brought forward	-2,774
<b>-2,774</b>	<b>Surplus(-) carried forward</b>	<b>-1,728</b>

## 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 2011-12 Council Tax Base was 87,148 with a Band D of £1,496.37. The Council Tax, as shown, reflects both Harrow Council and GLA services:

2010-11			2011-12		
Property Numbers	Council Tax		Band D Ratio	Property Numbers	Council Tax £
<b>Valuation Bands</b>					
171	997.58	A = Not exceeding £40,000	6/9	240	997.58
2,032	1,163.84	B = £40,001 - £52,000	7/9	2,143	1,163.84
14,156	1,330.11	C = £52,001 - £68,000	8/9	14,384	1,330.11
25,179	1,496.37	D = £68,001 - £88,000	1	25,454	1,496.37
24,537	1,828.90	E = £88,001 - £120,000	11/9	24,482	1,828.90
10,258	2,161.42	F = £120,001 - £160,000	13/9	10,394	2,161.42
9,420	2,493.95	G = £160,001 - £320,000	15/9	9,445	2,493.95
2,147	2,992.74	H = £320,001 +	18/9	2,158	2,992.74
<b>87,900</b>		<b>Total</b>		<b>88,700</b>	
<b>-1,538</b>		Adjustment for non-collection		<b>-1,552</b>	
<b>86,362</b>		<b>Council tax base</b>		<b>87,148</b>	

### 7.1.2 National Non-Domestic Rates

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

The total non-domestic rateable value for the London Borough of Harrow at the year-end was £128.58m (£128.25m in 2010-11) and the national non-domestic rate multiplier for 2011-12 was 0.433 (0.414 in 2010-11).

### 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. Powers were granted to the GLA to introduce this under the 2009 Business Rates Supplements Act.

## 8 Annual Governance Statement

### 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](http://www.harrow.gov.uk/downloads/file/8017/part_5k-code_on_corporate_governance)

The Code is reviewed and updated annually with only minor amendments being made in the last two years. 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.

### 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 2012 and up to the date of approval of the statement of accounts.

## The Governance Framework

### Identifying, communicating and reviewing the authority's vision

Harrow Council's vision agreed in 2011 and continued through into 2012-13 is "Working Together: Our Harrow, our community". Within this the Council has continued with the same corporate priorities for 2012-13 set out in the 2011-12 and 2012-13 Corporate Plans. Extensive consultation was undertaken on the Council's vision and priorities, both to gain an understanding from residents of the things the Council can and should do which are important to them and to change the relationship between the Council and residents and show a real appetite to take on board resident views. The main vehicle for this was through the Let's Talk programme, a dynamic street campaign involving Councillors and senior officers going out to residents to have locally based face to face debates about the things that matter to residents and the difficult choices the Council and residents must take together. As well as Let's Talk, other consultations have taken place during 2011, under the umbrella of the 'Year of Community Debate', which have helped the Council to plan how it can achieve its Corporate Priorities and shape how to allocate the scarce resources available across the many needs of Harrow.

The Council ran a number of major consultations during 2011-12. Feedback from consultation actively shaped the design and implementation of Council policy. For example:

- the consultation on Adult Social Care resulted in the introduction of newly assessed contributions from 1st April 2012 for all existing service users avoiding the issue of backdating contributions which was a main concern raised during the consultation exercise;
- the consultation on Children's Centres indicated concern on the impact of proposed charges for services offered by the Centre's on less privileged families and as a result these proposals were modified;

Although the consultation on Cultural Services did not cover specific proposals for residents to consider, it sought views on residents' priorities for cultural services and as a result a master plan has been developed for Harrow Museum and the Council submitted an application to the Heritage Lottery Fund for major investment towards upgrading, improved marketing and the introduction of a café at Harrow Arts Centre and the development of a further libraries transformation programme to upgrade ICT and review opening hours; and in January 2012 the Council consulted on its preferred regeneration proposals for the Heart of Harrow area. Over 500 comments were received. As a result of the consultation, amendments have been made to the final plan in respect of strengthening its policies on development densities and building heights and a number of the site allocations were either removed, their boundaries changed or more detailed added to give greater clarity to the Council's intentions for these key regeneration sites.

The Council has been ambitious about what it can achieve working together with residents, and through this, wanted to change the way we run ourselves, seeking to put residents at the centre of our decisions. Listening to what local residents want and say is key to the successful reform and modernisation of Council services whilst at the same time saving money and providing better services.

The priorities set out in the Corporate Plan, and the specific priority actions which highlight the things the Council is happy to be judged against at the end of the year filter down the organisation hierarchically at Directorate, Service and individual plan levels. Our first Let's Talk campaign in autumn 2010 set out to ask Harrow residents what they thought the Council's priorities should be. Through a series of Road shows, using an innovative 'pop-up living room' and 'Go-To' days Councillors and Officers had 829 conversations with residents about the things that were important to them. Overall we received 1903 responses through our consultation which gave strong support for our priorities. Again, as evidence of the importance of listening to our residents, we changed one to be more specific about all the district town centres in the borough not just Harrow Town Centre. The priorities are communicated to residents through a number of channels, such as the Harrow People magazine and the harrow.gov.uk internet site. The website, has been recognised as a key opportunity to engage residents and as a result has been enhanced in 2011 and 2012 to improve dialogue with residents through for example the greater promotion of our electronic consultation platform. The Council has also increased its presence on social media sites such as Facebook and Twitter.

During 2011-12 and in full keeping with the Council's vision, residents have been encouraged to become more active citizens by providing them with greater support and opportunities to contribute to the decision-making process and take a greater part in making Harrow better. The launch of the How-To Guide in February 2012 is a good example of this, setting out how residents can take a more active role in Harrow, and putting in place the tools to mobilise our residents and communities to add real value to their own localities, with the use of real examples of what Harrow residents are currently doing in their communities as inspiration for others to see how it can be done.

The Council feels strongly that residents' views should be heard and has committed itself over the last two years to genuinely listen and involve residents across a number of service changes. As mentioned earlier, 2011 was the 'Year of Community Debate' and the Council wanted to use the year to allow for a real dialogue with residents about the hard choices that the Council and communities are facing. Through these debates the Council wanted to understand how it could help and involve local people to do more for their communities and make a real difference. A number of major service consultations were undertaken during the year including libraries, leisure, cultural and parks services through Let's Talk, consultation on Children's Centres leading to changes which retain the existing Centres and save the Council over £1million, and an innovative consultation on Adult Services involving service users and stakeholders leading to a new contributions policy introduced in 2012.

The Better Deal for Residents (BDfR): Shaping Harrow for the Future programme, agreed by Cabinet in July 2010 was a three-year savings programme to position the Council as a more efficient and effective organisation that can live within its means. The BDfR programme has brought innovation and change in the manner and scale of services offered to meet the changing needs of residents and will deliver a total of £31.4m of savings. This programme was effectively completed in 2011-12 and a new programme, Transformation 2, has been developed containing major projects identified in the budget for 2012-13.

The Council is now embarking on a new approach to planning and delivering services, and has adopted the principles of commissioning to support this. It introduced in 2011 as part of this new approach a series of Commissioning Panels, which required Directorates to set out how they would deliver the Council's vision and priorities through a more rigorous approach to understanding need, service demand and resident opinion within the context of a 20-30% reduction in resources. Through this new approach, an additional £17.5million of new savings were identified, many of the proposals contributing to this being set out in the new Transformation 2 programme. A number of different options for service delivery across the Council are also being pursued as part of this programme, and are set out in the Corporate Plan. The Commissioning and Integrated Planning process in 2012 has built on the previous year and has included a greater focus on outcomes. Work to develop these is ongoing, but will be used through the Commissioning Panels in the autumn of 2012 to get a greater understanding of where our resources are currently spent and whether the Council should recalibrate its current spend profile in pursuit of these outcomes.

It is recognised that as the Council moves towards becoming a better commissioning organisation, that its governance mechanisms should be reviewed and where necessary updated. As part of this the Improvement Boards, which cover all areas of the Council and oversee all improvement initiatives across the Council were reviewed in early 2012 with a view to making them more outcome focused. The results of this review will be introduced during the 2012-13 year. A greater integration of performance, finance, programme and risk reporting has been introduced through the quarterly performance monitoring meetings at the Corporate Strategy Board (CSB). CSB has been restructured for 2012/13 and membership is being reduced to consist of the Council's 4 Corporate Directors including the section 151 officer, and the Assistant Chief Executive, and is chaired by the Chief Executive with the Director of Legal and Governance attending as necessary.

Progress towards the Council's corporate priorities is regularly monitored by the improvement boards, Corporate Strategy Board (CSB), the Executive (Members of the Cabinet, consisting of the Leader of the Council and nominated Portfolio Holder Councillors) and the Overview & Scrutiny Committee. Improvement boards also monitor risks to the achievement of Directorate objectives each quarter and these are reported to the quarterly CSB performance morning meetings through an integrated reporting process.

The Executive meets monthly and the Corporate Strategy Board meet weekly to monitor performance and to consider the key risks to the achievement of those objectives. There are also six weekly 'leadership meetings' between CSB and Cabinet Members.

The corporate priorities which support the Council's vision are reviewed annually and the priorities for 2011-12 were:

- Keeping neighbourhoods clean, green and safe
- United and involved communities: a Council that listens and leads
- Supporting and protecting people who are most in need
- Supporting our Town Centre, our local shopping centres and businesses



## Measuring the quality of services and ensuring best use of resources

The Council has enhanced its integrated planning framework as part of the change towards a greater commissioning approach. Through a greater outcomes focus, enabled by the move towards a commissioning approach, the Corporate Plan and Medium Term Financial Strategy set out how the Council's diminishing resources are allocated to where they add the greatest value to resident need. The direction provided by the Corporate Plan and the Medium Term Financial Strategy is cascaded through directorate service improvement plans down to service plans and then to personal development plans and Individual Performance Appraisal & Development plans (IPADS) for individual staff.

The extent of the cuts to public sector spending and the Government's agenda for public service reform mean that the Council is thinking about its future shape and size; how the Council delivers services in collaboration more with partners and residents and bring about a new relationship that has the potential to unlock major savings. Proposals for the future scope of Council services were reviewed during the 2011-12 budget planning exercise via commissioning panels in each of the Directorates.

Performance against plans, key indicators and targets and budgets are monitored during the year by Directorate Management Teams, quarterly Improvement Boards and CSB. There are quarterly monitoring reports to Cabinet on both the budget and performance using a balanced scorecard approach covering projects, budgets, risks, workforce performance, complaints, debt and VFM. As the Council improves its approach to commissioning the reporting of these areas will need to be reviewed in the context of how they demonstrably show the contribution to Council priorities and outcomes.

The Council has made considerable progress to improve its financial position in the last 3-4 years. This has involved much more robust medium term planning, an increase in the number of qualified finance staff and training for budget holders.

CSB met monthly as a Transformation Board to monitor projects under the Better Deal for Residents Programme throughout 2011-12 and will continue to meet in this way to monitor the second Transformation Programme. As mentioned above, on a quarterly basis projects, performance, finance and risk are all considered by CSB.

The Council's External Auditors are required to issue a value for money ("VfM") conclusion within their report on the financial statements. From 2010-11 their statutory VfM conclusion was based on two criteria specified by the Audit Commission: the organisation has proper arrangements in place for securing financial resilience; and the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. An unqualified value for money opinion was issued and the External Auditors were satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011. (This is the latest VfM conclusion available as external audit work is only begun after the closure of accounts each year i.e. for 2011-12 the work began in June 2012 and the VfM conclusion will not be published until January 2013.)

On 23rd June 2011, Harrow Council won the Best Achieving Council in the UK award at the Municipal Journal awards. This award is the top award available for local government and shows just how far the Council has come in a few short years. The Council had further

success at this year's awards winning the 'Transformation through IT' award and the Council's Adult Services Department was also highly commended and named runner-up in the 'Redefining Quality in Adult Services' category. In addition Harrow People won the Local Government Association Local Government Communications Reputation Gold Award in May 2012.

### **Defining roles**

The Council's constitution describes the role and terms of reference of Members, the Executive, Portfolio Holders, Mayor, full Council, the Standards Committee and the Overview and Scrutiny Committee. The Constitution is a public document available to the public and staff on the Council's internet site at:

[http://www.harrow.gov.uk/info/10016/council\\_documents/919/the\\_constitution](http://www.harrow.gov.uk/info/10016/council_documents/919/the_constitution).

Officer responsibilities are also set out in the Constitution, including the Chief Executive, Corporate Directors and Statutory Officers. This includes the various statutory responsibilities of these roles and role profiles of senior officers are in place and relevant officers have written delegated authority to undertake the statutory functions.

Democratic services maintain a register of Members' interests which is published on-line via the Council's web-site.

The Constitution is reviewed on an on-going basis, with full Council making amendments as and when required. During 2010-11 work began on a review of the Financial Regulations and an updated version was agreed in October 2011. Financial Regulations contain a Scheme of Delegation for Financial Transactions and in addition to this it is expected that directorates have a written directorate/service specific scheme of delegation in place, e.g. to cover HR responsibilities.

Annually Senior Managers are required to provide assurance that, in addition to the Corporate scheme of delegation covering finance, there is a written directorate/service specific scheme of delegation in place e.g. to cover HR responsibilities and that staff are complying with the requirements of the Council's Financial Regulations and Contract Procedure Rules. The results of the 2011-12 Management Assurance Exercise indicate that a local scheme of delegation is in place in 58% of areas across the Council and that staff are complying well with the Council's Financial Regulations in 85% of areas. Action planning is in progress to address and improve each of these areas for 2012-13.

### **Standards of behaviour and codes of conduct**

Members and employees have clear codes of conduct, which set out expectations of behaviour and are regularly reviewed and re-issued. A training session organised by the Council's Legal and Democratic Service covering the code and social media took place in June 2011. The employee code forms part of the officer induction training.

A Standards Committee was in place during 2011-12 to ensure that individual Members upheld and exemplified good governance and behaviour. Standards for England has been abolished by the Localism Act and this means that the Council will be able to choose whether or not to have a member code of conduct and a Standards Committee. A report

went to Council in July 2012 establishing a new code of conduct for councillors and arrangement for dealing with alleged breaches.

Separate mechanisms for Members and Officers are in place in the event that the codes are breached and appropriate action is taken as necessary.

Registers of gifts and hospitality are held at Member and Officer level and reviewed regularly. Departmental Management Teams review the Officer registers at regular intervals. The Members' register is available on-line via the Council's web-site.

In September 2008 the Council adopted new Council values which apply to all employees and replace the previous competency framework for middle managers and above. The values set out expected behavioural standards within 6 themes known as the CREATE values:

- Customer first;
- Respect;
- Engaged communication;
- Actively 'One Council';
- Taking responsibility;
- Energise and improve.

A new suite of employment policies were prepared during 2007-08 and introduced from April 2008 which includes key HR policies for dealing with conduct, capability, grievance, and harassment issues. These have been communicated to managers and are available on the Council's intranet site together with the full range of HR policies.

During 2011-12 69 cases were investigated under the Council's officer conduct policy. 15 of these resulted in a warning and 14 in dismissal. 17 complaints were received between April 2011-12 against members; 13 of these were found to involve no breach of the Code of Conduct; 3 were deemed to have appeared to have breached the Code of Conduct and appropriate action took place (i.e. training and/or an apology) and 1 was submitted for investigation, after which it was agreed that there was no breach of the Code of Conduct.

### **Decision making**

Decision making arrangements are set out in the Constitution which governs the conduct of the Council's business and includes Contract Procedure Rules and Financial Regulations. The Council operates a Leader and Cabinet (Executive) model of decision making. Although some decisions are reserved for full Council, most are made by the Executive or by Committees, Sub-Committees or officers. The Constitution details those decisions that may not be taken by the Executive and those decisions that have been formally delegated to officers. The powers delegated to individual Portfolio Holders are also set out in the Constitution.

The Executive is responsible for the implementation of policy and ensuring the effectiveness of service delivery and forthcoming Executive decisions are published on the Forward Plan which sets out all future key decisions that may be made within the following four month period.

Members are required to make sound decisions based on written reports which are prepared in accordance with report writing guidelines and all Cabinet reports have to be cleared by officers in Finance, Legal Services, Performance Management and Environment together with the relevant Portfolio Holder. Reports must pay due regard to equalities issues, crime and disorder implications, and risks.

The Executive receive a briefing (Cabinet Briefing) approximately two weeks before the formal Cabinet meeting date when Members can ask detailed technical questions of officers. A Member Development programme is in place to support Members and provide them with information and the skills to make effective decisions.

In accordance with the Local Government Act 2000 the Council has mechanisms in place to allow the effective, independent and rigorous examination of the proposals and decisions by the Executive. These mechanisms involve the Overview and Scrutiny process and call-in. The Overview and Scrutiny Committee is responsible for overseeing a targeted work programme that can help support service improvement through an in-depth investigation of performance and the development of an effective strategy/policy framework for the council and its partners. This includes consideration of the Corporate Plan, and the Medium Term Financial Strategy. The Performance and Finance sub-committee is the scrutiny body responsible for monitoring the performance of the council and its partners in relation to their stated policy and priorities.

The Overview and Scrutiny Committee produce an annual report on work they have undertaken over the year and for 2011-12 it states that the committee met 12 times and considered a wide range of issues:

- Community Safety Plan
- Safer Harrow Annual Strategic Assessment
- Transfer of Harrow High Schools to Academies
- Integrated Targeted Children's Services Model
- Schools Place Planning
- Development of the Council's Property Assets
- Implications of the 'Birmingham Judgement'
- Adults', Children's and Corporate Complaints
- West London Waste Plan

- Strategic Overview of Support to the Voluntary Sector and Update on the 3rd Sector Strategy
- Strategic Approach to the Future Provision of the Library and Sports Service
- Corporate Equalities Objectives

The report went on to state 'The council is facing challenges on many fronts and we therefore took the decision to have a more fluid and flexible approach to the development of our work programme and not tie ourselves down to a predetermined annual review programme. As a result we have been able to respond as necessary to support the organisation to rise to its current challenges'.

All formal meetings are clerked by trained and experienced Democratic Services Officers who also provide advice on constitutional procedure. Lawyers are present when appropriate to provide advice on law and all committee reports for decision must have legal and Finance clearance before they are published.

### **Internal Control and Risk Management**

Internal control refers to the systems devised by management to guard against risk and promote achievement of objectives. More specifically, internal controls promote:

- achievement of business objectives and performance standards;
- compliance with plans, policies, procedures, codes of conduct, laws and regulations;
- the reliability, integrity, timeliness and usefulness of information;
- the legality of transactions and compliance with approved budgets and procedures; and
- the safeguarding of people, property, finances, services, continued operations and reputation.

Internal controls are an essential part of the Council's risk management arrangements and are required to be reviewed on a regular basis by management under the Council's Financial Regulations. Control systems provide for clarity of policies, objectives, targets, responsibilities and accountabilities, and appropriate authorisations and approvals, separation of duties, level of internal check, management information and physical safeguards.

The Corporate Director of Resources and the Assistant Chief Executive are responsible for assisting the authority in putting in place an appropriate control environment and effective internal controls which provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with all applicable statutes, regulations and codes of practice.

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. A risk management strategy is reviewed and agreed by the Executive each year. The Corporate risk register is reviewed by the Corporate Strategy Board on a quarterly basis. All Directorates have risk registers and these are reviewed by Directorate Management Teams regularly and the Improvement boards quarterly. In 2011-12 a new risk appetite statement was developed and approved by the Executive in accordance with the new UK Corporate Governance Code.

The Corporate Risk Steering Group, consisting of nominated directorate risk champions and chaired by the Assistant Chief Executive, met 4 times during 2011-12 and provides challenge on the robustness of the strategic and corporate operational risk registers and the adequacy of controls to mitigate the risk.

All risk registers identify risks to the achievement of objectives, the impact and likelihood of current and target risk scores, mitigating actions to control the risks and assign risk owners/champions and control owners.

Business as usual projects are managed through the corporate risk management process, with dedicated risk registers in place to ensure risks are being managed throughout the life of a change programme/project. The 2011-12 Management Assurance Exercise confirmed that risk assessment and management is embedded and working well in 97% of areas across the Council. Internal Audit 'reality testing' confirmed that major projects are recorded on the Council's project management software VERTO and the system ensures that a risk assessment is undertaken.

All committee reports requiring decisions are required to include commentary on the risks associated with the subject matter of the report so that Members can take informed decisions based on the balance of opportunities versus risks.

Internal Audit provided assurance to the Council on internal control and risk mitigation through the delivery of an agreed audit plan and follow-up reviews which accumulates in the provision of an overall audit opinion on the Council's control environment annually.

The overall audit opinion for the Council's control environment for 2011-12 was assessed as "adequate". The detailed report setting out the reasoning behind this assessment will be considered by the Governance, Audit and Risk Management Committee (GARM) in September 2012.

### **Audit arrangements**

The Council considers that it has an effective Internal Audit service provided by an in-house team, which operates in accordance with the standards set out in the CIPFA Code of Practice for Internal Audit for Local Government (see section 1.4 Review of Effectiveness)/

The Council's External Auditors, Deloitte LLP, rely on the Internal Audit team's work on the authority's core financial systems to inform their risk assessment that guides the external audit approach.

The Governance, Audit and Risk Management 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 which encompasses the review and monitoring role of a range of risk related services, including monitoring performance on corporate governance generally, were reviewed and updated during 2010-11.

Following a change of Chair and membership between the April and June 2011 meetings training was undertaken in June 2011 to ensure that all new members were aware of the role and responsibilities of the GARM Committee. The Chair and membership, although stable throughout the rest of the 2011-12 Financial Year, changed again between the April and June 2012 meetings and further training was undertaken for the members of the GARM Committee in June 2012 with more planned for September 2012.

### **Compliance with statute and internal policies and procedures**

The Council's legal service tracks new legislation and keeps the relevant Directorate(s) informed of the implications for future service delivery. Corporate issues are discussed at the Corporate Strategy Board and Corporate Leadership Group.

All internal policies and procedures are contained on the Council's intranet site and communicated to staff. Compliance is monitored through Internal Audit reviews and specific monitoring at Directorate Management Team meetings and the quarterly improvement boards.

Key internal policies and procedures are readily available on the Council's Intranet site.

Serious breaches of policies and procedures are subject to the Council's disciplinary procedures and where necessary investigated by the Council's Internal Audit service which works closely with the Council's Corporate Anti-Fraud team who maintain the Council's Corporate Anti-fraud Policy and Corruption Strategy.

The authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

### **Whistle blowing and complaints**

The Council has a whistle blowing policy, publicised to staff and available on the intranet. The policy is primarily designed for staff to raise concerns but also explicitly encompasses contractors, councillors and agents outside the authority. A register of whistleblowing complaints is maintained by the Monitoring Officer and reported to the GARM Committee annually. During 2011-12 two potential whistleblowing complaints were received however neither of these met the criteria to be classified as a whistle blowing complaint as set out in the Council's whistle blowing policy. Both were however investigated and recommendations made for improvements.

The Council has a three stage complaints procedure for members of the public to complain about individual service areas. Details of the procedure and an online form are contained on the Harrow.gov website. Details of the Local Government Ombudsman Service are

included and a printable information pack is available to download. The facility also enables members of the public to provide general comments and suggestions, or compliments.

The aim of the complaints procedure is:

- To provide an accessible means to all our customers who wish to express either satisfaction or dissatisfaction with a service they have received.
- To provide a fair, consistent and structured process for resolving complaints in a courteous and efficient manner.
- To enable customers to complain with the assistance of a representative or advocate if required.
- To record all complaints and compliments to help us analyse customer feedback and inform future service planning and delivery.
- To obtain records of complaints and compliments made so that regular reviews can be produced for internal performance monitoring and public accountability.

### **Training and development**

The Council runs a Member induction programme for new Members and a development programme for all Members which has been given the Charter Mark. The latter consists of a schedule of events throughout the year in a variety of formats, including events led by key officers from across the organisation and quarterly update sessions to keep Members up to speed on significant changes and new developments.

A staff appraisal programme (IPAD) exists for all employees which is conducted on an annual basis with a mid year review. The process is formal with a corporate template designed to facilitate a review of staff performance and behaviour objectives and personal development and record agreement on future objectives and training and development needs.

It enables a clear understanding of how each individual's work contributes to the Team, Service, Directorate and Corporate priorities. The 2011-12 Management Assurance Exercise highlighted that the appraisal process is working well in 94% of departments across the Council. Action was also identified in the action plan arising from the Staff Survey in November 2010 and although an increased compliance was noted in the 2011 Staff Survey the IPAD process has been reviewed with senior management to address the cultural challenges in ensuring effective performance management. This includes re-designing the process to enable introduction of an on-line appraisal system (though this is subject to funding).

The appraisals process is monitored at Divisional Management Team level, at Council Improvement Boards, at CSB Performance meetings and as part of the annual management assurance exercise.



All Directorates have developed workforce strategies. Learning and development plans for staff are integral to these strategies, as are initiatives to provide career opportunities for existing staff within the Council and Directorates.

A Management Development Practitioners programme developed in 2010-11 was delivered in 2011-12. Alongside this the Corporate Leadership Group (CLG) development intervention took place investigating and improving the group's behaviours and ability to face difficult conversation on challenges facing the Council. During 2011-12 a new Corporate development programme was also designed and began delivery. Alongside this the HRD Team are investigating the use of a Learning Management System.

Most service areas have a budget allocated for training and development of staff. The 2011-12 Management Assurance Exercise identified that directorate 'budget spend on learning & development is known and the value obtained from the spend is analysed' is working well in only 42% of departments across the Council. It was further identified that although spend is generally known it is not being analysed to identify value obtained in all areas across the Council. This will be picked up in the relevant directorate action plans and also in the preparation for the core IIP standard.

During 2011-12 the Chief Executive's and the Housing departments were awarded the Investors In People (IIP) Gold and the Legal & Governance Service were awarded core IIP in 2009 with the addition of Health & Wellbeing in 2010. The whole Council are currently preparing for accreditation in the core IIP standard.

### **Communication and consultation**

The Council launched a new corporate consultation strategy in 2008-09 to ensure that there is a joined-up co-ordinated approach to consultation with local people at Harrow Council and the HSP. Consultations are managed through a number of channels, including the Residents Panel and the Council magazine "Harrow People", which is delivered to every household in Harrow six times a year, and is used to communicate important messages to residents. Consultation on the Council's Transformation 2 programme is co-ordinated through the Better Together Board.

Internally a variety of media are used to keep staff informed of developments and important information. These range from communications e-letters to poster campaigns, "The Arrow" internal newsletter, the 'Grapevine' an e-newsletter, the Chief Executive's newsletter and staff forums held jointly by the Chief Executive and Leader of the Council when all staff are able to attend and ask questions, as well as managers' conferences.

The Council's communications strategy, the Council's Involvement and Reputation Plan was reviewed in May 2011 and again in March 2012.

Protocols for 2 way communication between the Council and the Trade Unions are well established.

The Council's Employees' Consultative Forum's terms of reference specifically includes the promotion of health and safety and welfare within the Council and the review of measures taken to ensure health and safety. The forum receives regular reports on the

Council's health and safety performance including the effectiveness of health and safety and welfare training, communications and promotions in the workplace.

All Committee meetings are held in public except where items on the agenda are exempt from publication due to confidentiality.

## Partnerships

The Local Strategic Partnership in Harrow is called the Harrow Strategic Partnership (HSP). The HSP brings together a group of people who represent the statutory, private, business, community and voluntary sectors in Harrow. The HSP constitution and protocols provide details on the governance of the partnership and the structure and function of the HSP.

Community views and partners data are used by the partnership to shape and influence the borough's priorities in the Sustainable Community Strategy and the Harrow Compact sets out the agreement on how statutory partners interact with the voluntary and community sector.

The Sustainable Community Strategy provides the partnership with a shared vision for the future of Harrow, and is delivered through the three year Local Area Agreement that ran until March 2011.

There will not be an LAA in the future as the Coalition Government has abolished the CAA and reduce the reward grant in-year. There is an ongoing debate throughout local government about the role of partnerships without the driver of LAAs. However, the council adopted new priorities for the partnership in April 2011 and is working up targets and action plans supported by the last receipt of the Reward Grant. Looking at partnership working going forward, the Council is part of the Challenge and Learning Network that is supporting Community Budget pilots which will help us to prepare to take advantage of the community budget concept in the future; we are supporting the work of the Clinical Commissioning Group and provide the Chair and leading members of the Shadow Health and Wellbeing Board.

The Council has engaged a number of commercial partners to support the delivery of services, from a business transformation partner to construction and infrastructure partners. The partnerships have been secured under framework agreements and are subject to strong governance and accountability processes. Annually, via the Management Assurance Exercise, senior managers are asked to provide assurance on these governance arrangements. The 2011-12 Management Assurance Exercise highlighted that robust governance arrangements are in place with partners in 61% of departments across the Council with 39% of departments working towards this. This reflects the number of new partnerships which are still at an early stage of development. Action plans are being developed with the departments concerned to improve and monitor this percentage during 2012-13.

Directorate Service Improvement Plans are required to list key partnerships and to consider partnership risks. Joint risk registers exist with key commercial and public partners.

## 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, 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 process and activities that have been applied in maintaining and reviewing the effectiveness of the governance framework in the 2011-12 year are described below.

### The Council

- Approved the policy framework and the annual revenue and capital budget;
- Contributed to the good governance of the Council and maintained the highest standards of conduct and ethics through the role of Councillors;
- Aimed to govern within a framework of fairness, openness, integrity and accountability and provided excellent standards of ethics and probity in decision making.

### The Executive

- Made decisions in accordance with corporate priorities;
- Allocated responsibility for Member Portfolio Holders to specific areas of responsibility;
- Considered risks and opportunities as part of the decision making process;
- Monitored performance against the corporate priorities.

### The Audit Committee (GARM Committee)

- Met 6 times during 2011-12 considered the work of Internal Audit during the year including mid year and end of year reports, considered the results of the management assurance exercise 2010-11 and will consider the results the 2011-12 exercise, approved the Internal Audit Annual work plan, the Internal Audit delivery plan and the Internal Audit strategy;
- Monitored the effective development of the Council's corporate governance framework;
- Used reasonable endeavours to review, and approve the Annual Statement of Accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council;

- Reviewed and challenged the reports provided by External Auditors on behalf of the Audit Commission including the annual audit and inspection letter;
- Reviewed and approved the 2010-11 Annual Governance Statement and the supporting evidence and will review and approve the 2011-12 Annual Governance Statement and evidence.

### **The Standards Committee**

- Received reports from the Council's Monitoring Officer. It also considered and made decisions on allegations of breaches of the member's code of conduct.

### **The Overview and Scrutiny Committee**

- Met 12 times during 2011-12;
- Supported the Council and Executive in developing the policy framework and budget for the Council and worked with partner organisations on issues that may be outside the remit of the Council;
- Considered the Council and its partners' performance against stated policy and priorities;
- Reviewed specific services by making reports and/or recommendations to the full Council, Executive, Portfolio Holders and any joint or area committees on any of their functions;
- Reviewed policy and decisions developed by others by reviewing and/or scrutinising decisions made or actions taken in connection with the discharge of the Council's functions;
- Reviewed issues of concern to local people by considering matters affecting the area or its inhabitants and monitoring and scrutinising the activities of others;
- Considered the Forward Plan prior to key decisions as appropriate.
- Issued an annual report on work they have undertaken over the 2011-12 year (see 1.6.6)

### **Improvement Boards**

- On a quarterly basis, Cabinet sits in the role of Performance Board to review progress against its Corporate Priorities, including Priority Actions, transformation projects and the Corporate Scorecard.
- Improvement Boards, organised by Directorate, meet quarterly prior to Cabinet. At these, the Leader of the Council, portfolio holders for the service and for performance and senior officers review performance using a set of information monitoring progress against Priority Actions, transformation projects, key

performance indicators, complaints, finance, workforce development, audit findings and risk.

### Internal Audit

- Provided assurance to the Council on operational and financial controls through the delivery of an agreed audit plan and follow-up reviews;
- Produced mid and end of year reports including the annual interim audit opinion on the Council's internal control framework;
- Supported the Corporate Governance Group and Corporate Governance Working Group;
- Provided assurance and advice to major project boards and partnership arrangements;
- Co-ordinated and reality checked an annual management assurance exercise the results of which will inform risk registers, corporate governance update reports, action plans and also this annual governance statement;
- Co-ordinated and reviewed the process for the annual review of governance and contributed to the drafting of the annual governance statement;
- Implemented an escalation procedure to the Corporate Strategy Board and Audit Committee on audit reviews that gave rise to concern;
- Worked closely with the Corporate Anti-Fraud Team in relation to system controls and investigations to counter fraud;
- The Internal Audit plan for 2011-12 was approved by the GARM Committee in June 2011 and the Year-end report presented to the committee in June 2012 reported that 85% of the plan was completed by year-end and 100% will be completed in due course. This included all the key financial system reviews relied upon by the External Auditors. A total of 310 recommendations were made during the 2011-12 audit year to improve the control environment and 306 (99%) were agreed for implementation by the various managers;
- Of the 189 completed followed- ups of recommendations by Internal Audit during the year (to ensure that agreed recommendations had been implemented by management) it was found that 67% of the recommendations, still applicable, had been fully implemented and a further 31% were in progress or planned for implementation. Thus although, in due course, it is expected that 98% of agreed recommendations will be implemented there has been a slower than agreed implementation of 31% of the recommendations by management.
- Undertook work on the authority's core financial systems which the Council's external auditors, Deloitte LLP, place reliance for their risk assessment of the authority;

### Corporate anti-fraud team

- Is currently reviewing and updating the Council's corporate anti-fraud policy;
- Investigated allegations of fraud both from external and internal sources;
- Worked closely with Police partners to secure convictions where appropriate;
- Published successful prosecutions as part of a deterrent communication strategy.

### Management Assurance Exercise

The management assurance process was developed and introduced across the Council in 2005-06 (the 2004-05 exercise) and is now well embedded. The areas of assurance are reviewed and updated annually by Internal Audit and the Corporate Governance Group (an officer group of senior managers chaired by the Director of Legal & Governance). Additionally officers in key areas such as Risk, Performance, Health and Safety, Business Continuity and Information Management are consulted on the detail of specific assurance areas. The Corporate Governance Group (CGG) also identifies areas of assurance for specific reality testing to be undertaken by Internal Audit and this increases the reliance that can be placed on the exercise.

The management assurance process involves obtaining self-assessments supported by documentary evidence from third tier managers across the Council. These are then used to produce a statement for each directorate and an overall corporate statement that feeds into this Annual Governance Statement.

The management assurance exercise for 2011-12 was started in April 2012 and completed in August 2012.

Overall the 2011-12 management assurance exercise confirmed that 60% of the areas of assurance covered by the self-assessment process are working well across the Council i.e. above the assurance level set of 80% (these have either been given a green assurance rating or an amber if slightly down on last year's percentage). This is a 17% decrease on areas reported as working well in last year's exercise.

There are a range of explanations for this relating to the specific areas of assurance and these have been noted in the Management Assurance Report and on the Corporate Assurance Statement.

Action points are in the process of being agreed as part of the management assurance statements signed off by the 3rd tier managers for all areas of assurance identified as working towards or where a gap was identified in 2011-12. These will be reviewed by the Corporate Governance Group to ensure that they adequately address the weaknesses identified and to determine if any corporate action is required to further support Directorates. Agreed actions will be integrated into the Improvement Board process and monitored during 2012-13 by Internal Audit, the Corporate Governance Group and the quarterly Improvement Boards.

## Results of the Annual Review of Governance

The annual review of the Council's governance arrangements and the annual management assurance exercise identified a number of governance issues for which detailed action plans are being developed.

The year end update of the 2010-11 AGS Action Plan shows that the governance gaps identified in 2010-11 were closed fully or partially in 2011-12 for 62% of gaps identified (this is an improvement of 7% on those fully or partially closed for 2009-10). Five gaps from 2010-11 have been carried forward to the 2011-12 AGS Action Plan.

The serious weakness identified in the 2009/10 statement in relation to the management and control of certain capital projects was followed by investigations into the overspend discovered in 2010-11. The investigations made a series of specific detailed recommendations to avoid any recurrence of the issues which had affected the programme. The implementation of these recommendations was monitored by the GARM Committee with the support of Internal Audit, who independently verified the process. In December 2011 the monitoring report to GARM Committee reported 83% (50) of actions as implemented by management; 12% (7) as in progress; and 5% (3) of the actions yet to be implemented (1 being a low risk and the other 2 being a medium risk). An Internal Audit review has since been undertaken and confirmed that the majority of controls are now operating and thus this is no longer considered a governance gap.

A significant gap relates to IT Disaster Recovery which was recognised as a significant governance gap in the 2008-09 Annual Governance Statement and remained a gap throughout 2009-10, 2010-11 and 2011-12. There are arrangements in place to meet this requirement however the main project to support this is the migration of the council's IT applications to the Capita West Malling site, which was due to commence in September 2011 on a phased programme to be completed in April 2012. This programme has been delayed as the Council is considering keeping the data centre on-site in order to deliver a cost saving. Given the delay this necessitates a plan is now being put together to test disaster recovery of the systems as they stand. There is a continuing risk until this project is complete although the wider business continuity plan takes this into account and the risk is no greater than it has been historically over a number of years.

Another significant gap has been identified by the External Audit of the Council's accounts. This relates to the lack of separation in the Council's main accounting system between the Council's financial records and those of the West London Waste Authority (WLWA) and the fact that, whilst the WLWA is a separate legal entity, a separate bank account is not in operation. Although the account has been operating in this way for many years a number of issues arose during the course of the audit, that the External Auditors and the Council's Corporate Finance team have worked together to resolve, which highlighted the risks of no separate bank account. Action will be agreed as part of the 2011-12 AGS Action Plan to ensure that this situation does not re-occur in the future.

Three new gaps have been identified through the annual review of governance process and one through the External Audit of the Council's accounts, although none are considered significant by CGG, actions are in the process of being agreed to address these and will be shown in 2011-12 AGS Action Plan.

Each year the Council undertakes a robust evidence based review of its governance arrangements. Overall the annual review of governance for 2011-12 and to date evidenced that sound governance arrangements are in place cover the six core principles of governance as described in the Council's Code of Governance.

**Declaration**

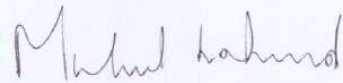
We have been advised on the implications of the review of the effectiveness of the governance framework by the Governance, Audit and Risk Management Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

**Signed**



Bill Stephenson

Councillor Bill Stephenson  
Leader of the Council



Michael Lockwood

Michael Lockwood  
Chief Executive

**13 September 2012**



## 9 Pension Fund Accounts

### Pension Fund Certificate

**Harrow Council**

**Pension Fund Accounts 2011-12**

I certify that the accounts set out in Section 9 present fairly the financial position of the Pension Fund as at 31 March 2012 and its income and expenditure for the year.

**Julie Alderson**

ACA

**Chief Finance Officer**

30 September 2012

## 9.1 Administration of the Fund

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

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

- Harrow Council;
- St Dominic's Sixth Form College;
- Stanmore College;
- Harrow College;
- Bentley Wood School;
- Cannons High School;
- Harrow High School;
- Hatch End School;
- Nower Hill School;
- Park High School; and
- Rooks Heath School.

Admitted:

There are two types of admission body:

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

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

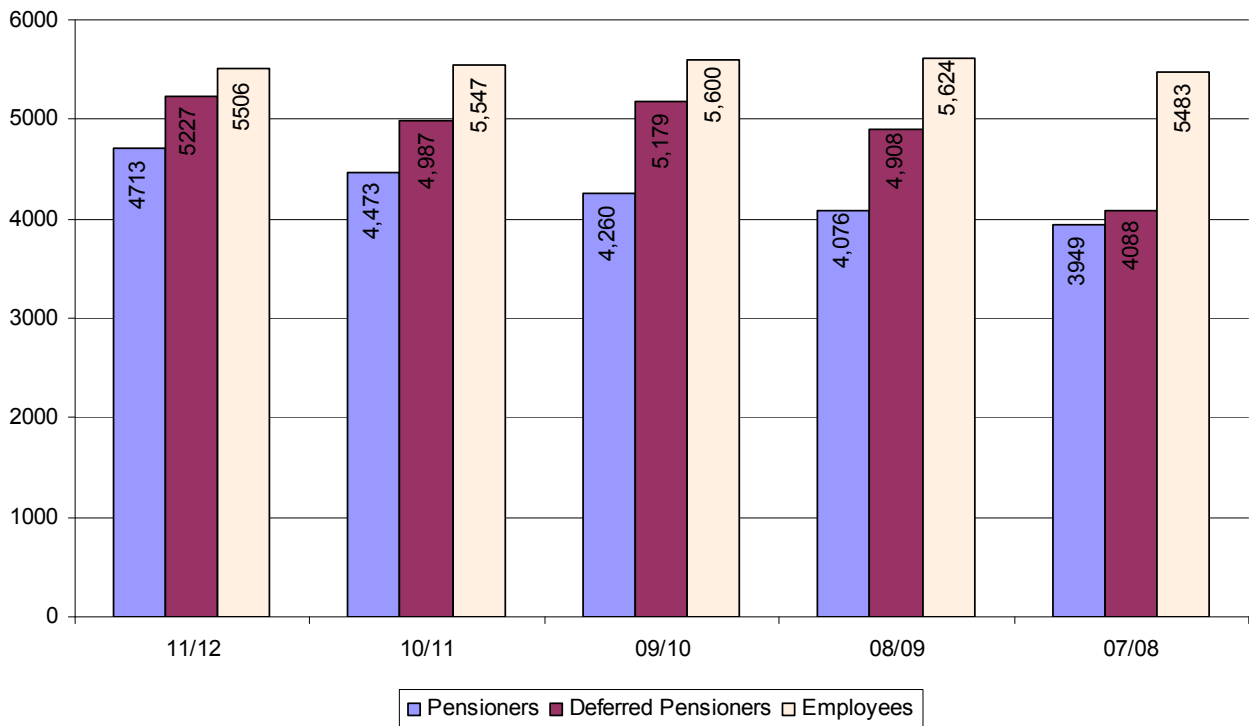
The organisations listed below have been admitted to the fund:

- Capita IT;
- Kier;
- Care UK;
- Harrison Catering;
- Julius Rutherford;
- KGB Cleaning;
- North London Collegiate School;
- Continyou;
- Granary Kids;
- Hayward;
- Mears;
- Schools Crossing; and
- Vaughan.

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.

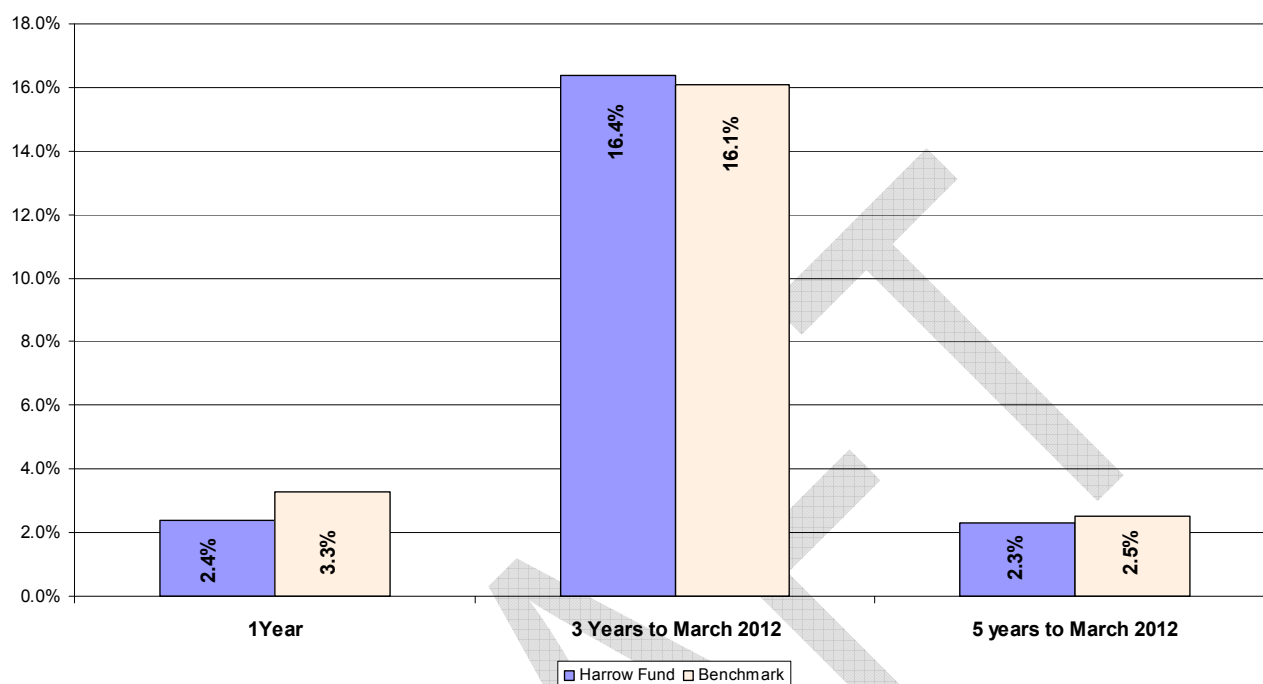
Membership of the Fund



Responsibility for the overall direction of the fund’s investment policy rests with a Council Panel. In implementing the Fund’s investment policy, the Council has appointed 9 investment managers with responsibility to deal at discretion within broad investment objectives laid down by the council. These are UBS Global Asset Management (UK) Limited, BlackRock Investment Management (UK) Limited, Fidelity International, Longview Partners Investments, Wellington Management International Limited, State Street Global Advisors Limited, Pantheon Private Equity, Aviva Investors Global Services Limited, and Record Currency Management Limited.

## 9.2 Fund performance

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



The Fund's high equity allocation detracted from performance during a year when bonds benefited from risk aversion. The annual return of 2.4% is 0.9% below the benchmark. Over the three year period during which equities performed strongly the fund outperformed its benchmark by 0.3% p.a. The five year returns include the financial crash of 2008 and represent a period of bond markets out-performance.

The average fund in the local authority universe (as per WM performance services) returned 2.6% in the year. Harrow was ranked in the 64<sup>th</sup> percentile in the Local Authority universe as measured by WM, due mainly to the fund's higher than average equity allocation.

### 9.3 London Borough of Harrow Pension Fund Account

Pension Fund Account for the year ended 31st March 2012

2010-11 £000		Notes	2011-12 £000
	<b>Contributions and Benefits</b>		
25,496	Contributions receivable	9.4.2	<b>24,725</b>
5,199	Individual Transfers in from other schemes		<b>2,527</b>
31	Other Income (including Capital cost)		<b>88</b>
	Less:		
-24,581	Benefits Payable	9.4.3	<b>-25,103</b>
-2,455	Leavers	9.4.4	<b>-1,076</b>
-775	Administrative expenses	9.4.5	<b>-789</b>
<u>2,915</u>	<b>Net additions from dealings with members</b>		<u><b>372</b></u>
	<b>Returns on Investments</b>		
3,338	Investment Income	9.4.6	<b>4,948</b>
34,160	Change in market value of investments	9.4.7	<b>6,951</b>
202	Investment management expenses	9.4.5	<b>133</b>
<u>37,700</u>	<b>Net returns on investments</b>		<u><b>12,032</b></u>
40,615	Net (Increase)/decrease in Fund during the year		<b>12,404</b>
435,923	Net assets at start of year		<b>476,538</b>
<u>476,538</u>	<b>Net assets at end of year</b>		<u><b>488,942</b></u>

#### Net Assets Statement

2010-11 £000		Notes	2011-12 £000
	<b>Investment Assets</b>		
455,438	Pooled investment vehicles	9.4.9	<b>464,829</b>
1,527	Derivative contracts	9.4.10	<b>2,014</b>
<u>456,965</u>			<u><b>466,843</b></u>
	<b>Investment Liabilities</b>		
-627	Derivative contracts	9.4.10	<b>-366</b>
<u>456,338</u>			<u><b>466,477</b></u>
1,750	Cash deposits	9.4.7	<b>22,118</b>
<u>458,088</u>	<b>Net Investment Assets</b>		<u><b>488,595</b></u>
18,881	Current assets	9.4.12	<b>674</b>
-431	Current liabilities	9.4.12	<b>-327</b>
<u>476,538</u>	<b>Net assets of the scheme available to fund benefits at 31 March 2012</b>		<u><b>488,942</b></u>

The accounts summarise the transactions of the Fund and deal with the net assets. 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 Local Authority Accounting in the United Kingdom 2011-12 and following guidance in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised May 2007). The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

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

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

- All listed investments are quoted at the bid price at the close of business on 31 March of each financial year;
- Unlisted securities are valued having regard to latest dealings, professional valuations, asset values, currency rates and other appropriate financial information adjusted to reflect cash transactions up to 31 March 2012;
- Investments in pooled investment vehicles are stated at the bid value of the latest prices quoted by their respective managers; and
- Derivatives are valued at the appropriate closing exchange rate or the bid spot or forward rates. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

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

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

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

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

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

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

#### 9.4.2 Contributions

2010-11 £000		2011-12 £000
	<b>Employers - normal</b>	
16,905	London Borough of Harrow	15,563
1,336	Scheduled Bodies	2,117
575	Admitted Bodies	660
	<b>Members - normal</b>	
6,025	London Borough of Harrow	5,484
463	Scheduled Bodies	686
192	Admitted Bodies	215
25,496		24,725

#### 9.4.3 Benefits

2010-11 £000		2011-12 £000
	<b>Pensions</b>	
-18,286	London Borough of Harrow	-19,648
-419	Scheduled Bodies	-522
-134	Admitted Bodies	-196
-18,839		-20,366
	<b>Benefits and commitments</b>	
-4,847	London Borough of Harrow	-3,807
-350	Scheduled Bodies	-394
-253	Admitted Bodies	-64
-5,450		-4,265
	<b>Lump Sum Death Benefits</b>	
-292	London Borough of Harrow	-439
0	Scheduled Bodies	-33
-292		-472
-24,581		-25,103

#### 9.4.4 Leavers

2010-11 £000		2011-12 £000
-4	Refunds to members	-4
-2,451	Individual transfers to other schemes	-1,072
0	NI contributions	0
-2,455		-1,076



### 9.4.5 Investment Management and Administration Expenses

2010-11 £000		2011-12 £000
202	Investment management expenses	133
	Scheme administration	
	Harrow Council	-676
-639	Misc. (including Actuary Fees)	-113
<u>-136</u>	<b>Total Administration Expenses</b>	<u>-789</u>
<u>-775</u>	<b>Total Expenses</b>	<u>-656</u>

### 9.4.6 Investment Income

2010-11 £000		2011-12 £000
3,220	Income from pooled investment	4,800
118	Interest on cash deposits	148
<u>3,338</u>		<u>4,948</u>

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

### 9.4.7 Investments

	Value at 01-Apr-11 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 31-Mar-12 £000
Pooled Investment Vehicles					
Property	40,314			1,029	41,343
Other	415,124	9,165	-6,279	5,476	423,486
Derivatives	900	766	-464	446	1,648
	<u>456,338</u>	<u>9,931</u>	<u>-6,743</u>	<u>6,951</u>	<u>466,477</u>
Cash Deposits	1,750				22,118
	<u>458,088</u>				<u>488,595</u>

The change in market values is mainly due to the increase in bond values as yields fell in response to concerns over global growth and sovereign default. Equities were volatile but ended the year much where they started. £7.043m of the change in market value in the year was in respect of unrealised net gains.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees, commissions, stamp duty and other fees. Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately available.

Derivative payments (£0.8m) and receipts (£0.5m) are in respect of realised losses and profits on forward foreign exchange trades settled during the period.

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

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. The value of investments held by each Fund Manager is shown in the table below:

	2011-12		2010-11	
	£000	%	£000	%
State Street Global Advisors	122,061	26%	120,397	26
Longview Partners	33,941	7%	32,041	7
Fidelity International	84,747	18%	86,232	19
Wellington Management	96,985	21%	97,834	21
BlackRock	63,492	14%	55,130	12
UBS	320	0%	585	0
Aviva	41,343	9%	40,314	9
Pantheon	23,045	5%	21,635	5
Mellon	0	0%	3,020	1
Record Currency	1,648	0%	900	0
<b>Total Fund</b>	<b>467,582</b>	<b>100%</b>	<b>458,088</b>	<b>100</b>

Bank Balances of £21,013,000 at 31 March 2012 are excluded from the above table.

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

2010-11		2011-12
£m		£m
120.4	SSGA MPF UK Equity Index Sub-Fund	122.1
97.8	Wellington Global Pooled Value Equity Portfolio	97.0
86.2	Fidelity Inst Select Global Pooled Equities	84.7
43.2	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	50.1
32.0	Longview Partners Invest - Global Pooled Equities FD K Class	33.9
30.8	Aviva Investors UK Real Estate Fund of Funds Open Ended	31.7
<u>410.4</u>		<u>419.5</u>

#### 9.4.9 Pooled Investment Vehicles

2010-11		2011-12
£000		£000
40,314	UK Managed Funds - Property	41,343
177,382	UK Managed Funds - Other	184,767
237,742	Overseas Other	238,719
<u>455,438</u>		<u>464,829</u>

### 9.4.10 Derivatives

2010-11 £000		2011-12 £000
	<b>Investment Assets</b>	
1,527	Forward Foreign exchange contracts	2,014
	<b>Investment Liabilities</b>	
-627	Forward Foreign exchange contracts	-366
900	<b>Net Derivatives</b>	1,648

Counterparty	Duration	No. of Contracts	Value at 31-Mar-12	
			Assets £000	Liabilities £000
Barclays Bank - London	5 days - 3 mths	9	831	-17
Deutsche Bank - London	5 days - 3 mths	2	4	-4
HSBC Bank - London	5 days	1		-57
JP Morgan - London	5 days - 6 mths	5	480	-166
Northern Trust - London	3 mths	1	21	
Royal Bank of Canada - London	5 days - 6 mths	6	17	-78
State Street - London	5 to 10 days	3		-7
Toronto Dominion - Toronto	5 days - 3 mths	11	379	-21
Westpac - Sydney	5 days - 6 mths	3	282	-16
		41	2,014	-366

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, and the value of the economic exposure before hedging is £127.5m. The main currency exposures before hedging are US\$ forward v £ (£66.1m), Euro forward v £ (£18.6m) and Yen forward v £ (£9.9m). Other currency forwards traded against sterling comprise Australian \$, Canadian \$, Hong Kong \$, Singapore \$, Swedish Krona and Swiss Franc, with aggregate exposures of £20.5m.

### 9.4.11 Additional Voluntary Contributions (AVCs)

Members of the Fund are able to accrue additional benefit through the payment of AVCs, which are invested outside of the Fund with insurance companies. These amounts are not included in the Pension Fund Accounts in accordance with section 4 (2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. However, the note below details the change in value of AVCs during the year.

2010-11		2011-12
2,233	Value of AVC Fund at 1 April	2,193
249	Employee contributions	274
113	Investment income and change in market value	81
125	Transfer Values In	7
-527	Benefits paid and transfers out	-456
2,193	<b>Value of AVC Fund at 31 March</b>	2,099

**9.4.12 Current Assets & Liabilities**

2010-11 £000		2011-12 £000
	<b>Current Liabilities</b>	
-256	Unpaid Benefits	-58
-175	Other Unpaid liabilities	-269
<u>-431</u>		<u>-327</u>
	<b>Current Assets</b>	
18,750	Cash balances held by London Borough of Harrow	572
114	Contributions due from employers	80
17	Other Current Assets	22
<u>18,881</u>		<u>674</u>
<u>18,450</u>	<b>Net Current Assets</b>	<u>347</u>

**9.4.13 Related Party Transactions**

2010-11 £000		2011-12 £000
16,905	Employer's pension contribution to the fund	15,563
-639	Administration expenses paid to the Council	-676
18,750	Cash in hand held by Council	572

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 most transactions are processed through the Council's bank account with balances settled on a monthly basis.

**9.4.14 Actuarial Valuation**

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

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

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

#### Assumption

Price Inflation (CPI)	3.3%
Pay Increases	4.8%
Gilt based discount rate	4.5%
Funding basis discount rate	6.1%
Longevity at 65 for current pensioners:	
Male	21.6
Female	23.6
Longevity at 65 for future pensioners:	
Male	23.6
Female	25.9

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

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

#### 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 2012 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:

2010-11		2011-12	
2.8%	Rate of inflation	2.5%	
4.6%	Rate of increase in salaries	4.3%	
2.8%	Rate of increase in pensions	2.5%	
5.5%	Rate for discounting scheme liabilities	4.8%	

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

31-Mar-11 £m		31-Mar-12 £m
649	Present value of promised retirement benefits	730

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation at 31 March 2010. The liability at 31 March 2012 has been estimated by the actuary as comprising £324m in respect of employee members, £117m in respect of deferred pensioners and £289m 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](http://www.harrow.gov.uk).

## 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:** a specific grant for the funding of schools and which is ring fenced to the Schools Budget.

**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 Current Replacement Cost:** 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.

**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 or 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.

**Taxbase:** the number of Band D equivalent properties in a local authority's area. An authority's tax base is taken into account when it calculates its 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
CMF	Capital Modernisation Fund
CSB	Corporate Strategy Board
EMU	European Monetary Union
FRS	Financial Reporting Standards
GARMC	Governance, Audit and Risk Management Committee
GDP	Gross Domestic Product
IAS 19	International Accounting Standard in respect of Employee Benefits
IAS 26	Accounting and Reporting by Retirement Benefit Plans
ICES	Integrating Community Equipment Service
iFReM	International Financial Reporting Manual
IFRIC	International Financial Reporting Interpretations Committee
IFRIC 12	International Financial Reporting Interpretations Committee relating to Service Concession Arrangements
LBH	London Borough of Harrow Council
LGPS	Local Government Pension Scheme
LOBO	Lenders Option Borrowers Option
MMI	Municipal Mutual Insurance
MRP	Minimum Revenue Provision
NDC	Non Distributed Costs
NI	National Insurance
NPV	Net Present Value
OSP	One School Pathfinder (Targeted Capital)

RCCO	Revenue Contribution to Capital Outlay
RICS	Royal Institute of Chartered Surveyors
RSG	Revenue Support Grant
SERCOP	Service Reporting Code of Practice
SETS	Stock Exchange Electronic Trading Service
USM	Unlisted Securities Market
VfM	Value for Money
WLWA	West London Waste Authority

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### 10.3 Service Reporting Code Of Practice (SERCOP)

Division of Service	2011-12 Gross Expend. £000	2011-12 Gross Income £000	2011-12 Net Expend. £000	2010-11 Net Expend. £000
<b>Service Reporting Code of Practice Summary</b>				
Central Services	25,173	-24,122	1,051	1,449
Court Services	178	0	178	178
Cultural and Related Services	14,701	-2,440	12,261	11,879
Environmental and Regulatory Services	19,502	-2,635	16,867	18,481
Planning Services	9,032	-3,332	5,700	6,974
Education and Children's Services	330,434	-174,300	156,134	137,009
Highways & Transport Services	29,561	-10,765	18,796	18,002
Housing Services	173,160	-161,401	11,759	131,892
Local Authority Housing Settlement Payment to Government for HRA Self Financing	88,461		88,461	
Adult Social Care	77,502	-19,211	58,291	63,038
Corporate and Democratic Core	12,975	-2,361	10,614	10,524
Non Distributed Costs	7,386	-9,923	-2,537	-68,363
<b>Cost of Services</b>	<b>788,065</b>	<b>-410,490</b>	<b>377,575</b>	<b>331,063</b>
Other items	55,924	-222,364	-166,440	-226,036
<b>Surplus or Deficit on the Provision of Services</b>	<b>843,989</b>	<b>-632,854</b>	<b>211,135</b>	<b>105,027</b>
<b>Central Services</b>				
Local Tax Collection	23,409	-22,986	423	553
Registration of Births, Deaths and Marriages	398	-452	-54	-88
Elections	669	-265	404	774
Emergency Planning	217		217	226
Local Land Charges	480	-395	85	4
General Grants Bequests and Donations		-24	-24	-20
	<b>25,173</b>	<b>-24,122</b>	<b>1,051</b>	<b>1,449</b>
<b>Court Services</b>				
Coroners' Court Services	178	0	178	178
	<b>178</b>	<b>0</b>	<b>178</b>	<b>178</b>
<b>Cultural and Related Services</b>				
Culture and Heritage	1,942	-647	1,295	345
Recreation and Sport	4,087	-491	3,596	3,033
Open Spaces	3,456	-891	2,565	2,547
Tourism	4	-4	0	9
Library Service	5,212	-407	4,805	5,945
	<b>14,701</b>	<b>-2,440</b>	<b>12,261</b>	<b>11,879</b>
<b>Environmental and Regulatory Services</b>				
Cemetery, cremation and mortuary services	713	-265	448	583
Community safety (Crime Reduction)	421	-31	390	826
Community Safety (CCTV)	713	0	713	738
Flood Defence and Land Drainage	1,050	-124	926	878
Street Cleansing (Not chargeable to highways)	4,285	-14	4,271	4,555
Waste Collection	5,290	-701	4,589	4,478
Trade Waste	856	-778	78	71
Recycling	2,614	-121	2,493	2,571
Climate Change Costs	400	-115	285	150
Regulatory Services	3,160	-486	2,674	3,631
	<b>19,502</b>	<b>-2,635</b>	<b>16,867</b>	<b>18,481</b>
<b>Planning Services</b>				
Building Control	1,351	-772	579	437
Development Control	2,195	-882	1,313	1,587
Planning Policy	2,528	-96	2,432	2,444
Environmental initiatives	36		36	37
Economic Development	1,159	-622	537	408
Community Development	1,446	-40	1,406	1,883
Business Support	317	-920	-603	178
	<b>9,032</b>	<b>-3,332</b>	<b>5,700</b>	<b>6,974</b>

Division of Service	2011-12 Gross Expend. £000	2011-12 Gross Income £000	2011-12 Net Expend. £000	2010-11 Net Expend. £000
<b>Education and Children's Services</b>				
Nursery Schools	9,273	-9,512	-239	1,043
Primary Schools	181,981	-89,949	92,032	61,617
Secondary Schools	66,780	-37,685	29,095	37,096
Special Schools	26,118	-18,699	7,419	4,685
Service Strategy	8,699	-6,078	2,621	4,558
Children looked after	7,244	-234	7,010	9,503
Family support services	850	-775	75	1,659
Youth justice	1,267	-502	765	769
Asylum seekers	1,533	-527	1,006	1,252
Other children's and families' services	12,642	-3,919	8,723	7,124
Services to Young People	4,037	-2,354	1,683	5,218
Other School-related Education Functions	6,135	-3,654	2,481	1,134
Children's and Young People's Safety	3,875	-412	3,463	1,351
	<b>330,434</b>	<b>-174,300</b>	<b>156,134</b>	<b>137,009</b>
<b>Highways and Transportation Services</b>				
Transport planning, policy and strategy	182	0	182	145
Structural Maintenance	5,716	-40	5,676	4,290
Environment Safety and Routine Maintenance	4,104	-1,123	2,981	3,330
Street Lighting	2,074	0	2,074	1,681
Winter Service	324	-48	276	282
Traffic Management and Road Safety	3,535	-756	2,779	4,148
Parking Services	4,707	-8,794	-4,087	-4,177
Public Transport	8,919	-4	8,915	8,303
	<b>29,561</b>	<b>-10,765</b>	<b>18,796</b>	<b>18,002</b>
<b>Housing Services</b>				
Housing strategy	2,867	-70	2,797	2,518
Enabling	442	-5	437	450
Housing advice	1		1	3
Private sector housing renewal	496	0	496	649
Homelessness	4,113	-1,487	2,626	2,509
Housing benefits payments	129,752	-130,275	-523	-80
Housing benefits administration	3,899	-1,927	1,972	1,525
Contribution to the HRA re: items shared by the whole community	163		163	167
Other council property	9	-3	6	6
Supporting People	3,825		3,825	4,524
Other Welfare services	0	0	0	248
Housing Revenue Account	27,593	-27,634	-41	119,373
Local Authority Housing Settlement Payment to Government for HRA Self Financing	88,461		88,461	
	<b>261,621</b>	<b>-161,401</b>	<b>100,220</b>	<b>131,892</b>
<b>Adult Social Care</b>				
Service Strategy	340	-7	333	324
Older people (Aged 65 or over) including older mentally ill	39,019	-11,018	28,001	30,412
Adults aged under 65 with a physical disability or sensory impairment	8,285	-867	7,418	7,136
Adults aged under 65 with a learning disabilities	22,238	-6,936	15,302	17,515
Adults aged under 65 with mental health needs	5,884	-264	5,620	5,937
Other adult services	1,736	-119	1,617	1,714
	<b>77,502</b>	<b>-19,211</b>	<b>58,291</b>	<b>63,038</b>

Division of Service	2011-12 Gross Expend. £000	2011-12 Gross Income £000	2011-12 Net Expend. £000	2010-11 Net Expend. £000
<b>Corporate and Democratic Core</b>				
Democratic Representation and Management	2,287	-14	2,273	3,663
Corporate Management	10,688	-2,347	8,341	6,861
	<b>12,975</b>	<b>-2,361</b>	<b>10,614</b>	<b>10,524</b>
<b>Non Distributed Costs</b>				
Retirement Benefits and Exit Packages	6,946	-9,923	-2,977	5,659
IAS19	440		440	-74,022
	<b>7,386</b>	<b>-9,923</b>	<b>-2,537</b>	<b>-68,363</b>

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