

Harrow Council

Statement of Accounts

2012 - 2013

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London Borough of Harrow  
Statement of Accounts  
2012 - 2013

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## 1 Explanatory Foreword

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

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

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

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

### The Statement of Accounts:

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

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

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

**Cash Flow Statement:** The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the receipts of services provided by the authority. Investing activities

represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

**Housing Revenue Account (HRA):** This statement reflects a statutory obligation to account separately for the Council's housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

**The Collection Fund:** It is a statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and council tax. It illustrates the way in which these have been distributed to finance services provided by the Council and the Greater London Authority (GLA).

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

### Review of the year

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

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

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

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

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

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

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

### **General Fund Revenue Account (GF)**

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

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

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

## Departmental Costs

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

The main areas of significant under spends are summarised below:

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

## Non Departmental Costs

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

## Capital

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

Major projects included in the programme were:

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



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

### **Housing Revenue Account**

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

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

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

### **Collection Fund**

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

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

### **Treasury Management**

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

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

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

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

### **Pensions Reserve**

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

**Outlook for 2013-14**

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

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

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

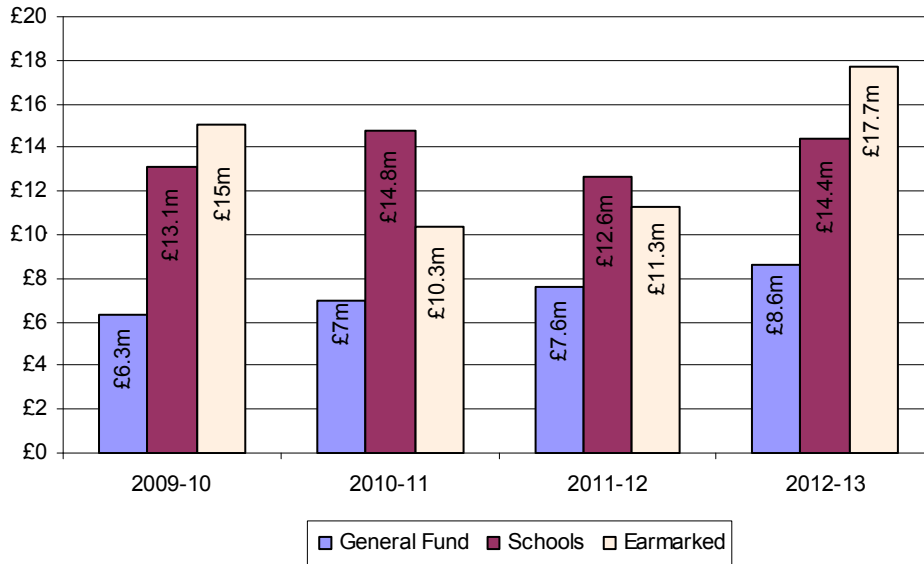
The contribution made during 2012-13 to the Provisions, General and Other reserves mentioned above will increase the Council's capacity to deliver services in a very challenging climate. The Council faces an uncertain and volatile financial situation with a significant number of events, beyond its control,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

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

Financial Data

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

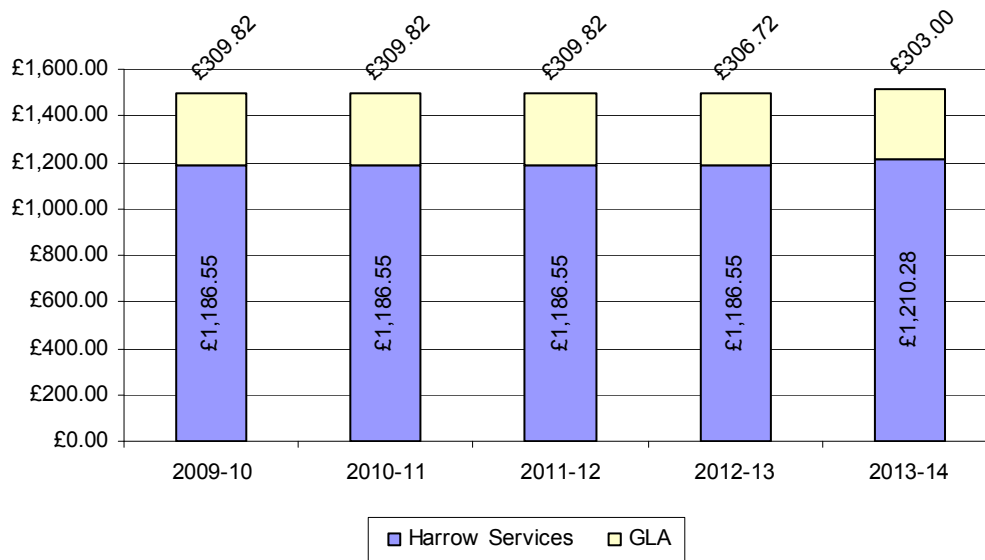
Council Revenue Balances



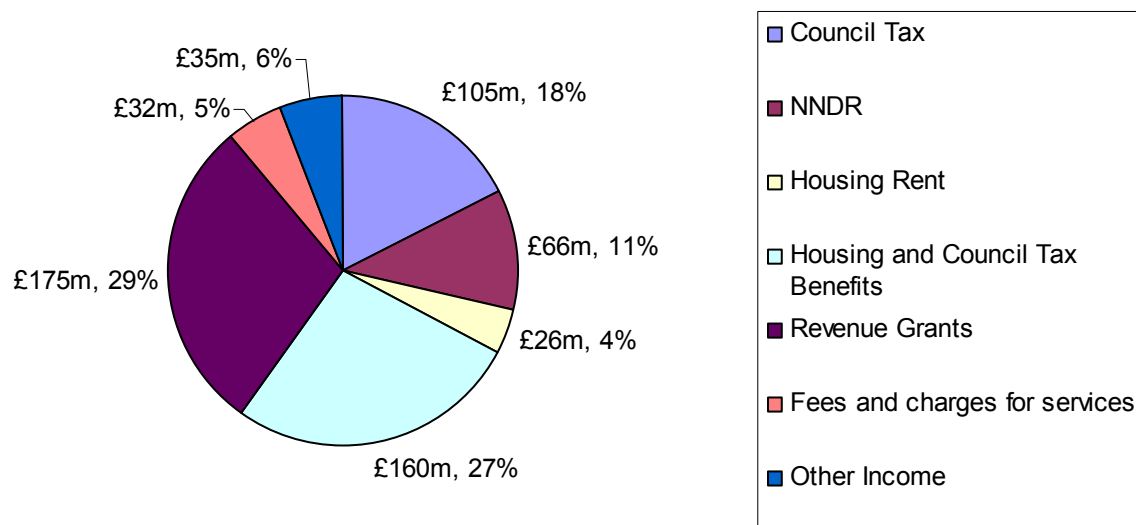
Note: the above balances, excluding General Fund, are ring fenced.

Council Tax Band D

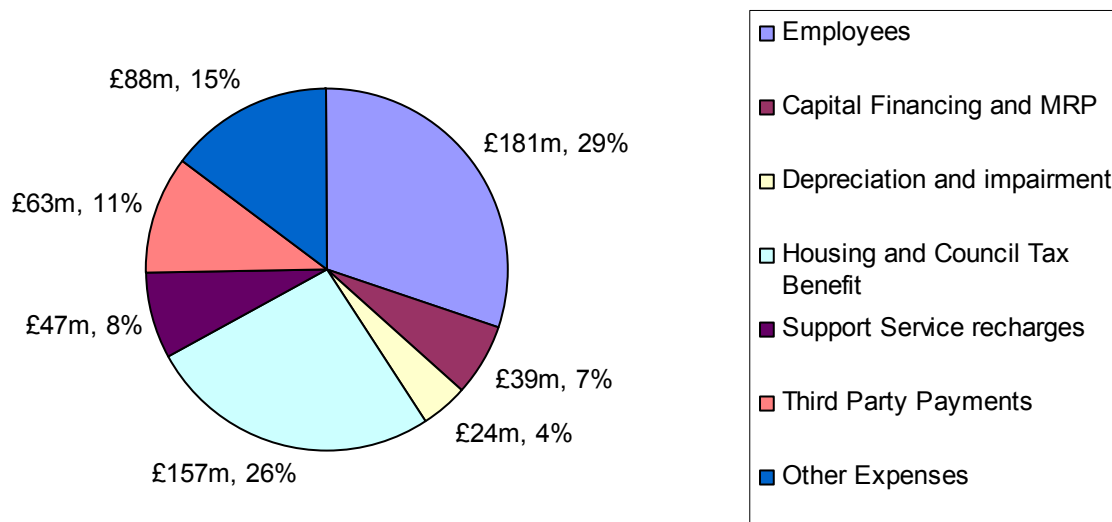
Council tax helps to pay for the services provided by Harrow Council and the Greater London Authority (GLA). The total Council Tax for Band D was £1,493.27 (£1,496.37 in 2011-12).



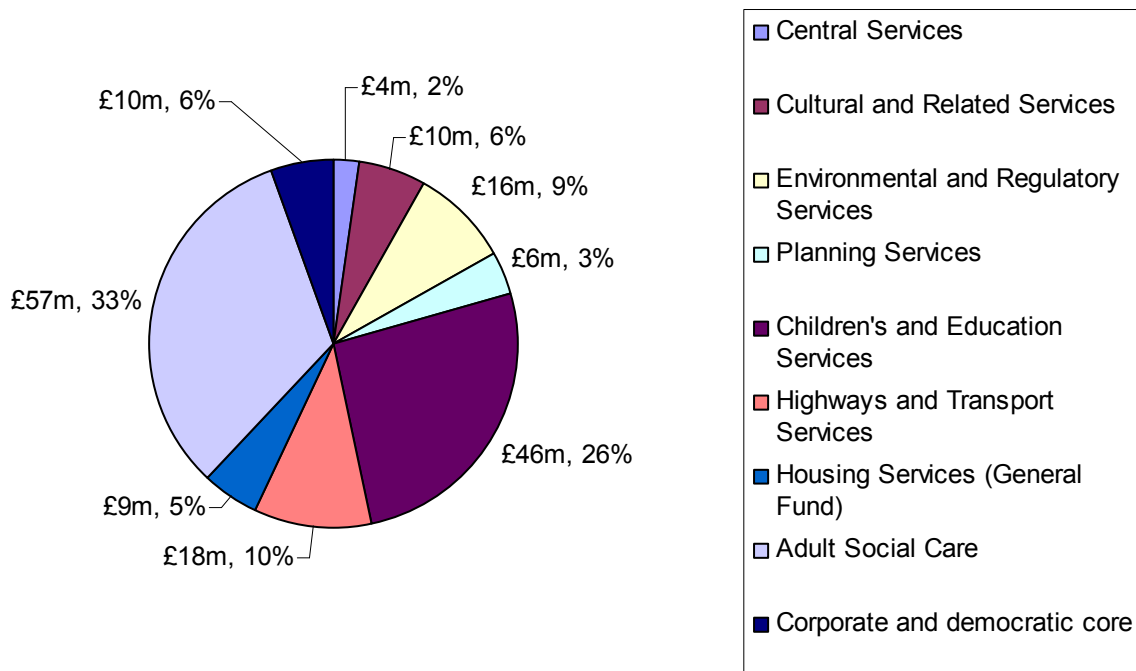
Analysis of Revenue Income



Analysis of Revenue Expenditure



The Services Provided – analysis of expenditure

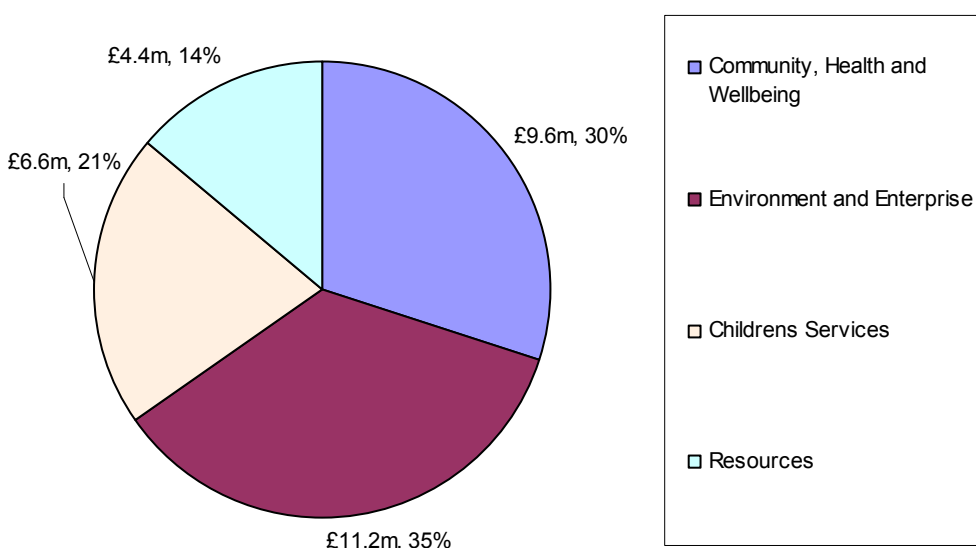


\* Housing Services includes only the General Fund line from the CIES and omits HRA net income.

\* Corporate and democratic core also includes the Non distributed costs line from the CIES.

Capital Expenditure

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



Further information about the accounts is available from:

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

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

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

## 2 Statement of Responsibilities

### The Council's Responsibilities

The Council is required to:

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

### The Director of Finance and Assurance's Responsibilities

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

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

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

The Director of Finance and Assurance has also:

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

Certification by the Director of Finance and Assurance:

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



**Simon George**

**Director of Finance and Assurance**

**27 September 2013**

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

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

Signed on behalf of London Borough of Harrow Council

Richard Romain  
Chairman (GARMC)  
27 September 2013



### 3 Audit Opinion & Certificate

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

##### **Opinion on the Authority accounting statements**

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

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

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

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

##### **Scope of the audit of the accounting statements**

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

##### **Opinion on financial statements**

In our opinion the financial statements:

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

**Opinion on other matters**

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

**Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects

**Opinion on the pension fund accounting statements**

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

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

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

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

**Scope of the audit of the pension fund accounting statements**

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

**Opinion on pension fund's accounting statements**

In our opinion the pension fund's accounting statements:

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

**Opinion on other matters**

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

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

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

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

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

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

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

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

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

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

## Conclusion

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

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

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

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

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## 4 Presentation of Financial Statements

### 4.1 Movement in Reserves Statement

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

## 4.2 Comprehensive Income and Expenditure Statement (CIES)

2011-12				2012-13		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	/(Income) £000	Notes	£000	£000	/(Income) £000
25,351	-24,122	1,229		28,224	-24,674	3,550
14,701	-2,440	12,261		12,705	-2,318	10,387
19,502	-2,635	16,867		19,313	-3,361	15,952
9,032	-3,332	5,700		8,963	-3,279	5,684
212,843	-174,300	38,543		193,018	-146,784	46,234
29,561	-10,765	18,796		31,914	-14,395	17,519
145,567	-133,766	11,801		150,936	-141,531	9,405
26,090	-27,635	-1,545	6.1	10,844	-29,155	-18,311
1,503	0	1,503		0	0	0
88,461	0	88,461		0	0	0
77,502	-19,211	58,291		74,900	-18,324	56,576
12,975	-2,361	10,614		10,203	-915	9,288
7,386	-9,923	-2,537		1,587	-636	951
<b>670,474</b>	<b>-410,490</b>	<b>259,984</b>		<b>542,607</b>	<b>-385,372</b>	<b>157,235</b>
124,663	-644	124,019	5.7	8,390	-5,116	3,274
19,327	-2,935	16,392	5.8	26,498	-6,298	20,200
0	-189,260	-189,260	5.9	0	-202,929	-202,929
		<b>211,135</b>				<b>-22,220</b>
		281	5.25.1			-2,000
		62,879				45,752
		<b>63,160</b>				<b>43,752</b>
		<b>274,295</b>				<b>21,532</b>

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

### 4.3 Balance Sheet

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

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

### 4.4 Cash Flow Statement

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



## 5 Notes to the Financial Statements

### 5.1 Accounting Policies

#### General Principles

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

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

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

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

#### Going Concern

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

#### Primacy of Legislative Requirements

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

#### Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and

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

#### Cash and Cash Equivalents

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

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

#### Material Items of Income and Expense

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

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

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

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

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

#### Events after the Balance Sheet Date

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

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

#### Charges to Revenue for Non-Current Assets

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

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

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

## Employee Benefits

### **Benefits Payable during Employment**

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

### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

### **Post Employment Benefits**

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

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

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

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

### **The Local Government Pension Scheme**

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

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

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

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

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

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

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

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

### **Discretionary Benefits**

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

### Financial Instruments

#### **Financial Liabilities**

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

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

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

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

#### **Financial Assets**

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

#### **Loans and Receivables**

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to

the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

#### Intangible Assets

The Council does not hold material intangible assets.

#### Government Grants and Contributions

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

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

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

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

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

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

#### Investment Property

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

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

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

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

## Leases

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

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

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

## The Council as Lessee

### Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

### Operating Leases

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

## The Council as Lessor

### Finance Leases

Where the council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the

Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

### **Operating Leases**

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

### **Overheads and Support Services**

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

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

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



## Heritage Assets

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

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

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

## Property, Plant and Equipment

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

### Recognition

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

### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

### **Impairment**

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

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

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

### **Depreciation**

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

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

Depreciation is calculated on the following basis:

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

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

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

### Componentisation

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

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

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

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

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

## Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

### Accounting for Schools

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

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

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

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

### Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

## Provisions and Contingent Liabilities

### Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes less probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service.

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

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

### Contingent Liabilities

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

### Contingent Assets

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

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

## Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

## Revenue Expenditure Funded from Capital under Statute

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

## Value Added Tax (VAT)

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

## Collection Fund

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

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

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

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

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

## 5.2 Critical Judgements in Applying Accounting Policies

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

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

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

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

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

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

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

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

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

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

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



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

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

## Notes to the Financial Statements

2011-12	Usable Reserves					Movement in Unusable Reserves £000
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£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						
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>

## 5.6 Transfers to/from Earmarked Reserves

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

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

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

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

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

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

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

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

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

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

**5.7 Other Operating Expenditure**

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

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

**5.8 Financing and investment income and expenditure**

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

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

**5.9 Taxation and non specific grant incomes**

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

## 5.10 Property, Plant and Equipment

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

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

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

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

## Depreciation

Depreciation is calculated on the following bases:

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

## Revaluations

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

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

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

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

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

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

## Rolling Revaluation

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

## Impairment losses

2011-12			2012-13		
General Fund £000	HRA £000	Total £000	General Fund £000	HRA £000	Total £000
5,701	1,476	7,177	3,239	-11,077	-7,838
-1,008	0	-1,008	-503	-136	-639
4,693	1,476	6,169	2,736	-11,213	-8,477
			0	487	487
					-7,990

## Capital Financing

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



## Capital Commitments

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

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

## 5.11 Leases

The council as Lessee

### 5.11.1.1 Finance Leases

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

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

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

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

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

### 5.11.1.2 Operating Leases

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

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

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

## The Council as Lessor

### 5.11.1.3 Finance Leases

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

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

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

### 5.11.1.4 Operating Leases

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

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

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

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

## 5.12 Private Finance Initiatives and Similar Contracts

The Council has entered into three PFI contracts.

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

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

At the end of the contracts the assets and all rights under the agreements revert to the Council at no additional cost. The providers are required to undertake regular benchmarking exercises for certain operational costs and market test these where necessary. In the event of default by the provider the Council has the option to either, re-tender the contract and pay the contractor the highest compliant tender price, or to take over the contract and pay the contractor the estimated

fair value of the agreement. In the event of voluntary termination the provider is entitled to a termination sum based on the debt outstanding. The Council is entitled to receive a 50% share of any refinancing gain.

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

#### Special schools

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

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

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

#### Neighbourhood Resource Centres (NRC)

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

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

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

#### Sancroft Hall

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

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

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

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

### 5.13 Investment Properties

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

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

### 5.14 Long Term Investments

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

### 5.15 Long term debtors

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

### 5.16 Short term investments

31-Mar-12 £000		31-Mar-13 £000
58,698	Temporary Investment - Managed in-house	61,311
3	Internal Investments	3
<u>58,701</u>	<b>Total</b>	<u>61,314</u>

**5.17 Short term debtors**

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

**5.18 Cash and cash equivalents**

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

**5.19 Short term borrowing**

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

**5.20 Short Term Creditors**

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

## 5.21 Provisions

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

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

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

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

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

## 5.22 Long term borrowing

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

## 5.23 Other long term liabilities

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

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

## 5.24 Usable reserves

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

### Capital Receipts Reserve

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

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

### Capital Grants and Contributions Unapplied

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

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

### 5.25 Unusable reserves

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

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



## Revaluation reserve

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

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

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

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

## 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 in the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties.

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

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

## Notes to the Financial Statements

2011-12 (Restated - note 5.45)

2012-13

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

## Financial instruments adjustment account

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

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

## Pensions reserve

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

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

## Collection fund adjustment account

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

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

## Accumulating compensated absences adjustment account

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

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

## 5.26 Cash flow statement – operating activities

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

### 5.27 Cash flow statement – investing activities

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

### 5.28 Cashflow Statement – financing activities

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

### 5.29 Directorate income and expenditure segmental reporting

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

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and

amortisations are charged to services in the Comprehensive Income and Expenditure Statement);

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

#### Directorate income and expenditure

<b>2012-13</b>	<b>Community, Health and Wellbeing</b>	<b>Children's and Families</b>	<b>Environment and Enterprise</b>	<b>Resources</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fees, charges & other service income	-17,575	-11,361	-19,572	-4,803	-53,312
Government grants	-7,295	-134,800	-879	-160,172	-303,146
<b>Total Income</b>	<b>-24,870</b>	<b>-146,162</b>	<b>-20,451</b>	<b>-164,975</b>	<b>-356,458</b>
Employee expenses	23,417	114,896	19,984	21,374	179,671
Other service expenses	63,231	64,133	10,511	150,742	288,615
Support service recharges	10,827	10,701	9,273	12,352	43,153
Depreciation, amortisation and impairment	2,447	4,281	11,749	5,152	23,629
Precepts & Levies	0	0	7,192	636	7,828
<b>Total Expenditure</b>	<b>99,921</b>	<b>194,012</b>	<b>58,709</b>	<b>190,255</b>	<b>542,896</b>
<b>Net Departmental Costs</b>	<b>75,051</b>	<b>47,850</b>	<b>38,257</b>	<b>25,280</b>	<b>186,438</b>
<b>2011-12 (restated *)</b>	<b>Community, Health and Wellbeing</b>	<b>Children's and Families</b>	<b>Environment and Enterprise</b>	<b>Resources</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fees, charges & other service income	-14,159	-12,441	-22,058	-14,033	-62,691
Government grants	-6,150	-158,522	-1,842	-154,521	-321,035
<b>Total Income</b>	<b>-20,309</b>	<b>-170,963</b>	<b>-23,900</b>	<b>-168,554</b>	<b>-383,726</b>
Employee expenses	17,598	125,747	27,873	13,406	184,624
Other service expenses	61,335	73,985	40,212	164,593	340,125
Support service recharges	8,484	6,993	11,424	7,509	34,410
<b>Total Expenditure</b>	<b>87,417</b>	<b>206,725</b>	<b>79,509</b>	<b>185,508</b>	<b>559,159</b>
<b>Net Departmental Costs</b>	<b>67,108</b>	<b>35,762</b>	<b>55,609</b>	<b>16,954</b>	<b>175,433</b>

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

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

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

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

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

## Reconciliation to subjective analysis and comparative

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

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

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

2011-12

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



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

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

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

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

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

### 5.31 Agency arrangements – pooled budgets

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

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

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

### 5.32 Members Allowances

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

2011-12 £000		2012-13 £000
822	Allowances	824
<u>822</u>	Total	<u>824</u>

### 5.33 Remuneration

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

#### Remuneration bands

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

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

## Senior officer remuneration

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

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

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

- Note 1 The Corporate Director – Resources left the position on 25 March 2013. The role was then taken on by the former Assistant Chief Executive. Please refer to note 6. The officer continued to work for the Council in a different role after 25 March 2013. This line discloses the officer's salary for the entire financial year. The reduction in salary of £40,019 compared with last year was due to the employee accepting a fixed term contract from 1 Feb 2012. Employer's Pension Contributions became payable under the new contract.
- Note 2 The Corporate Director – Community and Environment left the Council on 20 May 2012. His position was replaced by the Corporate Director – Environment and Enterprise
- Note 3 The postholder for the new position of Corporate Director – Environment and Enterprise started on 1 October 2012. Please refer to notes 2 and 5.
- Note 4 The 'Benefits in Kind' balance for the Corporate Director – Community, Health & Wellbeing includes arrears payable in respect of previous years.
- Note 5 The Corporate Director – Place Shaping was made redundant on 8 April 2013. His redundancy payment has been accrued as part of the Employment Provision balance. His position was replaced by the Corporate Director – Environment and Enterprise.
- Note 6 The Assistant Chief Executive position was deleted on 25 March 2013. The officer then took on the role of Corporate Director – Resources.
- Note 7 The Director of Finance and Assurance entered the post on 25 March 2013. The responsibility of Section 151 Officer was transferred to this position from the Corporate Director – Resources on 25 March 2013.

### 5.34 Audit fees

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

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

### 5.35 Dedicated Schools Grant

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

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

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

### 5.36 Grants income

Revenue grants included within the cost of services

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

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

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

## Capital grants included within taxation and non specific grant income

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

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

## Capital grants receipts in advance

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

## 5.37 Related parties

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

## United Kingdom Government and other Local Authorities

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

## Members

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

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

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

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

## West London Waste Authority

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

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

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

London Borough of Harrow Pension Fund

The Council is the Administering Authority for the Pension Fund.

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

5.38 Trust Funds

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

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

2011-12				2012-13		
Income £000	Expenditure £000	Balance £000		Income £000	Expenditure £000	Balance £000
			<b>Harrow Recreation Ground Trust</b>			
			Harrow Recreation Ground provide building facilities and open space for sport and recreation for the benefit of General Public	1	0	84
0	0	83	<b>Middlesex Guildhall Collection Trust</b>			
			The main objects of the trust is to preserve and display the Middlesex Collection in public locations as permitted by the deed.	1	5	48
1	5	52	<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	0	25	<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	0	19	<b>Total</b>	<b>2</b>	<b>5</b>	<b>176</b>
<b>1</b>	<b>5</b>	<b>179</b>				

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



### 5.39 Termination benefits

#### Exit Payments

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

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

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

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

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

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

### 5.40 Defined benefit pension schemes

#### Participation in pension scheme

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

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

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

#### Transactions relating to retirement benefits

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

via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

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

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

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

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

#### Reconciliation of fair value of the scheme (plan) assets

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

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

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

## Scheme history

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

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

## Basis for estimating assets and liabilities

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

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

The principal assumptions used by the actuary have been:

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

## Scheme Assets

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

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

## History of experience gains and losses

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

### 5.41 Teachers' Pension

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

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

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

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

### 5.42 Post Balance Sheet Date Events

#### Joint Public Health Service

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

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

### 5.43 Financial instruments

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

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

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

### Income, Expense, Gains and Losses

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

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

### Fair Value of Assets and Liabilities

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

NPV calculations have been made using the following assumptions:

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

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

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

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

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

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

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

#### Credit Risk

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

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

	Amount at 31-Mar-13 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31-Mar-13 %	Estimated maximum exposure to default and uncollectability 31-Mar-13 £000
UK Banks	98,070	0.00	0.09	89
Overseas Banks	146	0.00	0.00	0
UK Building Societies	5,000	0.00	0.06	3
UK Money Market Funds	14	0.00	0.00	0
Customers	6,691	2.99%	33.18%	2,209
Total	<u>109,921</u>			<u>2,301</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. The financial instruments short term debtors balance is analysed by age as follows:

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

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

**Market Risk – Interest Rate Risk**

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

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

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

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

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

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

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

## 5.44 Heritage Assets

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

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

### Scheduled Ancient Monuments

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

#### 1. Headstone Manor Moated Site and Listed Buildings

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

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

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

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

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

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

### Civic Insignia

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



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

### War Memorials

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

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

### 5.45 Prior Period Adjustment

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

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

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

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



## 6 Housing Revenue Account

### 6.1 Housing Revenue Account (HRA)

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

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

### Statement of Movement on the HRA Balance

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

## 6.2 Notes to the Housing Revenue Account

### Dwelling Rents Income

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

### Non-dwelling Rents

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

### HRA Subsidy

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

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

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

### Depreciation

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

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

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

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

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

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

### Major Repairs Reserve

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

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

### Capital Expenditure and Funding Statement

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

### Capital Receipts

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

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

## Pensions (IAS 19)

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

Note 5.40 provides further details.

## Housing Revenue Account Statistics

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

## Statement of Movement on the HRA Balance

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

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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

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

## 7.1 Notes to the Collection Fund

### Income from Council Tax

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

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

### National Non-Domestic Rates

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

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

### Business Rate Supplement - Crossrail

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

## 8 Annual Governance Statement

### 8.1 1. Scope of Responsibility

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

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

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

[http://www.harrow.gov.uk/downloads/file/8017/part\\_5k-code\\_on\\_corporate\\_governance](http://www.harrow.gov.uk/downloads/file/8017/part_5k-code_on_corporate_governance)

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

### 8.2 The Purpose of the Governance Framework

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

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

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

### 8.3 The Governance Framework

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

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

The Corporate Plan sets out the following four Corporate Priorities:

- Supporting and protecting people who are most in need,

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

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

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

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

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

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

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

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

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

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

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

- Environment and Enterprise; and
- Corporate Resources.

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

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

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

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

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

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

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

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

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

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

#### **8.4 Review of Effectiveness**

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

The effectiveness of the governance framework has been evaluated by:

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

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

#### **8.5 Annual Review of Governance**

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

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

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

### **8.6 Head of Internal Audit's Opinion**

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

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

### **8.7 Management Assurance**

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

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

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

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

### **8.8 Declaration (Part I)**

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

### **8.9 Significant Governance Issues**

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

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

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


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

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

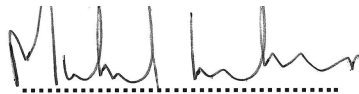
An action plan has been agreed as part of this process to address the gaps identified to further enhance our governance arrangements.

### 8.10 Declaration (Part II)

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

Signed:   
Councillor Thaya Idaikkadar  
Leader of the Council

Date: 4/9/2013

  
Michael Lockwood  
Chief Executive

Date: 06/09/13



## **9 Pension Fund Accounts**

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2012-13

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

A handwritten signature in black ink, appearing to read 'Simon George', with a stylized flourish at the end.

**Simon George**

**Chief Finance Officer**

**27 September 2013**

## 9.1 Administration of the Fund

The London Borough of Harrow Pension Fund is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and The Local Government Pension Scheme (Administration) Regulations 2009. Its purpose is to provide pensions to all the Council's employees with the exception of teaching staff. Also included are certain employees of admitted and scheduled bodies who have gained admittance to the Fund in accordance with the Fund's admission criteria. The London Borough of Harrow is the 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;
- Canons High School;
- Harrow High School;
- Hatch End School;
- Nower Hill School;
- Park High School;
- Rooks Heath School;
- NLCS;
- Krishna Avanti;
- Salvatorian; and
- Avanti Free School.

### **Admitted:**

There are two types of admission body:

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

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

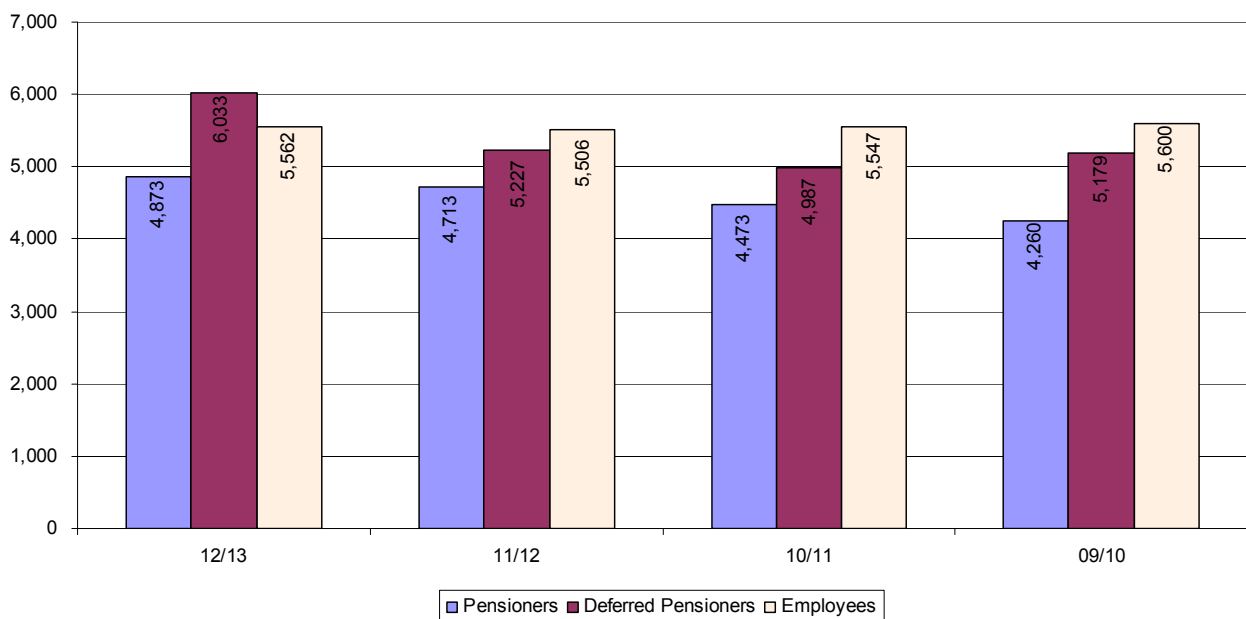
The organisations listed below have been admitted to the fund:

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

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

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

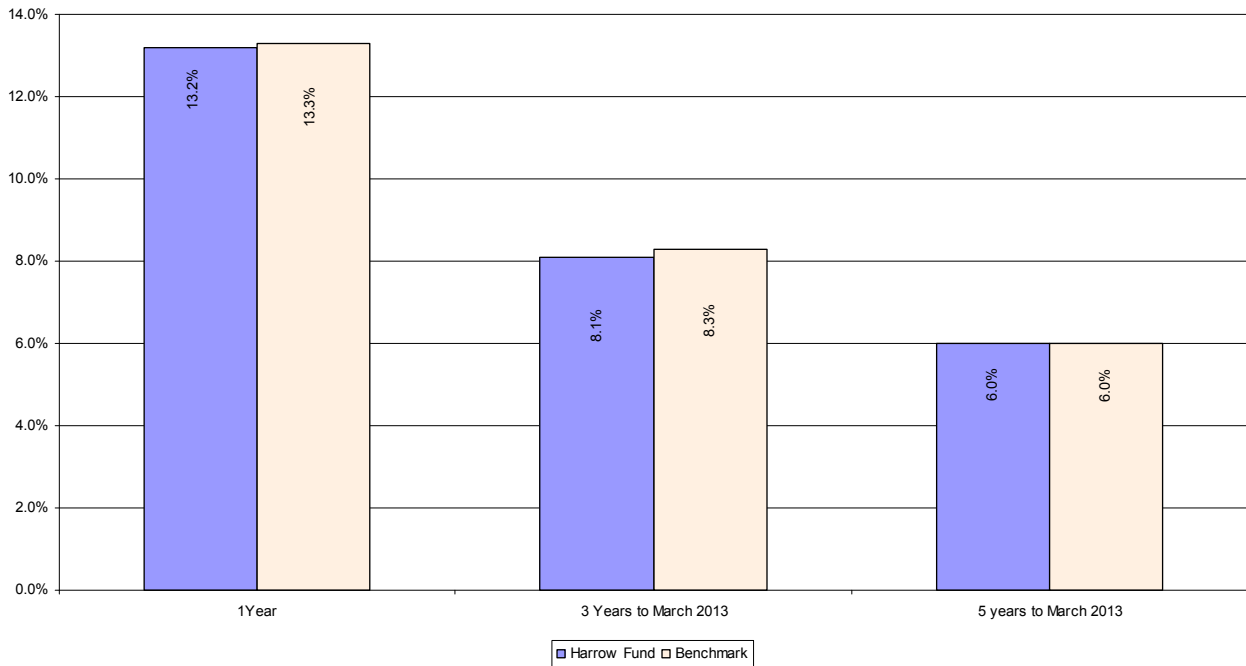
**Membership of the Fund**



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

## 9.2 Fund performance

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



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

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

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

### 9.3 London Borough of Harrow Pension Fund Account

Pension Fund Account for the year ended 31st March 2013

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

#### Net Assets Statement

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

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

## 9.4 Notes to the Pension Fund Accounts

### Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

## Contributions

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

## Benefits

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

## Leavers

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

## Investment Management and Administration Expenses

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

## Investment Income

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

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

## Investments

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

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

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

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

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

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

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

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

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



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

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

## Pooled Investment Vehicles

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

## Derivatives

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

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

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

## Additional Voluntary Contributions (AVCs)

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

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

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

#### Current Assets & Liabilities

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

#### Related Party Transactions

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

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

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

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

#### Actuarial Valuation

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

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

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

#### Assumption

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

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

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

Actuarial present value of promised retirement benefits

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

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

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

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

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

## 9.5 Statement of Investment Principles

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

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## 10 Appendices

### 10.1 Glossary of Terms

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

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

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

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

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

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

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

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

**Balances:** unallocated reserves held to resource unpredictable expenditure demands.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**10.2 Abbreviations**

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



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

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

## Appendices

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

Appendices

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