



Statement of Accounts

2013 - 2014



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London Borough of Harrow
Statement of Accounts
2013 - 2014

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1 Explanatory Foreword

Message from the Director of Finance and Assurance



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

The Council, along with the rest of local government, experienced a marked reduction in funding as a result of the local government finance settlement 2013-14. The Council responded to the funding cut by carrying out major transformation programmes across various directorates.

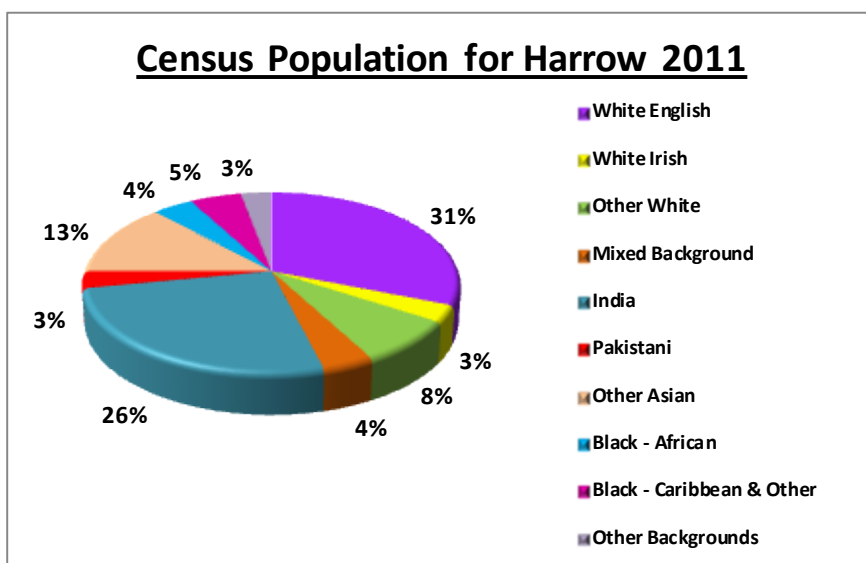
One of the transformation programmes included a major restructure of the Finance and Assurance Division. Despite the restructure, good standards of financial management and governance have been maintained. The outturn for 2013-14 is well within budget and the Statement of Accounts have been completed and audited within the statutory time scales.

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

This report includes the following sections:

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

1.1 An Introduction to Harrow



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

Key Facts about the Council

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

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

Organisation Structure

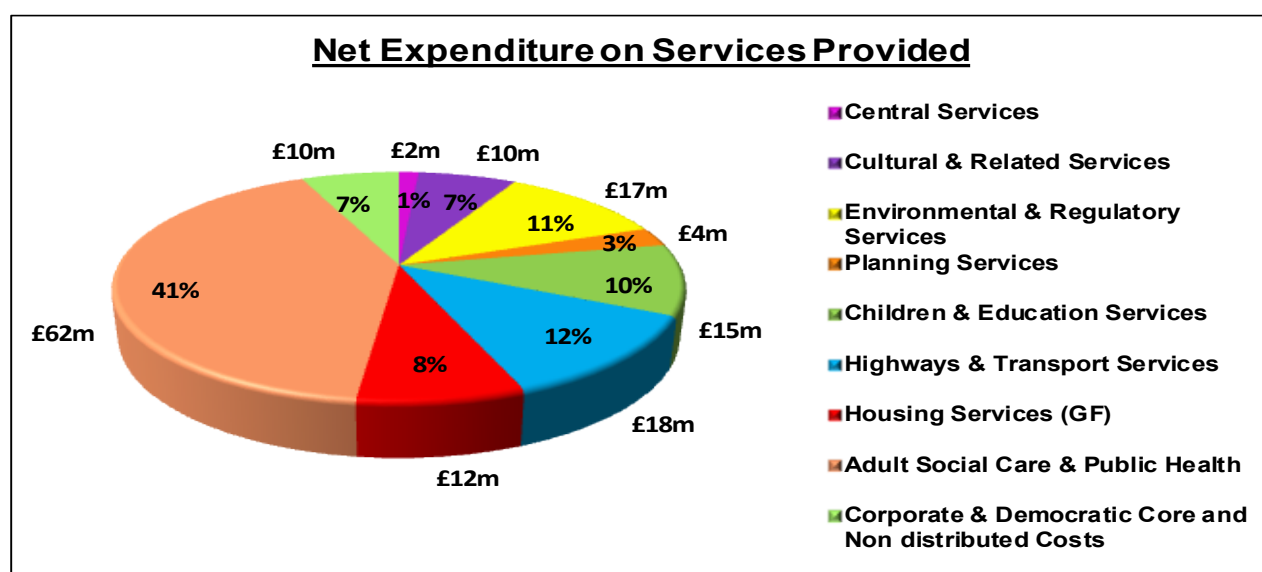
In December 2013 the Cabinet approved the deletion of the Chief Executive and replace it with a Head of Paid Service. The Chief Executive subsequently left the Council in February 2014 and was replaced on an interim basis by the Head of Paid Service and Corporate Director of Health and Wellbeing.

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

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

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

| | |
|---|---|
| <p>Community, Health and Wellbeing</p> <ul style="list-style-type: none"> • Adult Social Care • Community and Culture • Public Health • Housing | <p>Children’s and Families</p> <ul style="list-style-type: none"> • Targeted Services • Special Education Needs • Commissioning and Schools • Early Intervention Services |
| <p>Environment and Enterprise</p> <ul style="list-style-type: none"> • Environmental Services • Highways and Open Spaces • Business Development • Planning Services • Economic Development and Research | <p>Resources</p> <ul style="list-style-type: none"> • Revenues and Benefits • Information Technology • Finance and Assurance • Commercial and Procurement • Human Resources • Legal and Governance |



1.2 Review of the Year

Corporate Plan and Medium Term Financial Strategy

The Corporate Plan 2013/14 was agreed in March 2013 and sets out the strategies that the Council will use to achieve its vision and corporate priorities. The Council's vision is:

Working Together: Our Harrow, Our Community

This vision is underpinned by four corporate priorities:

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

Although there was a change of Administration in May 2013 the corporate vision and priorities remained the same however a further change in Administration in September 2013 brought in a new Administration who agreed a new set of priorities in February 2014 of Cleaner; Safer; Fairer in the new Corporate Plan for 2014/15.

Key issues that influenced Medium Term Financial Strategy

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

Government Funding

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

Government Reforms

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

Social

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

2013-14 Achievements:

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

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

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

Supporting and protecting people who are most in need

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

Keeping neighbourhoods clean, green and safe

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

United and involved communities

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

Supporting our town centre, our local shopping centres and businesses

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

Efficient and Effective Organisation

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

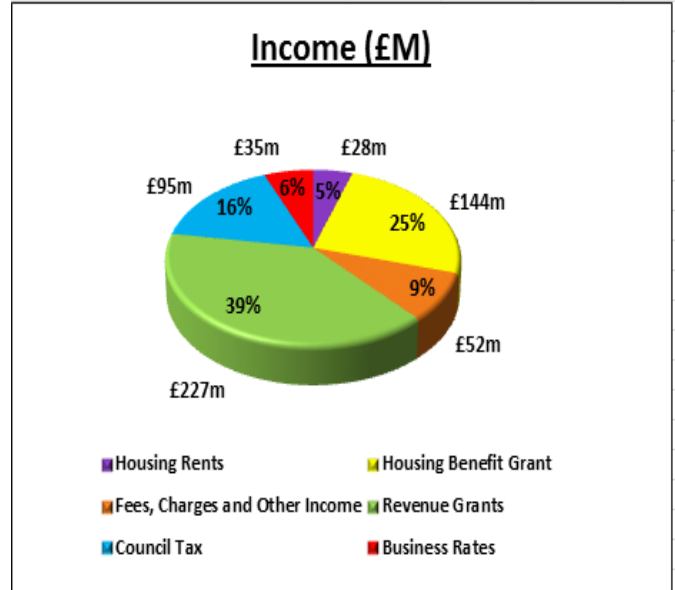
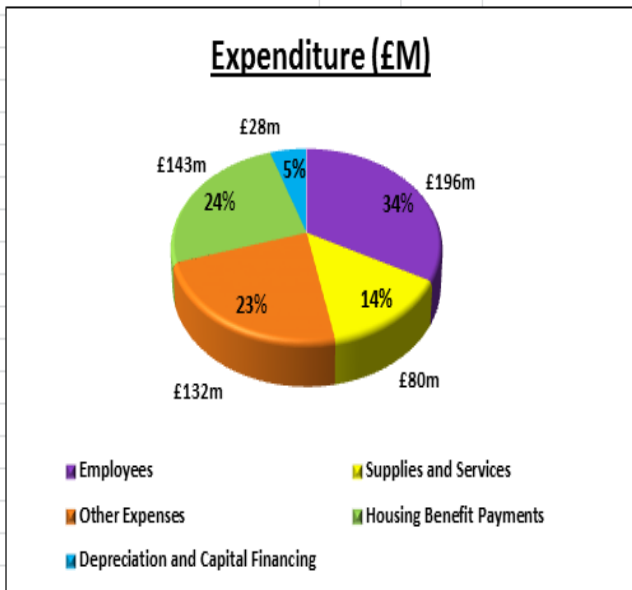
Summary of the 2013-14 Financial Performance of the Council

During the year the Council delivered its services innovatively and efficiently resulting in an overall under spend of £9.158m after accounting for carry forwards for future commitments. This represented 5% of the approved budget £181.063m. Until quarter 3, the financial position was an adverse variance of £1.9m, however this changed considerably in the last quarter resulting mainly from delays in Welfare Reforms, lower level of provisions and inflation required, additional grant income and an overall increase in income. This is a significant achievement as the council has delivered services within the approved budget, contained the pressures arising from the challenging financial environment and the risks around demand pressures.

The Council has contributed over £7m of this under spend to specific reserves which will increase Council's capacity to address future years risks and deliver services in a very challenging climate resulting from demographic pressures, economy, welfare reforms and further cuts in funding. The balance of £1.4m has been transferred to General Reserves, taking the balance to £10m.

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

| | 2013-14 | | |
|---|-----------------|-----------------|-------------------|
| | Budget £000 | Actuals £000 | Variation £000 |
| Directorate | | | |
| Resources | 28,818 | 26,172 | -2,646 |
| Environment & Enterprise | 39,717 | 37,343 | -2,374 |
| Community, Health & Wellbeing | 77,762 | 77,137 | -625 |
| Children & Families | 46,135 | 45,770 | -365 |
| Projects in progress | 0 | 4,009 | 4,009 |
| Total - Directorate | 192,432 | 190,431 | -2,001 |
| Other operating costs | | | |
| Contingencies, Corporate Items and Non-service grants | -6,608 | -12,848 | -6,240 |
| Capital Financing and Interest | -4,761 | -5,678 | -917 |
| Net Expenditure | 181,063 | 171,905 | -9,158 |
| Funded by : | | | |
| Government Grant | -72,254 | -72,254 | 0 |
| Collection Fund Surplus | -1,045 | -1,045 | 0 |
| Council Tax income | -93,039 | -93,039 | 0 |
| Business Rates income | -14,725 | -14,725 | 0 |
| Total | -181,063 | -181,063 | 0 |
| Underspends for the year | | -9,158 | -9,158 |
| Contribution to specific reserves | | | |
| Business Risk Reserve | | 2,000 | 2,000 |
| MTFS Implementation Costs | | 2,796 | 2,796 |
| Transformation and Priority Initiative Fund | | 3,000 | 3,000 |
| Surplus for the year | | -1,362 | -1,362 |
| General Fund balance at 31 March 2013 | | 8,646 | 0 |
| General Fund balance at 31 March 2014 | | 10,008 | 1,362 |

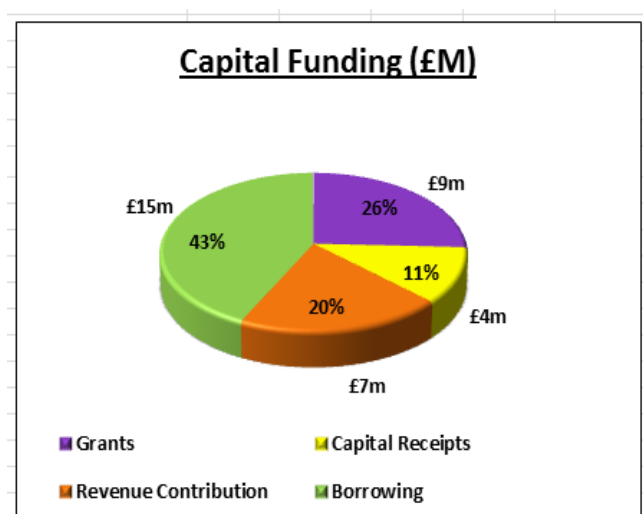
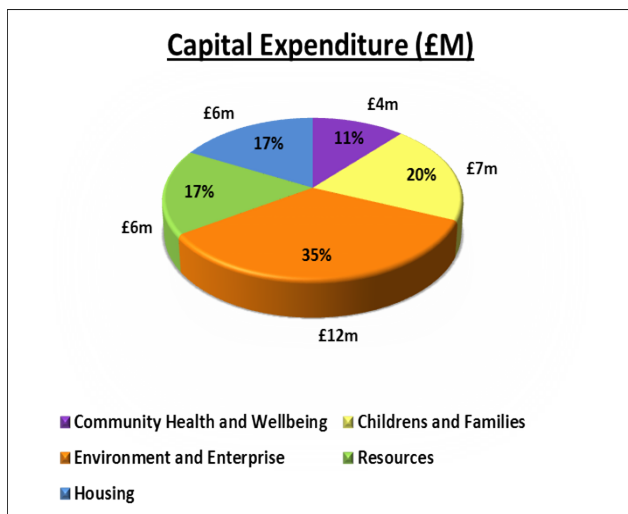


Capital

The capital programme of £49m was approved by the Council in February 2013 which met the prudential criteria of affordability. This was increased during the year by £30m resulting from prior year slippages and £15m due to additional grant funding bringing the total programme to £94m. Actual capital spend during the year was £36m resulting in a slippage of £36m due to upfront grant funding on schools expansion programme and an under spend of £22m due to additional grant funding and land acquisition project.

Major projects included in the programme were:

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



Housing

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

Collection Fund

2013-14 is the first year of Business Rates Retention scheme which allows Councils to keep a share of the business rate growth promoting financial autonomy and giving councils greater stake in the economic future of their local area. It does, however, increase the financial risk due to non-collection and the volatility of the NNDR tax base.

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

Treasury Management

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

The investment portfolio achieved an average return of 1.34% in the year, which compares favourably with three month LIBID (0.36%). The average interest rate on debt remained at the same level as last year at 4.30%. The approach to funding capital expenditure as set out in the 2013-14 Treasury Strategy was to use internal funds in recognition of the unfavourable gap between investment returns and borrowing costs.

Pensions

The Pension Fund is maintained at a level to meet the Council's long-term liability for pension benefits, with Council contributions fixed accordingly. The Fund's net assets increased by £38.6 million to £590.8 million, reflecting the net return on both investment income and the change in market value of investments (£43.3 million), after net costs of £4.7 million from dealings with fund members. The Fund's investments returned an average annual return of 14.1% over the last five years compared to the benchmark of 14%

The financial statements include the relevant pension costs and provisions required to reflect the pension accounting arrangements under the International Accounting Standards (IAS19) and have been restated for prior year. For balance sheet purposes, the Council's estimated liabilities for retirement benefits exceeded the assets in the relevant funds by £338.1m million at 31st March 2014. This is £15 million more than the net liabilities of £323.1 million twelve months earlier (see note 5.40.for). The impact on council tax, however, is dependent on the actuarial valuation of the pension fund carried out every three years. The aim is to achieve 100% funding over 20 years and to provide stability in employer contribution rates by spreading increases over a period of time. At the latest valuation, carried out in March 2013, the fund was assessed as being 70.3% funded, corresponding to a shortfall of £234 million. The Council's contribution rate from 1st April 2014 is 19.85%.

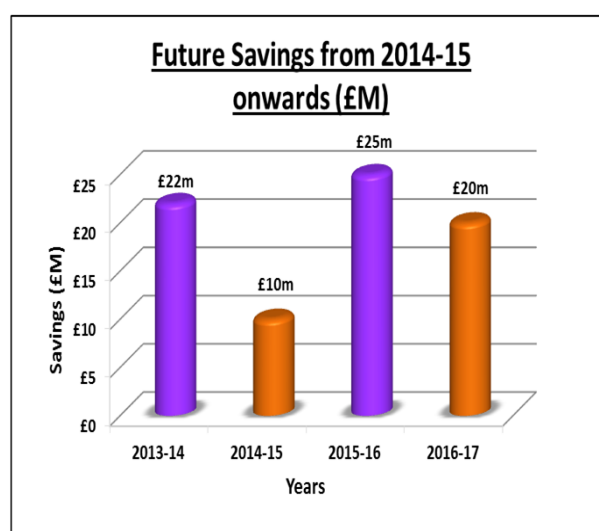
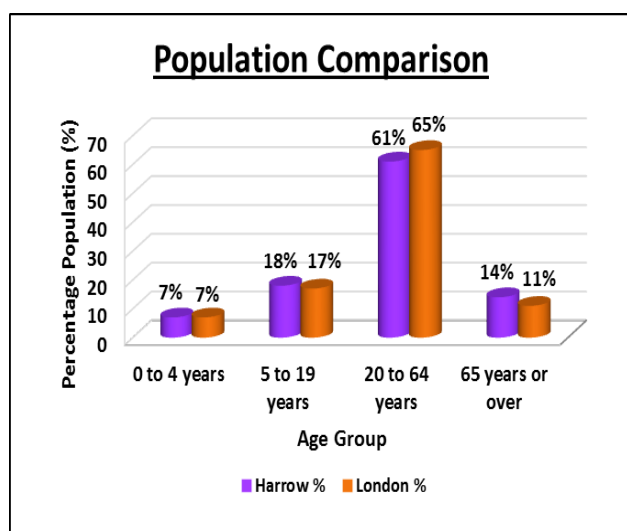
1.3 Outlook for the Future

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

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

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

The MTF5 2014-15 to 2016-17 has identified total cost savings of £55m over the coming three years. The budget for 2014-15 includes savings of £10m and investment in services of £4.7m. Achieving these savings will be challenging. Projects to achieve the necessary efficiencies are complex and it may take time before changes are fully embedded and target savings achieved.



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

1.4 Explanation of Financial Statements

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

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

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

The Statement of Accounts

- **Statement of Responsibilities for the Statement of Accounts** sets out the respective responsibilities of the Authority and the Borough Treasurer.
- **Auditors Statement** gives the auditors opinion of the financial statements and of the authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.
- **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund and Housing Revenue Account balances before any discretionary transfers to or from earmarked reserves.
- **Comprehensive Income and Expenditure Statement (CIES)** shows the cost of providing services in the year in accordance with International Financial Reporting Standards, rather than the amount funded from Council Tax, and other Government grants. The amount funded from Council Tax and Government grants differ from this by a series of adjustments made in accordance with regulations. These adjustments are made in the Movement in Reserves Statement.
- **Balance Sheet** shows the value of the Council's asset and liabilities at the Balance Sheet date. These are matched by reserves which are split into two categories usable and unusable reserves. Unusable reserves are not available to use to support services and are in the main used to hold unrealised gains and losses, where the actual gain or loss will only become available once another event has occurred. For example Revaluation Reserve for Non Current Assets will only become available if the asset is sold and the full value of the asset realised.
- **Cash Flow Statement:** The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the receipts of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.
- **Housing Revenue Account (HRA)** shows the in-year economic cost of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.
- **The Collection Fund** is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund, which shows the transactions in relation to National Non-Domestic Rates (NNDR) and Council Tax. It shows how much money has been collected and distributed to finance services provided by the Council, Greater London Authority (GLA).

This financial year the local government finance regime has been revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the local area. The scheme allows the Council to retain a proportion of the total NNDR received. The Harrow share is 20% with the remainder paid to precepting bodies (Central Government 50% share and GLA 20% share).

The Pension Fund Account: The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. It shows contributions to the Council's Pension Fund for employees during 2012-13, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund. The accounts do not include liabilities for pensions and benefits payable in future years.

1.5 Receipt of further Information

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

1.6 Acknowledgements

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

Simon George BA(HONS) ACMA ACMT

Director of Finance and Assurance

xx September 2014

2 Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

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

The Director of Finance and Assurance's Responsibilities

The Director of Finance and Assurance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code).

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

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

The Director of Finance and Assurance has also:

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

Certification by the Director of Finance and Assurance:

I certify that the Statement of Accounts as set out in this document presents a true and fair view of the financial position of the Council as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

Simon George BA(HONS) ACMA ACMT

Director of Finance and Assurance

xx September 2014

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

I can confirm that these accounts were considered and approved by the Governance, Audit, Risk Management and Standards Committee (GARMSC) at the meeting held on 17 September 2014.

Signed on behalf of London Borough of Harrow Council

Councillor Antonio Weiss

Chairman (GARMSC)

XX September 2014

3 Audit Opinion & Certificate

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

Opinion on the Authority Financial Statements

We have audited the financial statements of the London Borough of Harrow for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes 5.1 to 5.43, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related note 6.2 and Collection Fund and the related note 7.1. 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 2013/14.

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 Director of Finance and Assurance and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Financial Statements:

- give a true and fair view of the financial position of the London Borough of Harrow as at 31 March 2014 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 2013/14.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Opinion on the pension fund Financial Statements

We have audited the pension fund financial statements for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 12.1 to 12.15. 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 2013/14.

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 Director of Finance and Assurance and auditor

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

Scope of the audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, 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 and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Respective responsibilities of the Authority and the auditor

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

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

We report if significant matters have come to our attention which prevent me 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 me 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 2014.

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 put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

[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.

Certificate

We certify that we have completed the audit of the accounts of the London Borough of Harrow in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.]

Paul Schofield (Engagement Partner)
For and on behalf of Deloitte LLP
Appointed Auditor, St Albans, UK

[Xx] September 14

4 Presentation of Financial Statements

4.1 Movement in Reserves Statement

| | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Locally Managed Schools Reserve £000 | Housing Revenue Account £000 | Capital Receipts Reserve £000 | Major Repairs Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|------------------------------|---|---|---------------------------------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|---------------------------|----------------------------------|
| Balance at 31 March 2012 | -7,650 | -11,255 | -12,632 | -2,791 | -6,309 | -4,148 | -1,849 | -46,634 | -97,471 | -144,105 |
| Movement in reserves during 2012-13 | | | | | | | | | | |
| (Surplus) on the provision of services | -6,351 | 0 | 0 | -12,434 | 0 | 0 | 0 | -18,785 | 0 | -18,785 |
| Other Comprehensive Expenditure and Income (Note 4.2) | 40,317 | 0 | 0 | 0 | 0 | 0 | 0 | 40,317 | 0 | 40,317 |
| Total Comprehensive Expenditure and Income (Note 4.2) | 33,966 | 0 | 0 | -12,434 | 0 | 0 | 0 | 21,532 | 0 | 21,532 |
| Adjustments between accounting basis & funding basis under regulations (Note 5.5) | -43,191 | 0 | 0 | 12,050 | -585 | 764 | -9,833 | -40,795 | 40,795 | 0 |
| Net (Increase)/Decrease before Transfers to Earmarked Reserves | -9,225 | 0 | 0 | -384 | -585 | 764 | -9,833 | -19,263 | 40,795 | 21,532 |
| Other Adjustments (Notes 5.22.1) | 0 | 0 | 0 | 0 | 3,583 | 0 | -3,583 | 0 | 0 | 0 |
| Transfers to/from Earmarked Reserves (Note 5.6) | 8,229 | -6,454 | -1,775 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (Increase)/Decrease in 2012-13 | -996 | -6,454 | -1,775 | -384 | 2,998 | 764 | -13,416 | -19,263 | 40,795 | 21,532 |
| Balance at 31 March 2013 carried forward (Note 4.3) | -8,646 | -17,709 | -14,407 | -3,175 | -3,311 | -3,384 | -15,265 | -65,897 | -56,676 | -122,573 |
| Balance at 31 March 2013 | -8,646 | -17,709 | -14,407 | -3,175 | -3,311 | -3,384 | -15,265 | -65,897 | -56,676 | -122,573 |
| Movement in reserves during 2013-14 | | | | | | | | | | |
| (Surplus) on the provision of services | -24,188 | 0 | 0 | -8,295 | 0 | 0 | 0 | -32,483 | 0 | -32,483 |
| Other Comprehensive Expenditure and Income (Note 4.2) | -4,006 | 0 | 0 | 0 | 0 | 0 | 0 | -4,006 | 0 | -4,006 |
| Total Comprehensive Expenditure and (Income) (Note 4.2) | -28,194 | 0 | 0 | -8,295 | 0 | 0 | 0 | -36,489 | 0 | -36,489 |
| Adjustments between accounting basis & funding basis under regulations (Note 5.5) | 20,676 | 0 | 0 | 7,796 | -3,480 | -1,198 | -5,309 | 18,485 | -18,485 | 0 |
| Net Increase before Transfers to Earmarked Reserves | -7,518 | 0 | 0 | -499 | -3,480 | -1,198 | -5,309 | -18,004 | -18,485 | -36,489 |
| Other Adjustments (Notes 5.22.1) | 0 | 0 | 0 | 0 | -409 | 0 | 409 | 0 | 0 | 0 |
| Transfers (to)/from Earmarked Reserves (Note 5.6) | 6,156 | -7,445 | 1,189 | 100 | 0 | 0 | 0 | 0 | 0 | 0 |
| (Increase)/Decrease in 2013-14 | -1,362 | -7,445 | 1,189 | -399 | -3,889 | -1,198 | -4,900 | -18,004 | -18,485 | -36,489 |
| Balance at 31 March 2014 carried forward (Note 4.3) | -10,008 | -25,154 | -13,218 | -3,574 | -7,200 | -4,582 | -20,165 | -83,901 | -75,161 | -159,062 |

4.2 Comprehensive Income and Expenditure Statement (CIES)

| 2012-13 | | | | 2013-14 | | |
|-------------------|-----------------|-----------------|--------|-------------------|-----------------|-----------------|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure |
| £000 | £000 | /(Income) £000 | Notes | £000 | £000 | /(Income) £000 |
| 28,224 | -24,674 | 3,550 | | 5,526 | -3,374 | 2,152 |
| 12,705 | -2,318 | 10,387 | | 13,013 | -3,105 | 9,908 |
| 19,313 | -3,361 | 15,952 | | 19,649 | -2,928 | 16,721 |
| 8,963 | -3,279 | 5,684 | | 7,159 | -3,540 | 3,619 |
| 193,018 | -146,784 | 46,234 | | 171,218 | -155,782 | 15,436 |
| 31,914 | -14,395 | 17,519 | | 31,015 | -13,250 | 17,765 |
| 150,936 | -141,531 | 9,405 | | 163,401 | -151,736 | 11,665 |
| 10,844 | -29,155 | -18,311 | 6.1 | 17,498 | -31,509 | -14,011 |
| 74,900 | -18,324 | 56,576 | | 76,720 | -14,634 | 62,086 |
| 0 | 0 | 0 | | 9,209 | -8,874 | 335 |
| 10,203 | -915 | 9,288 | | 9,211 | -771 | 8,440 |
| 1,587 | -636 | 951 | | 1,681 | -247 | 1,434 |
| 542,607 | -385,372 | 157,235 | | 525,300 | -389,750 | 135,550 |
| 8,390 | -5,116 | 3,274 | | 9,519 | -796 | 8,723 |
| 50,541 | -26,906 | 23,635 | | 52,890 | -26,176 | 26,714 |
| 0 | -202,929 | -202,929 | | 0 | -203,470 | -203,470 |
| | | -18,785 | | | | -32,483 |
| | | -2,000 | 5.23.1 | | | -2,740 |
| | | 42,317 | 5.40.2 | | | -1,266 |
| | | 40,317 | | | | -4,006 |
| | | 21,532 | | | | -36,489 |

Remeasurements of net pension liability were referred to as 'actuarial losses on net pension liability' in last year's accounts. The remeasurement of net pension liability is also calculated on a different basis due to changes in the IAS19 calculation methodology. The 2012-13 comparative has been reduced by £3,435k to reflect these changes. (Note: 5.40.2)

4.3 Balance Sheet

| 31-Mar-13 £000 | | Notes | 31-Mar-14 £000 |
|-------------------|------------------------------------|--------|------------------------|
| 753,693 | Property Plant and Equipment | 5.10 | 782,924 |
| 27,820 | Investment Property | 5.11 | 29,367 |
| 25,000 | Long Term Investments | 5.12 | 22,000 |
| 3,237 | Long Term Debtors | 5.13 | 2,636 |
| <u>809,750</u> | Long Term Assets | | <u>836,927</u> |
| 61,314 | Short Term Investments | 5.14 | 75,248 |
| 21,291 | Short Term Debtors | 5.15 | 19,174 |
| 17,618 | Cash and Cash Equivalents | 5.16 | 35,250 |
| <u>100,223</u> | Current Assets | | <u>129,672</u> |
| -21,065 | Short Term Borrowing | 5.17 | -22,468 |
| -68,212 | Short Term Creditors | 5.18 | -72,712 |
| -5,613 | Provisions | 5.19 | -3,306 |
| <u>-94,890</u> | Current Liabilities | | <u>-98,486</u> |
| -4,823 | Provisions | 5.19 | -5,362 |
| -340,294 | Long Term Borrowing | 5.20 | -334,261 |
| -345,009 | Other Long Term Liabilities | 5.21 | -358,056 |
| -2,384 | Capital Grants Receipts in Advance | 5.35.3 | -11,372 |
| <u>-692,510</u> | Long Term Liabilities | | <u>-709,051</u> |
| <u>122,573</u> | Net Assets | | <u>159,062</u> |
| -65,897 | Usable Reserves | 5.22 | -83,901 |
| -56,676 | Unusable Reserves | 5.23 | -75,161 |
| <u>-122,573</u> | Total Reserves | | <u>-159,062</u> |

4.4 Cash Flow Statement

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

5 Notes to the Financial Statements

5.1 Accounting Policies

5.1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2013-14 financial year and its position as at 31 March 2014. The Council is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit (England) Regulations 2011, which require preparation in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14 supported by International Financial Reporting Standards (IFRS).

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

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

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

Going Concern

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

Primacy of Legislative Requirements

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

Accruals of Income and Expenditure

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

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

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

5.1.2 Cash and Cash Equivalents

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

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

5.1.3 Material Items of Income and Expense

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

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

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

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

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

5.1.5 Events after the Balance Sheet Date

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

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

5.1.6 Charges to Revenue for Non-Current Assets

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

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

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

5.1.7 Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

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

Post Employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

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

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

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

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

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

- Current Service Cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- Net Interest Cost – the change during the period in the net defined benefit liability (asset) that arises from the passage of time – charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Expected return on assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve; and
- Contributions paid to the Councils' pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

5.1.8 Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

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

Loans and Receivables

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

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

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

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

5.1.9 Intangible Assets

The Council does not hold material intangible assets.

5.1.10 Government Grants and Contributions

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

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

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

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

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

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

5.1.11 Investment Property

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

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

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

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

5.1.12 Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

Where the council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

5.1.13 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013-14 (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

5.1.14 Heritage Assets

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

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

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

5.1.15 Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

Depreciation

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

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

Depreciation is calculated on the following basis:

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

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

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

Componentisation

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

For Council Dwellings the council identifies and depreciates material components separately. The Council identified the following material components of HRA dwelling stock:

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

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

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

Disposals

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

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

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

5.1.16 Accounting for Schools

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

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

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

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

5.1.17 Private Finance Initiative (PFI) and Similar Contracts

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

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

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

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

5.1.18 Provisions and Contingent Liabilities

Provisions

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

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

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

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

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

Contingent Liabilities

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

Contingent Assets

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

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

5.1.19 Reserves

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

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

5.1.20 Revenue Expenditure Funded from Capital under Statute

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

5.1.21 Value Added Tax (VAT)

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

5.1.22 Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). Billing authorities act as an agent in respect of that proportion of Council Tax and NNDR Income collected on behalf of preceptors.

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

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

5.2 Critical Judgements in Applying Accounting Policies

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

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

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

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

The items in the Council's Balance Sheet as at 31 March 2014 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 triennially. Changes in assumptions may increase the net liability and future pension costs. |

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

The following accounting policy changes are not yet reflected in the 2013-14 Code of Practice:

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

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

5.5 Adjustment between accounting basis and funding basis under regulations

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

Notes to the Financial Statements

| 2012-13 | 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 |
| Adjustments involving the Capital Adjustment Account: | | | | | | |
| <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 | | | | | | |
| 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 |
| Adjustments involving the Capital Receipts Reserve: | | | | | | |
| Transfer of sale proceeds credited to the CIES | 4,450 | 1,631 | -6,096 | 0 | 0 | -15 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0 | 0 | 4,827 | 0 | 0 | 4,827 |
| Less Administrative Cost of disposals | -122 | 0 | 122 | 0 | 0 | 0 |
| Less payments to the Capital Receipt Pool | 0 | -562 | 562 | 0 | 0 | 0 |
| Adjustment involving the Major Repairs Reserve | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | 0 | 6,629 | 0 | -6,629 | 0 | 0 |
| Use of the Major Repairs Reserve to finance new capital expenditure | 0 | 0 | 0 | 7,393 | 0 | 7,393 |
| Adjustments involving the Financial Instruments Adjustment Account: | | | | | | |
| Premiums and Discounts on Debt Restructure | -250 | -33 | 0 | 0 | 0 | -283 |
| Adjustments involving the Pensions Reserve: | | | | | | |
| Charges made for retirement benefits in accordance with IAS19 | | | | | | |
| | -28,151 | -456 | 0 | 0 | 0 | -28,607 |
| Employer's pensions contributions payable in the year | 17,624 | 456 | 0 | 0 | 0 | 18,080 |
| Adjustments involving the Collection Fund Adjustment Account: | | | | | | |
| | -479 | 0 | 0 | 0 | 0 | -479 |
| Adjustment involving the Accumulating Compensated Absences Account | | | | | | |
| | 296 | 0 | 0 | 0 | 0 | 296 |
| Total Adjustments | -2,874 | 12,050 | -585 | 764 | -9,833 | -478 |

5.6 Transfers to/from Earmarked Reserves

| | Balance at 31-Mar-12 | Transfers Out 2012-13 | Transfers In 2012-13 | Balance at 31-Mar-13 | Transfers Out 2013-14 | Transfers In 2013-14 | Balance at 31-Mar-14 |
|--|-------------------------|-----------------------------|----------------------------|-------------------------|-----------------------------|-------------------------|-------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Earmarked Reserves: | | | | | | | |
| Compensatory Added Years | -948 | 79 | -7 | -876 | 79 | -4 | -801 |
| Transformation and Priority Initiatives Fund | -1,184 | 67 | 0 | -1,117 | 747 | -3,000 | -3,370 |
| PFI Schools | -3,528 | 477 | -410 | -3,461 | 560 | -345 | -3,246 |
| PFI Neighbourhood Resource Centre | -696 | 0 | -170 | -866 | 0 | -154 | -1,020 |
| Projects in progress | -3,203 | 1,973 | -2,116 | -3,346 | 3,203 | -3,171 | -3,314 |
| Insurance reserve | -500 | 0 | 0 | -500 | 0 | 0 | -500 |
| Revenue Grant Reserve | -354 | 300 | -531 | -585 | 532 | -1,598 | -1,651 |
| Revenue Contribution for Capital from Schools | -358 | 295 | 0 | -63 | 0 | -1,784 | -1,847 |
| Business Risk | 0 | 0 | -1,691 | -1,691 | 832 | -2,000 | -2,859 |
| MTFS Implementation cost | 0 | 0 | -4,849 | -4,849 | 1,571 | -2,796 | -6,074 |
| Other earmarked reserves | -484 | 235 | -106 | -355 | 3 | -120 | -472 |
| Subtotal Earmarked Reserves | -11,255 | 3,426 | -9,880 | -17,709 | 7,527 | -14,972 | -25,154 |
| Balances held by schools under a scheme of delegation | -12,632 | 0 | -1,775 | -14,407 | 1,189 | | -13,218 |
| Total | -23,887 | 3,426 | -11,655 | -32,116 | 8,716 | -14,972 | -38,372 |

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

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

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

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

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

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

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

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

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

5.7 Other Operating Expenditure

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

5.8 Financing and investment income and expenditure

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

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

5.9 Taxation and non- specific grant income

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

5.10 Property, Plant and Equipment

| 2013-14 | Council Dwellings | Other Land and Buildings | Vehicles, Infrastructure Plant, furniture & Equipment | Assets | Community Assets | Assets Under Construction | Total Property, Plant, IT and Equipment | PFI Assets Included in Property, Plant, IT and Equipment |
|--|-------------------|--------------------------|---|-----------------|------------------|---------------------------|---|--|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | | | | | |
| At 1 April 2013 | 293,817 | 343,198 | 117,045 | 188,180 | 886 | 9,720 | 952,846 | 23,952 |
| Reversal of accumulated depreciation on revaluation | -6,548 | -7,014 | 0 | 0 | 0 | 0 | -13,562 | -941 |
| Additions | 6,232 | 3,058 | 1,907 | 7,097 | 0 | 12,781 | 31,075 | 175 |
| Revaluation increases recognised in the Revaluation Reserve | 961 | 1,779 | 0 | 0 | 0 | 0 | 2,740 | 0 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | 6,887 | 27,479 | 0 | 0 | 0 | 0 | 34,366 | 2,638 |
| Derecognition - Disposals | -2,008 | -2,554 | 0 | 0 | 0 | 0 | -4,562 | 0 |
| Derecognition - Other | 0 | -2,931 | 0 | 0 | 0 | 0 | -2,931 | 0 |
| Assets reclassified from Asset Under Construction | 38 | 94 | 561 | 897 | 0 | -1,590 | 0 | 0 |
| Other movements in cost or valuation * | -12,667 | 12,667 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2014 | 286,711 | 375,775 | 119,513 | 196,174 | 886 | 20,911 | 999,971 | 25,824 |
| Accumulated Depreciation | | | | | | | | |
| At 1 April 2013 | -6,548 | -9,943 | -86,844 | -94,933 | -885 | 0 | -199,153 | -1,005 |
| Reversal of accumulated depreciation on revaluation | 6,278 | 7,014 | 0 | 0 | 0 | 0 | 13,292 | 941 |
| Depreciation charges for 2013-14 | -6,776 | -4,779 | -10,811 | -9,301 | 0 | 0 | -31,667 | -303 |
| Derecognition - Depreciation on Disposal | 0 | 481 | 0 | 0 | 0 | 0 | 481 | 0 |
| Other movements in depreciation and impairment | 270 | -270 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2014 | -6,776 | -7,496 | -97,655 | -104,234 | -885 | 0 | -217,046 | -367 |
| Net Book Value | | | | | | | | |
| At 31 March 2014 | 279,935 | 368,279 | 21,858 | 91,940 | 1 | 20,911 | 782,924 | 25,457 |
| At 31 March 2013 | 287,269 | 333,255 | 30,201 | 93,247 | 1 | 9,720 | 753,693 | 22,947 |

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

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

5.10.1 Depreciation

Depreciation is calculated on the following bases:

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

5.10.2 Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally as at 1 April 2013. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. A review is also undertaken of the values at which each category of fixed assets is included in the Council's balance sheet at each year-end. Where there is sufficient reason to believe that values may have changed materially since the last valuation, and that change is likely to be other than temporary, the relevant categories of assets are re-valued accordingly.

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

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

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

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

The HRA portfolio was valued in line with the 5 year rolling programme. The Land Registry index was used to calculate any material adjustments required to effect the movement in the property price index for operational HRA properties between 1 April 2013 and 31 March 2014. The movement in HRA assets has been analysed in note 6.2.3.

Rolling Revaluation

| | Council Dwellings £000 | Other Land & Buildings £000 | Vehicles, Plant and Equipment £000 | Infrastructure Assets £000 | Asset Under Construction £000 | Total £000 | Investment Property £000 |
|---|------------------------------|-----------------------------------|---|----------------------------------|-------------------------------------|----------------|--------------------------------|
| Valued at historical cost | 0 | 0 | 21,858 | 91,940 | 20,911 | 134,709 | 0 |
| Valued at fair value: | | | | | | | |
| As at 31st March 2014 | 279,935 | 279,690 | 0 | 0 | 0 | 559,625 | 29,367 |
| As at 1st April 2013 | 0 | 10,120 | 0 | 0 | 0 | 10,120 | 0 |
| As at 1st April 2012 | 0 | 14,880 | 0 | 0 | 0 | 14,880 | 0 |
| As at 1st April 2011 | 0 | 63,589 | 0 | 0 | 0 | 63,589 | 0 |
| Total Cost or Valuation as at 31.03.14 | 279,935 | 368,279 | 21,858 | 91,940 | 20,911 | 782,923 | 29,367 |

5.10.3 Impairment losses

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

5.10.4 Capital Financing

| 2012-13 £000 | | 2013-14 £000 |
|-----------------|---|-----------------|
| 402,669 | Opening Capital Financing Requirement | 401,363 |
| | <i>Capital Investment</i> | |
| 30,107 | Property, Plant and Equipment | 31,075 |
| 0 | Loan to WLWA | 2,379 |
| 2,693 | Revenue Expenditure Funded from Capital under Statute | 1,876 |
| | <i>Sources of finance</i> | |
| -4,827 | Capital receipts | -4,434 |
| -7,721 | Government grants and other contributions | -9,480 |
| | Sums set aside from revenue: | |
| -678 | · Direct revenue contributions | -637 |
| -13,487 | · Minimum Revenue Provision | -14,679 |
| -7,393 | · Major Repairs Reserve | -6,111 |
| <u>401,363</u> | <i>Closing Capital Financing Requirement</i> | <u>401,352</u> |
| | <i>Explanation of movements in year</i> | |
| 11,781 | Increase in unsupported borrowing | 14,668 |
| -13,487 | Minimum Revenue provision | -14,679 |
| <u>-1,706</u> | <i>Increase in Capital Financing Requirement</i> | <u>-11</u> |

5.10.5 Capital Commitments

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

| 31-Mar-13 | | 31-Mar-14 |
|--------------|-------------------------------|---------------|
| £000 | Directorate | £000 |
| 1,248 | Resources | 4,790 |
| 2,824 | Children and Families | 5,474 |
| 418 | Community, Health & Wellbeing | 183 |
| 1,499 | Housing Services (HRA) | 786 |
| 3,160 | Environment & Enterprise | 6,359 |
| <u>9,149</u> | | <u>17,591</u> |

5.11 Investment Properties

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

5.12 Long Term Investments

| 31-Mar-13 | | 31-Mar-14 |
|---------------|----------------------------|---------------|
| £000 | | £000 |
| 13,000 | Maturity date 1-2 years | 17,000 |
| 12,000 | Maturity date 2 - 3 years | 5,000 |
| <u>25,000</u> | Balance at end of the year | <u>22,000</u> |

5.13 Long term debtors

| 31-Mar-13 | | 31-Mar-14 |
|--------------|-----------------------------|--------------|
| £000 | | £000 |
| 2,927 | West London Waste Authority | 2,379 |
| 310 | Other Loans | 257 |
| <u>3,237</u> | Total | <u>2,636</u> |

5.14 Short term investments

| 31-Mar-13 | | 31-Mar-14 |
|---------------|---|---------------|
| £000 | | £000 |
| 61,311 | Temporary Investment - Managed in-house | 75,245 |
| 3 | Internal Investments | 3 |
| <u>61,314</u> | Total | <u>75,248</u> |

5.15 Short term debtors

| 31-Mar-13 | | 31-Mar-14 |
|---------------|---------------------------------------|---------------|
| £000 | | £000 |
| 6,299 | Central government bodies | 5,203 |
| 2,874 | Other local authorities | 1,849 |
| 1,436 | NHS bodies | 984 |
| 359 | Public corporations and trading funds | 0 |
| 11,014 | Other entities and individuals | 11,138 |
| <u>21,982</u> | Total | <u>19,174</u> |

5.16 Cash and cash equivalents

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

5.17 Short term borrowing

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

5.18 Short Term Creditors

| 31-Mar-13 £000 | | 31-Mar-14 £000 |
|-------------------|--------------------------------|-------------------|
| -11,697 | Central government bodies | -13,729 |
| -5,606 | Other local authorities | -6,913 |
| -717 | NHS bodies | -1,354 |
| -50,192 | Other entities and individuals | -50,716 |
| <u>-68,212</u> | Total | <u>-72,712</u> |

5.19 Provisions

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

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

Insurance: This provision is the estimated liability for insurance claims that the Council self funds, including actual claims submitted, and events for which the Council has not received a claim (incurred but not reported IBNR). The Council's insurance programme consists of a range of insurance covers in three broad classes; liability, property and motor. The Council's maximum potential liability is limited by a series of aggregate stop loss covers with the Council's insurers that are triggered off when the total of all claims under the cover exceeds that amount for the period of

insurance. It is Council policy not to insure "pound swapping" items (e.g. theft and "all risks" on equipment), or tree related subsidence claims. All IBNR amounts are calculated by the Council's actuary. The provision includes £2m to cover the cost of payments to Municipal Mutual Insurance in respect of future claims.

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

5.20 Long term borrowing

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

5.21 Other long term liabilities

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

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

5.22 Usable reserves

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

5.22.1 Capital Receipts Reserve

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

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

5.22.2 Capital Grants and Contributions Unapplied

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

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

5.23 Unusable reserves

| 31-Mar-13 £000 | | | 31-Mar-14 £000 |
|-------------------|--|--------|-------------------|
| -13,782 | Revaluation Reserve | 5.23.1 | -15,156 |
| -55 | Deferred Capital Receipts | | -2,423 |
| -374,882 | Capital Adjustment Account | 5.23.2 | -404,544 |
| 4,939 | Financial Instruments Adjustment Account | 5.23.3 | 5,243 |
| 323,131 | Pensions Reserve | 5.23.4 | 338,094 |
| -892 | Collection Fund Adjustment Account | 5.23.5 | -1,683 |
| 4,865 | Accumulating Compensated Absences Adjustment Account | 5.23.6 | 5,308 |
| <u>-56,676</u> | Total Unusable Reserves | | <u>-75,161</u> |

5.23.1 Revaluation reserve

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

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

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

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

5.23.2 Capital adjustment account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing 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.

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

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

5.23.3 Financial instruments adjustment account

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

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

5.23.4 Pensions reserve

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

| 2012-13 £000 | | 2013-14 £000 |
|-----------------|--|-----------------|
| 270,287 | Balance at 1 April | 323,131 |
| 42,317 | Actuarial (gains) or losses on pensions assets and liabilities | -1,266 |
| 28,607 | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 34,208 |
| -18,080 | Employer's pensions contributions and direct payments to pensioners payable in the year | -17,979 |
| 323,131 | Balance at 31 March | 338,094 |

5.23.5 Collection fund adjustment account

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

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

5.23.6 Accumulating compensated absences adjustment account

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

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

5.24 Cash flow statement – operating activities

| 2012-13 | | 2013-14 |
|---------|--|----------------|
| £000 | | £000 |
| 17,016 | Interest payable & similar charges | 17,015 |
| -1,921 | Interest and Investment income | -1,881 |
| -4,377 | Other investment income | -2,582 |
| | Non-Cash Transactions | |
| 12,917 | Adjustment for pension funding | 16,229 |
| -1,027 | Increase in Provision | -1,768 |
| 32,458 | Depreciation | 31,937 |
| -8,477 | Impairment | -34,366 |
| -296 | Accumulated Absence | 443 |
| -5,116 | Gains/Loss (-) on disposal of non-current assets | -1,202 |
| -763 | Other adjustments | 0 |
| | Items on an accrual basis | |
| -591 | (-)Increase/Decrease in Debtors | 2,117 |
| 4,617 | Increase/Decrease(-) in Creditors | 4,371 |
| 44,440 | Adjustments for non cash movements | 30,313 |
| 1,488 | Interest received | 2,523 |
| -17,030 | Interest paid | -16,996 |
| 0 | Other Investment income | 800 |
| -15,542 | Adjustments for investment and financing activities | -13,673 |

5.25 Cash flow statement – investing activities

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

5.26 Cash flow statement – financing activities

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

5.27 Directorate income and expenditure segmental reporting

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

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year; and
- expenditure on some support services is budgeted for centrally and not charged to directorates.

5.27.1 Directorate income and expenditure

| 2013-14 | Community, Health and Wellbeing | Children's and Families | Environment and Enterprise | Resources | Total |
|---|--|------------------------------------|---|------------------|-----------------|
| | £000 | £000 | £000 | £000 | £000 |
| Fees, charges & other service income | -19,920 | -16,522 | -21,497 | -4,435 | -62,374 |
| Government grants | -11,227 | -137,650 | -621 | -148,625 | -298,123 |
| Total Income | -31,147 | -154,172 | -22,118 | -153,060 | -360,497 |
| Employee expenses | 25,090 | 121,641 | 21,215 | 27,501 | 195,447 |
| Other service expenses | 69,866 | 65,806 | 10,984 | 140,468 | 287,124 |
| Support service recharges | 9,606 | 7,669 | 6,941 | 6,618 | 30,834 |
| Depreciation, amortisation and impairment | 3,722 | 4,826 | 12,162 | 4,073 | 24,783 |
| Precepts & Levies | 0 | 0 | 8,159 | 572 | 8,731 |
| Total Expenditure | 108,284 | 199,942 | 59,461 | 179,232 | 546,919 |
| Net Departmental Costs | 77,137 | 45,770 | 37,343 | 26,172 | 186,422 |
| 2012-13 | Community, Health and Wellbeing | Children's and Families | Environment and Enterprise | Resources | Total |
| | £000 | £000 | £000 | £000 | £000 |
| Fees, charges & other service income | -17,575 | -11,361 | -19,572 | -4,803 | -53,312 |
| Government grants | -7,295 | -134,800 | -879 | -160,172 | -303,146 |
| Total Income | -24,870 | -146,162 | -20,451 | -164,975 | -356,458 |
| Employee expenses | 23,417 | 114,896 | 19,984 | 21,374 | 179,671 |
| Other service expenses | 63,231 | 64,133 | 10,511 | 150,742 | 288,615 |
| Support service recharges | 10,827 | 10,701 | 9,273 | 12,352 | 43,153 |
| Depreciation, amortisation and impairment | 2,447 | 4,281 | 11,749 | 5,152 | 23,629 |
| Precepts & Levies | 0 | 0 | 7,192 | 636 | 7,828 |
| Total Expenditure | 99,921 | 194,012 | 58,709 | 190,255 | 542,896 |
| Net Departmental Costs | 75,051 | 47,850 | 38,257 | 25,280 | 186,438 |

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

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

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

5.27.3 Reconciliation to subjective analysis and comparative

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

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

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

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

5.28 Leases

5.28.1 The council as Lessee

5.28.1.1 Finance Leases

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

Assets acquired under finance leases are included as part of Vehicles, Plant, Furniture and Equipment in the Property, Plant and Equipment balance in the Balance Sheet. The book value of these assets is £3.66m (£5.33m in 2012-13).

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

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

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

5.28.1.2 Operating Leases

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

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

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

5.28.2 The Council as Lessor

5.28.2.1 Finance Leases

The Council has granted 125 year peppercorn leases in respect of 8 maintained schools which transferred to Academy status under the provisions of the Academies Act 2010. 7 transferred to Academy status with effect from August 2011 and Alexandra School with effect from September 2013. 125 year leases have also been granted for 3 caretakers houses at Academy schools. The

properties are not included in the Council's balance sheet although the Council retains the freehold. The lease of these properties is a finance lease.

Although the legal form of the arrangement is a lease, the transfer of schools to Academy status are treated as in substance a disposal in the Council's balance sheet. A loss on disposal of £2,931k has been recognised in the CIES in respect of the transfer of Alexandra School.

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

5.28.2.2 Operating Leases

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

Operating leases have been classified as Investment Properties or Property, Plant and Equipment. Those classified as Investment Properties generated a rental stream of £1,067k in 2013-14 (£932k in 2012-13).

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

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

5.29 Private Finance Initiatives and Similar Contracts

The Council has entered into three PFI contracts.

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

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

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

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

5.29.1 Special schools

The contract relates to two new schools for pupils with learning disabilities, and the refurbishment of a first and middle school. The contract is for the provision of the facilities on Council sites under

licence to the provider. The works were phased in and the three schools were fully operational by February 2006.

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

| | Payment for Services | Reimbursement of Capital Expenditure | Interest | Principal Repayment | Contingent Rent | Total |
|--------------------------------|-------------------------|--|---------------|------------------------|--------------------|---------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Schools | | | | | | |
| Payable in 2014-15 | 797 | 203 | 1,098 | 265 | 42 | 2,404 |
| Payable w ithin 2 to 5 years | 3,392 | 926 | 4,127 | 1,282 | 186 | 9,912 |
| Payable w ithin 6 to 10 years | 4,739 | 1,295 | 4,369 | 2,393 | 316 | 13,112 |
| Payable w ithin 11 to 15 years | 5,361 | 2,317 | 3,238 | 3,043 | 53 | 14,013 |
| Payable w ithin 16 + years | 5,535 | 1,142 | 1,392 | 4,970 | 703 | 13,742 |
| Total | 19,824 | 5,884 | 14,224 | 11,953 | 1,300 | 53,184 |

5.29.2 Neighbourhood Resource Centres (NRC)

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

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

| | Payment for Services | Reimbursement of Capital Expenditure | Interest | Principal Repayment | Contingent Rent | Total |
|--------------------------------|-------------------------|--|--------------|------------------------|--------------------|---------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| NRC | | | | | | |
| Payable in 2014-15 | 184 | 28 | 488 | 147 | 128 | 975 |
| Payable w ithin 2 to 5 years | 784 | 220 | 1,826 | 635 | 686 | 4,151 |
| Payable w ithin 6 to 10 years | 1,096 | 295 | 1,937 | 1,147 | 1,324 | 5,800 |
| Payable w ithin 11 to 15 years | 1,240 | 668 | 1,389 | 1,494 | 1,770 | 6,562 |
| Payable w ithin 16 + years | 1,701 | 421 | 644 | 2,454 | 2,572 | 7,793 |
| Total | 5,005 | 1,633 | 6,284 | 5,877 | 6,481 | 25,280 |

5.29.3 Sancroft Hall

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

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

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

| | Payment for Services | Minimum Lease Payments | Total |
|-------------------------------|-------------------------|---------------------------|---------------|
| | £000 | £000 | £000 |
| Sancroft | | | |
| Payable in 2014-15 | 1,227 | 476 | 1,703 |
| Payable w ithin 2 to 5 years | 5,153 | 1,998 | 7,151 |
| Payable w ithin 6 to 11 years | 7,030 | 2,726 | 9,755 |
| Total | 13,409 | 5,199 | 18,609 |

5.30 Members' Allowances

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

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

5.31 Remuneration

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

5.31.1 Remuneration bands

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

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

5.31.2 Senior officer remuneration

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

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

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

| Position Held | Notes | Salary,(including Fees and Allowances) | | Benefits in Kind | | Total Remuneration excluding employers pension contributions | | Employers Pension Contribution | | Exit Payments | | Total Remuneration including employers pension contributions | |
|---|-------|--|----------------|------------------|---------------|--|----------------|--------------------------------|----------------|---------------|----------------|--|------------------|
| | | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | |
| | | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 | 2012-13 |
| Corporate Director - Community, Health and Well Being | 1 | 140,752 | 140,909 | 619 | 6,707 | 141,371 | 147,616 | 27,235 | 26,914 | 0 | 0 | 168,606 | 174,530 |
| Corporate Director - Children & Families | 2 | 137,137 | 140,909 | 0 | 0 | 137,137 | 140,909 | 26,536 | 26,914 | 35,001 | 0 | 198,674 | 167,823 |
| Corporate Director - Environment & Enterprise | | 134,226 | 65,992 | 0 | 0 | 134,226 | 65,992 | 25,973 | 12,604 | 0 | 0 | 160,199 | 78,596 |
| Corporate Director - Community & Environment | 3 | 0 | 19,430 | 0 | 206 | 0 | 19,636 | 0 | 3,713 | 0 | 88,021 | 0 | 111,370 |
| Corporate Director - Resources | | 126,657 | 121,638 | 619 | 1,084 | 127,276 | 122,722 | 24,508 | 23,233 | 0 | 0 | 151,784 | 145,955 |
| Corporate Director - Resources | 4 | 0 | 140,909 | 0 | 1,084 | 0 | 141,993 | 0 | 26,914 | 0 | 0 | 0 | 168,907 |
| Corporate Director - Place Shaping | 3 | 0 | 140,909 | 0 | 0 | 0 | 140,909 | 0 | 26,914 | 0 | 175,473 | 0 | 343,296 |
| Director - Legal & Democratic Services | | 132,280 | 130,172 | 619 | 1,084 | 132,899 | 131,256 | 24,494 | 23,995 | 0 | 0 | 157,393 | 155,251 |
| Director - Finance and Assurance | | 113,325 | 2,132 | 0 | 0 | 113,325 | 2,132 | 21,928 | 407 | 0 | 0 | 135,253 | 2,539 |
| Director - Public Health | 5 | 127,095 | 0 | 0 | 0 | 127,095 | 0 | 17,793 | 0 | 0 | 0 | 144,888 | 0 |
| | | 911,472 | 903,000 | 1,857 | 10,165 | 913,329 | 913,165 | 168,467 | 171,608 | 35,001 | 263,494 | 1,116,797 | 1,348,267 |

Note 1 The additional role of Head of Paid Service was delegated to the Corporate Director – Community, Health and Well Being from 1st December 2013 and Michael Lockwood left the Council on 28th February 2014.

Note 2 The Corporate Director – Children & Families left the Council on 28th March 2014.

Note 3 The Corporate Director – Place Shaping and Community & Environment positions were replaced by the Corporate Director – Environment and Enterprise.

Note 4 The Corporate Director – Resources left on 25 March 2013. The role was then taken on by the former Assistant Chief Executive.

Note 5 The Public Health function transferred from the NHS to Local Government on 1st April 2013.

5.32 Termination benefits

Exit Payments

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

| Exit Payments cost band (including special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of Exit Payments by cost band | | Total cost of Exit Payments in each band | |
|--|-----------------------------------|-----------|-----------------------------------|----------|--|-----------|--|-----------------|
| | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 £000 | 2012-13 £000 |
| £0 - £20,000 | 22 | 2 | 27 | 0 | 49 | 2 | 444 | 16 |
| £20,001 - £40,000 | 18 | 5 | 11 | 0 | 29 | 5 | 844 | 156 |
| £40,001 - £60,000 | 17 | 8 | 2 | 0 | 19 | 8 | 925 | 371 |
| £60,001 - £80,000 | 8 | 5 | 0 | 0 | 8 | 5 | 552 | 347 |
| £80,001 - £100,000 | 2 | 4 | 0 | 0 | 2 | 4 | 178 | 358 |
| £100,001 - £150,000 | 0 | 3 | 0 | 0 | 0 | 3 | 0 | 413 |
| Total | 67 | 27 | 40 | 0 | 107 | 27 | 2943 | 1661 |

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

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

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

5.33 Audit fees

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

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

5.34 Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by Department for Education and known as the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the local authority area. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget as defined in the School Finance (England) Regulations 2012.

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

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

5.35 Grants income

5.35.1 Revenue grants included within the cost of services

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

| 2012-13 £000 | Grant | Awarding Body | 2013-14 £000 |
|-----------------|--------------------------------------|--|-----------------|
| -125,796 | Dedicated schools grant | Department for Education | -126,712 |
| -3,024 | Pupil Premium | Department for Education | -5,041 |
| 0 | Adoption Improvement Grant | Department for Education | -551 |
| -1,543 | Private finance initiative | Education Funding Agency | -1,543 |
| -597 | Homelessness Grant | Department of Communities and Local Gov. | 0 |
| -475 | Troubled Families Grant | Department of Communities and Local Gov. | -539 |
| 0 | S31 Small Business Rate Relief | Department of Communities and Local Gov. | -348 |
| -966 | Private finance initiative | Department of Health | -966 |
| -4,413 | Adults Personal Social Services | Department of Health | 0 |
| 0 | Public Health | Department of Health | -8,874 |
| -117,360 | Rent Allowance | Department of Work and Pensions | -122,501 |
| -2,018 | Housing Benefit administration grant | Department of Work and Pensions | -1,805 |
| -20,394 | Council Tax Benefit | Department of Work and Pensions | 0 |
| 0 | Discretionary Housing Benefit | Department of Work and Pensions | -1,223 |
| -20,026 | HRA Rent Rebate | Department of Work and Pensions | -21,956 |
| 0 | Social Fund Reform | Department of Work and Pensions | -491 |
| -577 | Unaccompanied Asylum Seekers Grant | Home Office - UK Border Agency | -574 |
| -551 | Community Learning Trust | Skills Funding Agency | -483 |
| -2,811 | EFA 6th Form Funding | Young People's Learning Agency | -2,010 |
| -339 | Transport for London schemes | Transport for London | -382 |
| -2,256 | Other | | -2,124 |
| -303,146 | | | -298,123 |

5.35.2 Capital grants included within taxation and non specific grant income

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

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

5.35.3 Capital grants receipts in advance

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

5.36 Related parties

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

5.36.1 United Kingdom Government and other Local Authorities

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

Members

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

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

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

| Organisation | Members | Interest | Amount £000 | Nature of transactions |
|---------------------------------------|---|---|----------------|------------------------|
| Harrow Association of Disabled People | Cllr Zarina Khalid Cllr Bill Phillips | Trustee Trustee | 312 | Grant Services |
| Harrow Community Radio | Cllr David Gawn Cllr Jean Lammiman | Director Director | 3 | Professional fees |
| Harrow Environmental Forum | Cllr Sue Anderson Cllr Ramji Chauhan Cllr Phillip O'Dell Cllr Asad Omar Cllr Stephen Wright | Appointee Appointee Appointee Appointee Appointee | 4 | Grant |
| Harrow Equalities Centre | Cllr Susan Hall Cllr Krishna James Cllr Jean Lammiman Cllr Asad Omar | Trustee Trustee Trustee Trustee | 4 | Grant Services |
| Harrow Heritage Trust | Cllr Marilyn Ashton Cllr Keith Ferry Cllr Janet Mote Cllr Navin Shah Cllr Simon Williams | Trustee Trustee Trustee Trustee Trustee | 4 | Grant |
| London Youth Games | Cllr Chris Mote Cllr David Perry Cllr Yogesh Teli | Appointee Appointee Appointee | 9 | Events |
| Relate London North West | Cllr Lurline Champagnie Cllr Margaret Davine Cllr Jean Lammiman Cllr Ben Wealthy | Appointee Appointee Appointee Appointee | 27 | Grant Services |
| Welldon Activity Group | Cllr Sue Anderson Cllr John Nickolay | Trustee Trustee | 39 | Day care payments |

5.36.2 West London Waste Authority

West London Waste Authority (WLWA) is responsible for disposing of the waste collected by the London Boroughs of Harrow, Brent, Ealing, Hillingdon, Hounslow and Richmond upon Thames. Each Council has one representative on the Board of WLWA. The representative for Harrow is Cllr Susan Hall.

The Council makes payments to WLWA for waste disposal. The Council provides accounting services for WLWA in return for a management fee. The value of the fee received in 2013-14 was £122k (£182k in 2012-13).

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

5.36.3 London Borough of Harrow Pension Fund

The Council is the Administering Authority for the Pension Fund.

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

5.37 Road charging schemes under the Transport Act 2000

The Road Traffic Act 1984 stipulates that the authority must keep a separate account of any income or expenditure related to parking enforcement. Section 55(4) of the 1984 Act controls the use of any surplus on the account.

| 2012-13 | | 2013-14 |
|---------------|---|---------------|
| £000 | | £000 |
| -6,935 | Penalty Charge Notices | -6,805 |
| -1,188 | On street meters | -1,205 |
| -357 | Residents Permits | -406 |
| <u>-8,480</u> | Total income | <u>-8,416</u> |
| 1,522 | Enforcement contract/costs | 1,531 |
| 1,136 | Other expenditure | 1,160 |
| <u>2,658</u> | Total expenditure | <u>2,691</u> |
| <u>-5,822</u> | Total (surplus) for the year ending 31 March 2014 | <u>-5,725</u> |
| | Utilisation of Surplus | |
| 5,822 | Concessionary fares | 5,725 |
| <u>5,822</u> | | <u>5,725</u> |

5.38 Agency arrangements – pooled budgets

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

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

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

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

| 2012-13 £000 | | 2013-14 £000 |
|-----------------|---|-----------------|
| | Funding provided to the pooled budget | |
| 0 | · Harrow Public Health Grant | -8,874 |
| 0 | · Barnet Public Health Grant | -13,798 |
| <u>0</u> | | <u>-22,672</u> |
| | Expenditure met from the pooled budget: | |
| 0 | · Harrow public health expenditure | 8,208 |
| 0 | · Barnet public health expenditure | 12,967 |
| <u>0</u> | | <u>21,175</u> |
| | Surplus for the year | |
| 0 | · Harrow | -666 |
| 0 | · Barnet | -831 |
| <u>0</u> | | <u>-1,497</u> |

5.39 Trust Funds

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

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

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

5.40 Defined benefit pension schemes

5.40.1 Participation in pension scheme

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

The Council participates in the Local Government Pension Scheme (LGPS). This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to ensure that sufficient funds are held to ensure that pension liabilities are paid when they are due. There have been no changes in the scheme during the year.

5.40.2 Transactions relating to retirement benefits

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

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

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

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

The adoption of the revised IAS19 standard has resulted in a restatement of the prior period's interest expense which has increased by £3.435m and a corresponding decrease in the net pension liability.

5.40.3 Reconciliation of present value of the scheme liabilities

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

| 2012-13 £000 | | 2013-14 £000 |
|-----------------|---|-----------------|
| 702,045 | Opening balance at 1 April | 806,824 |
| 15,300 | Current service cost | 18,488 |
| 33,525 | Interest cost | 35,875 |
| 5,228 | Contributions by scheme participants | 5,089 |
| | Remeasurement (gains)/losses arising from changes in: | |
| 0 | Demographic Assumptions | 8,984 |
| 78,769 | Financial Assumptions | 20,084 |
| -236 | Other Experience | 6,261 |
| -28,197 | Benefits paid | -30,210 |
| 0 | Effect of settlements | -6,942 |
| 390 | Past service costs | 1,606 |
| 806,824 | Closing balance at 31 March | 866,059 |

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

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

The actual return on scheme assets in the year was £57.902m (2012-13: £56.824m).

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

5.40.5 Scheme history

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall deficit of scheme assets of £338.094m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy. The deficit on the local government scheme will be made good by a contribution of investment returns in excess of the assumed discount rate and by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

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

5.40.6 Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the Projected Unit Method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Scheme liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2013. Refer to pension fund accounts note 9.4.14 for more information..

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

The principal assumptions used by the actuary have been:

| 2012-13 | | 2013-14 |
|---------|---|---------|
| | Long-term expected rate of return on assets in the scheme: | |
| 4.5% | Equity investments | 7.7% |
| | Mortality assumptions: | |
| | Longevity at 65 for current pensioners: | |
| 21.6 | Men | 22.1 |
| 23.6 | Women | 24.4 |
| | Longevity at 65 for future pensioners: | |
| 23.6 | Men | 24.5 |
| 25.9 | Women | 26.9 |
| | Financial assumptions: | |
| 4.6% | Rate of increase in salaries | 4.1% |
| 2.8% | Rate of increase in pensions (CPI) | 2.8% |
| 4.5% | Rate for discounting scheme liabilities | 4.3% |
| | Take-up of option to convert annual pension into retirement lump sum: | |
| 50.0% | - Pre April 2008 Service | 50.0% |
| 75.0% | - Post April 2008 Service | 75.0% |

5.40.7 Scheme Assets

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

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

5.40.8 History of experience gains and losses

| | 2013-14 | 2012-13 | 2011-12 | 2010-11 | 2009-10 |
|--|---------|---------|---------|---------|---------|
| | % | % | % | % | % |
| Differences between the expected and actual return on assets | 6.93 | 7.49 | -5.32 | -5.61 | 24.72 |
| Experience gains and (losses) on liabilities | -0.72 | 0.03 | -1.41 | 4.03 | -0.16 |

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

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

The sensitivity analysis above has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes whilst all other assumptions remain constant.

5.41 Teachers' and NHS Pension Schemes

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

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

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

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

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

5.42 Financial instruments

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

| | Long-term | | Current | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 31-Mar-14 £000 | 31-Mar-13 £000 | 31-Mar-14 £000 | 31-Mar-13 £000 |
| Investments | | | | |
| Loans and receivables | 22,000 | 25,000 | 75,245 | 61,308 |
| Cash and cash equivalents | | | 35,250 | 18,422 |
| Total investments | 22,000 | 25,000 | 110,495 | 79,730 |
| Debtors | | | | |
| Loans and receivables | 2,636 | 3,237 | 0 | 0 |
| Financial assets carried at contract amounts | 0 | 0 | 9,300 | 9,424 |
| Total Debtors | 2,636 | 3,237 | 9,300 | 9,424 |
| Borrowings | | | | |
| Financial liabilities at amortised cost | -334,261 | -340,294 | -22,468 | -21,869 |
| Total borrowings | -334,261 | -340,294 | -22,468 | -21,869 |
| Other Liabilities | | | | |
| PFI and finance lease liabilities | -19,962 | -21,878 | -1,879 | -2,083 |
| Total other long term liabilities | -19,962 | -21,878 | -1,879 | -2,083 |
| Creditors | | | | |
| Financial liabilities carried at contract amount | 0 | 0 | -49,268 | -42,098 |
| Total creditors | 0 | 0 | -49,268 | -42,098 |

The balances of debtors and creditors disclosed in the above note differ from the balance sheet because they include only balances that relate to contractual arrangements and exclude balances that relate to statutory functions. The balance of short term debtors excludes £9.18m (£10.69m in 2012-13). The creditors balance excludes £22.75m (£26.11m in 2012-13).

Income, Expense, Gains and Losses

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

| | 31-Mar-14 | 31-Mar-13 |
|---|-----------|-----------|
| | £000 | £000 |
| Interest receivable on investments | -1,881 | -1,921 |
| Interest payable on borrowings | 14,951 | 14,903 |
| Interest payable on other long term liabilities | 2,064 | 2,113 |
| Impairment losses on debtors | 143 | 784 |

Fair Value of Assets and Liabilities

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

NPV calculations have been made using the following assumptions:

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

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

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

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

Nature and extent of risks arising from financial instruments

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

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices. A Treasury Management and Investment Strategy for 2013-14 has been approved by the Council.

Credit Risk

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

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

| | Amount at 31-Mar-14 | Historical experience of default | Historical experience adjusted for market conditions at 31-Mar-14 | Estimated maximum exposure to default and uncollectability 31-Mar-14 |
|-----------------------|------------------------|--|--|---|
| | £000 | % | % | £000 |
| UK Banks | 93,955 | 0.00 | 0.15 | 140 |
| Overseas Banks | 15,183 | 0.00 | 0.00 | 0 |
| UK Building Societies | 0 | 0.00 | 0.00 | 0 |
| UK Money Market Funds | 21,631 | 0.00 | 0.00 | 0 |
| Customers | 7,325 | 5.73% | 26.25% | 1,923 |
| Total | 138,094 | | | 2,063 |

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

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

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

Liquidity risk

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

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

Market Risk – Interest Rate Risk

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

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

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

The Council has a number of strategies for managing interest rate risk. The Council's policy is to borrow when rates are favourable and to keep a maximum of 50% of its borrowings in variable rate loans. However, at present the Council does not hold any variable rate loans. The fixed rate debt portfolio includes a total of £83.80m (£83.80m in 2012-13) held in the form of Lenders Option

Borrowers Option (LOBOs) loans, at favourable rates (approximately 25% of the total debt portfolio). Following the initial fixed term, the lender has the option to reset interest rates and Harrow is then able to repay at no cost. These LOBO loan structures entail exposure to re-finance at potentially high interest costs.

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

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

The average balance of investments was £150.8m (£117.0m in 2012-13). With the base rate currently fixed at 0.5%, the risk of exposure from a downwards move is minimised. A positive movement of 1% in rates received on average investment balances would generate additional investment income of £1.5m, although only two thirds of this would benefit the General Fund.

5.43 Heritage Assets

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

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

Scheduled Ancient Monuments

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

1. Headstone Manor Moated Site and Listed Buildings

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

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

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

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

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

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

Civic Insignia

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

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

War Memorials

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

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

6 Housing Revenue Account

6.1 Housing Revenue Account (HRA)

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

| 2012-13 | | | 2013-14 | |
|----------------|---|--------|---------|----------------|
| £000 | | Note | £000 | £000 |
| | Expenditure | | | |
| 7,203 | Repairs and maintenance | | 8,064 | |
| 7,375 | Supervision and management | | 8,343 | |
| 179 | Rents, rates, taxes and other charges | | 243 | |
| 6,629 | Depreciation of non current assets | 6.2.3 | 7,309 | |
| 490 | Impairment of non current assets | | 282 | |
| -11,213 | Reversal of past impairment losses | 5.10.3 | -6,921 | |
| 34 | Debt management costs | | 35 | |
| 147 | Movement in the allowance for bad debts | | 143 | |
| <u>10,844</u> | Total Expenditure | | | <u>17,498</u> |
| | Income | | | |
| -26,150 | Dwelling rents (gross) | 6.2.1 | -27,780 | |
| -596 | Non-dwelling rents (gross) | 6.2.2 | -648 | |
| -1,547 | Charges for services and facilities | | -2,107 | |
| -862 | Contributions towards expenditure | | -974 | |
| <u>-29,155</u> | Total Income | | | <u>-31,509</u> |
| | Net cost of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement | | | -14,011 |
| 389 | HRA's share of Corporate and Democratic Core | | | 398 |
| <u>-17,922</u> | Net cost of HRA Services | | | <u>-13,613</u> |
| | HRA share of operating income & expenditure included in the Whole Authority Comprehensive Income & Expenditure Statement | | | |
| -965 | (Gain) on sale of HRA Fixed Assets | | | -1,629 |
| 562 | Pooling payments in respect of Right to Buy disposals | | | 787 |
| 6,433 | Interest payable and similar charges | | | 6,434 |
| -101 | Interest & investment income | | | -63 |
| -441 | Capital grants & contributions receivable | | | -211 |
| <u>-12,434</u> | (Surplus) Deficit for the year on HRA services | | | <u>-8,295</u> |

Statement of Movement on the HRA Balance

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

6.2 Notes to the Housing Revenue Account

6.2.1 Dwelling Rents Income

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

6.2.2 Non-dwelling Rents

This includes garages. At the year-end 55.05% of garages were vacant compared with 55.28% in 2012-13.

6.2.3 Depreciation

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

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

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

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

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

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

6.2.4 Major Repairs Reserve

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

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

6.2.5 Capital Expenditure and Funding Statement

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

6.2.6 Capital Receipts

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

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

6.2.7 Pensions (IAS 19)

The HRA is charged with its share of current and past service pension costs. To ensure there is no net effect on the HRA both entries are reversed out and replaced by employers' contributions payable via an appropriation to the Pension Reserve after net operating expenditure.

Further details are provided in note 5.40.

6.2.8 Housing Revenue Account Statistics

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

6.2.9 Statement of Movement on the HRA Balance

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

7 Collection Fund

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

Statement of Income and Expenditure

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

Notes to the Collection Fund

7.1.1 Income from Council Tax

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

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

7.1.2 Business Rates

The Business Rates is levied on non-domestic properties and the charge is based on the valuation band assessed for each premise. Business rates collected in the Borough is split between relevant preceptos, the Council (30%), the GLA (20%) and Central Government (50%).

The total non-domestic rateable value for the London Borough of Harrow at the year-end was £128.92m (£129.99m in 2012-13) and the national non-domestic rate multiplier for 2013-14 was 0.471 (0.458 in 2012-13).

7.1.3 Business Rate Supplement - Crossrail

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

8 Annual Governance Statement

8.1 Scope of Responsibility

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

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

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

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

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

8.2 The Purpose of the Governance Framework

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

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

The governance framework has been in place at Harrow Council for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

8.3 The Governance Framework

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

The council's vision and priorities are reviewed annually and set out in the Corporate Plan. The Council's Corporate Plan 2013/14 was agreed in March 2013. The plan was underpinned by

engagement with the community including (for example) “Lets Talk” events to explain the budget and seek views from residents.

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

- Supporting and protecting people who are most in need,
- Keeping neighbourhoods clean, green and safe,
- United and involved communities, and
- Supporting our town centre, our local shopping centres and businesses.

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

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

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

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

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

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

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

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

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

Allocation of Responsibilities of the Executive and the individual members are set out in the Council's Constitution. Minutes of all decisions made by the Executive and individual Executive members are available on the intranet and internet and records are maintained by Legal & Governance Services. The Council's Constitution includes details of Director responsibilities, committee terms of reference and details of the statutory obligations (Head of Paid Service, Directors of Children's, Adult Social Services, Director of Public Health, Chief Financial Officer (S151 Officer), Monitoring Officer and Returning Officer).

Delegations are reviewed and approved annually. Matters specifically reserved for council and cabinet are reviewed and updated in accordance with legislation when issued. Delegations were last reviewed and approved by the Council on June 2014.

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

- Health
- Community, Health and Wellbeing
- Children and Families
- Environment and Enterprise
- Resources

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

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

The Council has a duty to manage its risks effectively and this is achieved through a consistent corporate process in a hierarchical series of risk registers. The Corporate risk register is reviewed by the Corporate Strategy Board and the Governance, Audit and Risk Management Committee on a quarterly basis. All Directorates have risk registers and these are reviewed by Directorate Management Teams regularly and the Improvement Boards quarterly.

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

The role of the Chief Financial Officer (CFO) was filled on a permanent basis in March 2013. Throughout 2013/14 the authority's financial management arrangements have conformed with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The CFO reports operationally to the Corporate Director of Resources and to the Chief Executive (Head of Paid Service) on matters relating to his statutory role. The CFO sits on the Corporate Strategy Board. The authority's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit. The Head of Internal Audit is a middle manager with extensive internal audit experience who has regular and open engagement with the Leadership Team and the Audit Committee.

The role of the Statutory Monitoring Officer is to report on likely contravention of any enactment or rule of law and the Statutory Monitoring Officer provisions are contained in Part 3 of the Constitution. Effective arrangements are in place to discharge the monitoring officer function via the Director of Legal and Governance Services. The arrangements for the discharge of the Head of Paid Service is covered in the constitution and this role was fulfilled by the Chief Executive until February 2014 and by the interim Head of Paid Service for the rest of the year and to date.

The Governance, Audit and Risk Management (GARM) Committee undertake the core functions of an audit committee as identified in CIPFA's Guidance *Audit Committees – Practical Guidance for Local Authorities*. Its terms of reference encompass the review and monitoring role of a range of risk related services, including monitoring performance on corporate governance generally. The GARM Committee is independent of the executive and scrutiny functions. The membership of the committee was stable throughout the year although the Chair changed in July 2013. As the political make-up of the Council changed in May 2014 the GARM Committee membership will change. This will be managed by providing general and specific member training to committee members to enable them to fulfil their role.

A whistleblowing policy exists and was last reviewed in 2013/14. It is accessible on the intranet, covered in the Staff Handbook and referenced in the staff induction checklist. A complaints procedure is also in place and is available on the Harrow Council website (How to make a complaint). A review of complaints, including the number and reason for complaints, the timescales for resolution and the actions taken as a result forms part of the quarterly directorate Improvement Board reports.

A Member Development Programme is in place that includes mandatory training on their statutory role. Access to development is also available to all members via e-learning. Monitoring of the Member Development Programme and evaluation of development activities is undertaken quarterly by the Member Development Panel, leading to improvements in the Member Development programme and in member induction. Directorate Learning and Development Plans for staff are produced annually and ensure the 'golden thread' between the Council's vision and objectives, through to Service Planning and individual objectives for staff. For 2013/14 a new corporate development programme was designed and launched, with improved attendances. Each development activity is evaluated and the programme updated quarterly.

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

8.4 Review of Effectiveness

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

The effectiveness of the governance framework has been evaluated by:

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

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

8.5 Annual Review of Governance

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

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

The aim of the governance review is to demonstrate that the authority's governance arrangements are adequate and working effectively in practice and, where gaps in governance are identified that will impact on the authority's achievement of its objectives, that appropriate action is taken to improve governance in the future. To this end an action plan will be agreed as part of the annual review process which will be monitored throughout the coming year by the Corporate Governance Group and the Governance, Audit & Risk Management Committee and significant governance identified by this process will be outlined in paragraph 8.9.

8.6 Head of Internal Audit's Opinion

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

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

8.7 Management Assurance

A management assurance process has been in place at the Council since 2005/06. During 2012/13 this process was reviewed by the Corporate Governance Group and realigned with the Corporate Risk Register. The new process collates assurance provided by senior managers on the key controls in place to manage the authority's most significant (red) risks contained in the Corporate Risk Register. The process was further enhanced in 2013/14 to provide a narrative for each risk.

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

8.8 Declaration (Part I)

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

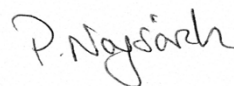
8.9 Significant Governance Issues

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

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

8.10 Declaration (Part II)

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

Signed

Councillor David Perry
Leader

Paul Najsarek
Interim Head of Paid Service

Date 4th September 2014

4th September 2014 .

9 Pension Fund Financial Statements

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2013-14

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

Simon George BA(HONS) ACMA ACMT

Director of Finance and Assurance

xx September 2014

9.1 Administration of the Fund

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

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

Scheduled Employer

This is a statutorily defined body listed within Local Government Pension Scheme (LGPS) Regulations and has a statutory obligation to participate in the LGPS (e.g. a local authority, a further or higher education establishment).

Admitted Employer

There are two types of admission body:

Community Admission Body – These are typically charities or other not-for-profit public sector bodies providing a public service which has sufficient links with the Scheme Employer to be regarded as having a community of interest.

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

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

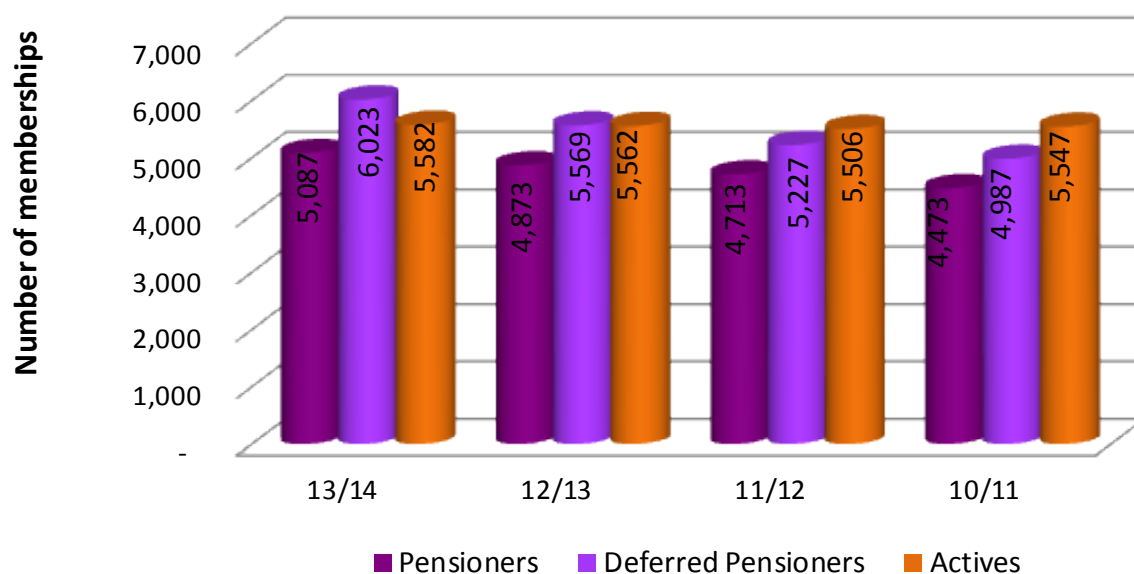
Membership of the Fund is voluntary. Full-time, part-time and casual employees where there is a mutuality of obligation and who have a contract of more than three months are brought into the Fund automatically, but have the right to "opt out" if they so wish. Casual employees with no mutuality of obligation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

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

Membership of the Fund

| Employer | Status | Actives | Deferred | Pensioners | Total | % |
|--------------------------------|--------------|--------------|--------------|--------------|---------------|------------|
| Harrow Council | Scheduled | 4,272 | 5,297 | 4,804 | 14,373 | 86.12 |
| Alexandra School | Scheduled | 32 | 1 | 0 | 33 | 0.20 |
| Avanti Free School | Scheduled | 15 | 1 | 0 | 16 | 0.10 |
| Bentley Wood School | Scheduled | 53 | 35 | 6 | 94 | 0.56 |
| Canons High School | Scheduled | 86 | 23 | 5 | 114 | 0.68 |
| Harrow College | Scheduled | 176 | 235 | 128 | 539 | 3.23 |
| Harrow High School | Scheduled | 91 | 19 | 3 | 113 | 0.68 |
| Hatch End High School | Scheduled | 81 | 110 | 6 | 197 | 1.18 |
| Jubilee Academy | Scheduled | 16 | 2 | 0 | 18 | 0.11 |
| Krishna Avanti Primary School | Scheduled | 19 | 0 | 0 | 19 | 0.11 |
| North London Collegiate School | Scheduled | 71 | 19 | 26 | 116 | 0.69 |
| Nower Hill High School | Scheduled | 145 | 57 | 2 | 204 | 1.22 |
| Park High School | Scheduled | 67 | 26 | 2 | 95 | 0.57 |
| Rooks Heath College | Scheduled | 113 | 21 | 2 | 136 | 0.81 |
| St Dominics 6th Form College | Scheduled | 50 | 20 | 30 | 100 | 0.60 |
| Salvatorian College | Scheduled | 57 | 26 | 3 | 86 | 0.51 |
| Stanmore College | Scheduled | 102 | 116 | 60 | 278 | 1.67 |
| Capita Business Services Ltd | Admitted | 11 | 4 | 5 | 20 | 0.12 |
| Carillion Services | Admitted | 87 | 4 | 4 | 95 | 0.57 |
| Family Action | Admitted | 2 | 0 | 0 | 2 | 0.01 |
| Granary Kids | Admitted | 2 | 1 | 0 | 3 | 0.02 |
| Govindas | Admitted | 5 | 0 | 0 | 5 | 0.03 |
| Harrisons Catering | Admitted | 22 | 3 | 0 | 25 | 0.15 |
| Julius Rutherford & Co | Admitted | 1 | 2 | 1 | 4 | 0.02 |
| Linbrook Services Ltd | Admitted | 4 | 1 | 0 | 5 | 0.03 |
| Temco Facilities Services Ltd | Admitted | 2 | 0 | 0 | 2 | 0.01 |
| | Total | 5,582 | 6,023 | 5,087 | 16,692 | 100 |

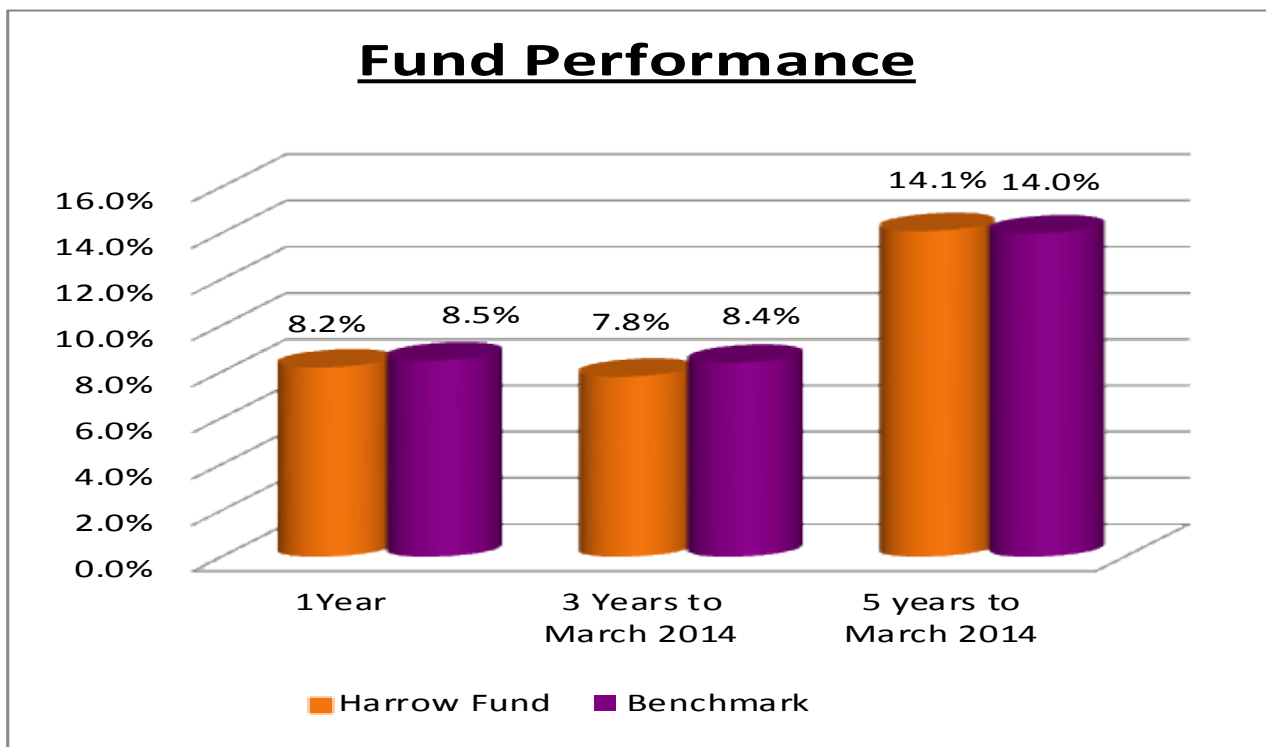
Membership of the Pension Fund



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

9.2 Fund Performance

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



The Fund’s return of 8.2% during 2013-14 was due to positive returns on equities, property and private equity, this was partly offset by a negative return on bonds.

Returns over all three time periods were strong, reflecting recovery from the significantly lower returns achieved at the height of the financial crisis in 2008.

The average local authority fund (as measured by WM Performance Services) returned 6.4% on its assets during the year. The Council’s Fund was ranked 19th (67th 2012-13) in the local authority annual league table of investment returns for the year. Asset allocation added 0.2% to the return relative to the local authority universe whilst the successful stock selection by some of the managers realised a relative outperformance of 1.6%.

9.3 London Borough of Harrow Pension Fund Financial Statements

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

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

9.3.2 Net Assets Statement

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

The Financial Statements summarise the transactions of the Fund and show the value as at 31st March 2014 of the assets and liabilities recognised by the Fund. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is disclosed in notes 9.4.14 and 9.4.15.

9.4 Notes to the Pension Fund Financial Statements

9.4.1 Accounting Policies

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

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

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

- All listed investments are quoted at the bid price at the close of business on 31 March of each financial year;
- Unlisted securities are valued having regard to latest dealings, professional valuations, asset values, currency rates and other appropriate financial information adjusted to reflect cash transactions up to 31 March 2014;
- Investments in pooled investment vehicles are stated at the bid value of the latest prices quoted by their respective managers;
- Derivatives are valued at the appropriate closing exchange rate or the bid spot or forward rates. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date; and
- There are no published price quotations available to determine the value of the Fund's private equity holdings. The value of these holdings is therefore assessed by the manager as at 31 December 2013 and adjusted for drawdowns paid and distributions received in the period 1 January 2014 to 31 March 2014.

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

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

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

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

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

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

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

The items in the Net Assets Statement as at 31 March 2014 involving assumptions about the future and major sources of estimation uncertainty for which there is a significant risk of material adjustment to the value disclosed within the next financial year are as follows:

| Uncertainties | Effect if actual results differ from assumptions |
|---|--|
| Unquoted property & private equity investments | There are no publicly listed prices for the Fund's investments in property and private equity and therefore there is a degree of estimation and judgement involved in the valuations used based on recognised professional guidance. |
| Actuarial present value of promised retirement benefits | Estimation of Fund deficit depends on a number of complex judgements relating to the discount rate used, and factors such as projected salary growth and inflation, commutation rates and mortality rates. The effects of changes in individual assumptions can be measured. |
| | Total property and private equity investments disclosed in the Financial Statements amount to £69.7m. A 10% change in value will result in a change in value of +/- £7 million. |
| | A decrease of 0.5% in the discount rate assumption would increase the pension liability by approximately £76m. An increase of 0.5% in assumed salary or pension inflation would increase the pension liability by approximately £19m and £56m respectively. A one year increase in assumed life expectancy would increase the pension liability by approximately £26m. |

Critical judgements in applying accounting policies

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

Unquoted private equity investments

Private equity investments are valued based on forward looking estimates and judgements made by the general partners (i.e. those controlling the partnerships) to the funds invested in, using guidelines issued by the Private Equity Industry Guidelines Group in the USA (known as the Private Equity Valuation Guidelines) and the International Private Equity and Venture Capital Valuation Guidelines, which have been adopted by almost all venture capital associations, including the BVCA.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits, as disclosed in note 9.4.14, is prepared by the Fund's actuary, adopting prescribed assumptions as set out in IAS19. These assumptions may differ from those used by the actuary at formal triennial valuations to determine the level of contributions payable by employers. The liability disclosed in note 9.4.14 is subject to significant variances depending on the assumptions adopted.

9.4.2 Contributions Receivable

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

9.4.3 Benefits Payable

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

9.4.4 Payments to and on Account of Leavers

| 2012-13 £000 | | 2013-14 £000 |
|-----------------|---------------------------------------|-----------------|
| 2 | Refunds to members | 17 |
| 1,060 | Individual transfers to other schemes | 1,057 |
| <u>1,062</u> | | <u>1,074</u> |

9.4.5 Investment Management and Administration Expenses

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

9.4.6 Investment Income

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

9.4.7 Investments

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

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

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

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

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

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

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

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

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

9.4.9 Pooled Investment Vehicles

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

9.4.10 Derivatives

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

| Counterparty | Duration | No. of Contracts | Value at 31-Mar-14 | |
|-------------------------------|-----------------|---------------------|--------------------|---------------------|
| | | | Assets £000 | Liabilities £000 |
| Barclays Bank - London | 7 days - 7 mths | 5 | 377 | -41 |
| Deutsche Bank - London | 7 days - 6 mths | 4 | 567 | -17 |
| Northern Trust | 7 days - 6 mths | 6 | 246 | -6 |
| Royal Bank of Canada - London | 7 days - 6 mths | 9 | 48 | -8 |
| Standard Chartered | 7 days - 3 mths | 7 | 10 | -11 |
| State Street - London | 3 mths - 6 mths | 5 | 6 | -42 |
| Toronto Dominion - Toronto | 7 days - 6 mths | 5 | 49 | -60 |
| Westpac - Sydney | 7 days - 6 mths | 5 | 48 | -53 |
| | | <u>46</u> | <u>1,351</u> | <u>-238</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. Non sterling currency exposure hedged at the year end is £105m. The main currency exposures before hedging in sterling are US\$ £55m, Yen £17m and Euro £13m.

9.4.11 Additional Voluntary Contributions (AVCs)

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

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

9.4.12 Current Assets & Liabilities

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

9.4.13 Related Party Transactions

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

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

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

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

9.4.14 Actuarial Valuation

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

To reach the funding level of 100% over a period of 20 years, the common employer's contribution rate is 34.4% of pensionable pay. Projected Unit Method is used to determine this rate. Adjustments have been made to the common rate of employer's contribution to take account of certain circumstances that are peculiar to individual employers.

The main actuarial assumptions used in the 2013 actuarial valuation are detailed below:

Assumption

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

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

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

9.4.15 Actuarial present value of promised retirement benefits

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

The valuation of liabilities as at 31 March 2014 has been carried out using assumptions that are in line with IAS 19 as opposed to the Pension Fund's funding assumptions. These are as follows:

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

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

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

9.5 Statement of Investment Principles

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

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.

Active Member: A Pension Fund member who is employed by one of the employers in the Fund who is paying contributions into the fund.

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.

Deferred Member: A Pension Fund member who had left employment, or who has ceased to be an active member of the pension scheme whilst remaining in employment, but retains an entitlement to a pension from the Fund.

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.

Pensioner member: a Pension Fund member who is drawing benefits from the Fund. Pensioner members include former active members drawing their pensions along with widows, widowers and other dependants of former active members.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10.2 Abbreviations

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

10.3 Service Reporting Code of Practice (SERCOP)

| Division of Service | 2013-14 Gross Expend. | 2013-14 Gross Income | 2013-14 Net Expend. | 2012-13 Net Expend. |
|--|-----------------------------|----------------------------|---------------------------|------------------------|
| Service Reporting Code of Practice Summary | £000 | £000 | £000 | £000 |
| Central Services | 5,310 | -3,374 | 1,936 | 3,389 |
| Court Services | 216 | 0 | 216 | 161 |
| Cultural and Related Services | 13,013 | -3,105 | 9,908 | 10,387 |
| Environmental and Regulatory Services | 19,649 | -2,928 | 16,721 | 15,952 |
| Planning Services | 7,159 | -3,540 | 3,619 | 5,684 |
| Education and Children's Services | 171,218 | -155,782 | 15,436 | 46,234 |
| Highways & Transport Services | 31,015 | -13,250 | 17,765 | 17,519 |
| Housing Services - general fund | 163,401 | -151,736 | 11,665 | 9,405 |
| Housing Services - HRA | 17,498 | -31,509 | -14,011 | -18,311 |
| Adult Social Care | 76,720 | -14,634 | 62,086 | 56,576 |
| Public Health | 9,209 | -8,874 | 335 | 0 |
| Corporate and Democratic Core | 9,211 | -771 | 8,440 | 9,288 |
| Non Distributed Costs | 1,681 | -247 | 1,434 | 951 |
| Cost of Services | 525,300 | -389,750 | 135,550 | 157,235 |
| Other items | | | -168,033 | -176,020 |
| Surplus or Deficit on the Provision of Services | | | -32,483 | -18,785 |
| Central Services | | | | |
| Local Tax Collection | 3,136 | -1,333 | 1,803 | 2,482 |
| Registration of Births, Deaths and Marriages | 1,093 | -1,168 | -75 | 81 |
| Elections | 259 | 199 | 458 | 632 |
| Emergency Planning | 233 | -23 | 210 | 242 |
| Local Land Charges | 401 | -558 | -157 | -48 |
| General Grants Bequests and Donations | 16 | 0 | 16 | 0 |
| Local Welfare Assistance Schemes | 172 | -491 | -319 | 0 |
| | 5,310 | -3,374 | 1,936 | 3,389 |
| Court Services | | | | |
| Coroners' Court Services | 216 | 0 | 216 | 161 |
| | 216 | 0 | 216 | 161 |
| Cultural and Related Services | | | 0 | |
| Culture and Heritage | 2,001 | -814 | 1,187 | 1,260 |
| Recreation and Sport | 1,140 | -1,054 | 86 | 1,047 |
| Open Spaces | 3,996 | -1,036 | 2,960 | 2,459 |
| Library Service | 5,876 | -201 | 5,675 | 5,621 |
| | 13,013 | -3,105 | 9,908 | 10,387 |
| Environmental and Regulatory Services | | | | |
| Cemetery, cremation and mortuary services | 637 | -362 | 275 | 296 |
| Community safety (Crime Reduction) | 401 | -69 | 332 | 271 |
| Community Safety (CCTV) | 602 | -1 | 601 | 599 |
| Flood Defence and Land Drainage | 1,303 | -261 | 1,042 | 761 |
| Street Cleansing (Not chargeable to highways) | 4,370 | 0 | 4,370 | 5,660 |
| Waste Collection | 3,257 | -65 | 3,192 | 2,928 |
| Trade Waste | 298 | -541 | -243 | -185 |
| Recycling | 4,165 | -577 | 3,588 | 1,535 |
| Climate Change Costs | 576 | -261 | 315 | 270 |
| Regulatory Services | 2,990 | -651 | 2,339 | 2,742 |
| Waste disposal | 1,050 | -140 | 910 | 1,075 |
| | 19,649 | -2,928 | 16,721 | 15,952 |

| Division of Service | 2013-14 Gross Expend. £000 | 2013-14 Gross Income £000 | 2013-14 Net Expend. £000 | 2012-13 Net Expend. £000 |
|---|-------------------------------------|------------------------------------|-----------------------------------|--------------------------------|
| Planning Services | | | | |
| Building Control | 1,057 | -649 | 408 | 351 |
| Development Control | 3,333 | -2,344 | 989 | 1,253 |
| Planning Policy. | 689 | -58 | 631 | 2,004 |
| Environmental initiatives | 0 | 0 | 0 | 37 |
| Economic Development | 815 | -238 | 577 | 494 |
| Community Development | 1,265 | -251 | 1,014 | 1,564 |
| Business Support | 0 | 0 | 0 | -19 |
| | 7,159 | -3,540 | 3,619 | 5,684 |
| Children's and Education Services | | | | |
| Early years | 13,479 | -8,899 | 4,580 | 4,046 |
| Primary Schools | 69,596 | -97,816 | -28,220 | 3,014 |
| Secondary Schools | 15,395 | -15,300 | 95 | 1,092 |
| Special Schools | 25,624 | -24,125 | 1,499 | -1,006 |
| Services to Young People & Other Community Learners | 3,412 | -228 | 3,184 | 2,159 |
| Management and support services | 0 | 0 | 0 | 2,482 |
| Service Strategy | 0 | 0 | 0 | 2,391 |
| Commissioning and social work | 0 | 0 | 0 | 357 |
| Children looked after | 8,809 | -710 | 8,099 | 8,186 |
| Family support services | 3,244 | -503 | 2,741 | 130 |
| Youth justice | 944 | -280 | 664 | 582 |
| Asylum seekers | 1,566 | -635 | 931 | 749 |
| Other children's and families' services and Young people's Safety | 12,941 | -1,068 | 11,873 | 15,115 |
| Other School-related Education Services | 16,208 | -6,218 | 9,990 | 6,937 |
| | 171,218 | -155,782 | 15,436 | 46,234 |
| Highways and Transport Services | | | | |
| Transport planning, policy and strategy | 652 | -954 | -302 | 143 |
| Structural Maintenance | 1,166 | -180 | 986 | 6,060 |
| Environment Safety and Routine Maintenance | 8,571 | -1,095 | 7,476 | 2,133 |
| Street Lighting | 1,961 | -4 | 1,957 | 1,926 |
| Winter Service | 360 | -53 | 307 | 323 |
| Traffic Management and Road Safety: Education and Safe Routes | 84 | 0 | 84 | 3,595 |
| Traffic Management and Road Safety: Other | 3,997 | -882 | 3,115 | 0 |
| Parking Services | 4,330 | -10,047 | -5,717 | -5,929 |
| Public Transport | 9,894 | -35 | 9,859 | 9,268 |
| | 31,015 | -13,250 | 17,765 | 17,519 |
| Housing Services | | | | |
| Housing strategy, advice, advances, enabling, renew als and licensing | 1,919 | -31 | 1,888 | 2,769 |
| Homelessness | 8,561 | -3,831 | 4,730 | 2,510 |
| Housing benefits payments | 143,601 | -144,416 | -815 | -513 |
| Housing benefits administration | 5,213 | -3,355 | 1,858 | 937 |
| Contribution to the HRA re:items shared by the w hole community | 0 | 0 | 0 | 163 |
| Other council property | 4 | -3 | 1 | 6 |
| Supporting People | 4,103 | -100 | 4,003 | 3,533 |
| Housing Revenue Account | 17,498 | -31,509 | -14,011 | -18,311 |
| | 180,899 | -183,245 | -2,346 | -8,906 |

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