

Statement of Accounts

2014 - 2015



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London Borough of Harrow
Statement of Accounts
2014 - 2015

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1 Explanatory Foreword

Message from the Director of Finance

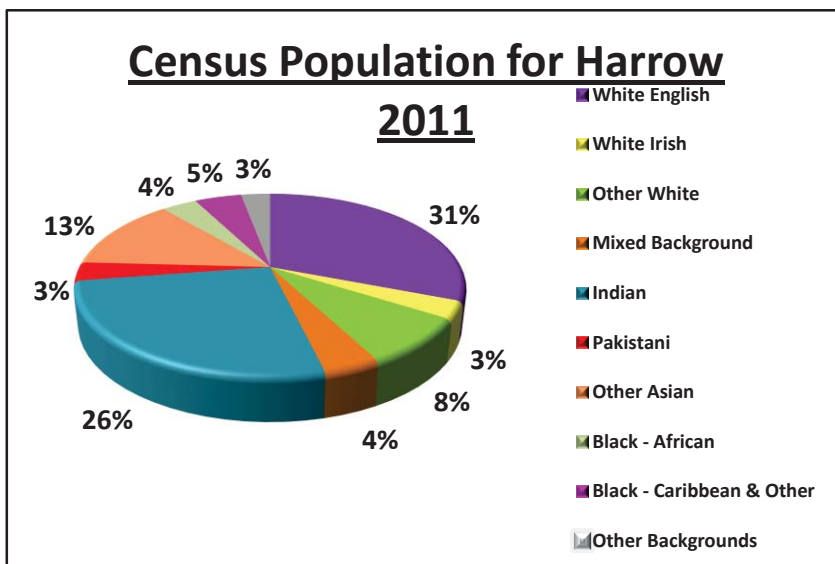
	<p>As the Council’s statutory Chief Finance Officer, I have pleasure in writing the Explanatory Foreword to Harrow Council’s Statement of Accounts for 2014-15. The Foreword provides an analysis of Council performance during the year, an explanation of the financial results, balances included in the Statement of Accounts and an overview of how the Council intends to achieve its long-term objectives.</p>
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The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). The purpose of the Statement of Accounts is to provide information on the Council’s financial position and performance, and to give confidence to stakeholders that public money has been used to provide value for money services and has been accounted for in an appropriate manner.

This report includes the following sections:

- 1.1 An Introduction to Harrow
- 1.2 Review of the year including Financial Performance of the Council
- 1.3 Outlook for the Future
- 1.4 Explanation of the Financial Statements
- 1.5 Receipt of Further Information
- 1.6 Acknowledgements

1.1 An Introduction to Harrow



Harrow is one of the safest and most diverse places in the country. It 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. Harrow has a strong entrepreneurial tradition with over 10,000 businesses located in the borough. It is a suburb which is approximately 10 miles from central London and well-connected to a global airport hub and transport links.

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

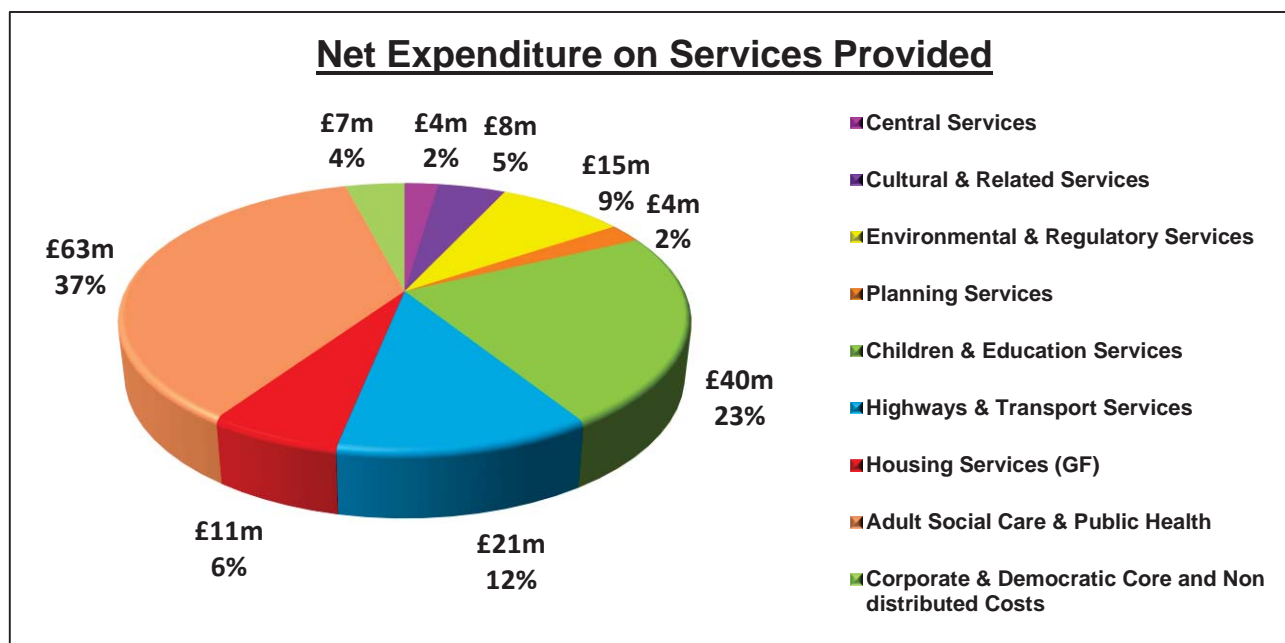
For most of the year, the CSB comprised of the Council's most senior officers, the Interim Head of Paid Service and three Corporate Directors, Director of Finance and Assurance (the Section 151 Officer) and the Monitoring Officer.

The Council approved the appointment of Michael Lockwood as Chief Executive Officer in November 2014 and he commenced the role in February 2015. The CSB then comprised the Chief Executive, three Corporate Directors, 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 Chief Executive 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

Medium Term Financial Strategy

The Council, along with the rest of local government, faces continuing financial challenges in the form of ongoing funding reductions from Central Government and the impact of legislative/policy changes. The Council responded to these challenges by identifying further efficiencies and taking advantage of new technologies to innovate service delivery in accordance with the savings programme agreed by the Full Council in February 2014.

The 2014-15 Medium Term Financial Strategy (MTFS) was influenced by, and formulated to address, the need to make reductions in expenditure resulting from decreased Government funding, increased demands on services and other economic pressures. In response to these challenges, a budget of £174.4m along with a nil increase in Council Tax was approved by the Council in February 2014. The budget included growth in services of £4.7m and savings of £10m.

The Government's funding settlement in 2010 meant a 28% cut to the Council's controllable costs over the 4 years to 2014-15, a £62m reduction compared to 2010-11 levels of expenditure. This is on top of the £45m the Council had already saved before this, meaning that by 2015 the Council will have made savings of over £10m a year for the last nine years.

Over the past decade, Harrow has demonstrated a successful track record in delivering these savings by:

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

As a result costs have been contained, risks and demands managed and financial reserves strengthened despite the economically challenging environment. Over the past 8 years the General Fund Reserve and Earmarked Reserves have increased by around £9m and £20m respectively, strengthening the Council's financial resilience. As pressures on the Council's finances continue, it is anticipated that these reserves will need to be monitored closely to ensure that they are adequate and proportionate to the risks faced by Harrow.

2014-15 Achievements:

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

Making a Difference for the Most Vulnerable

- An extra £1m has been invested to tackle domestic and sexual violence. An approved action plan (Standing Up for Those in Need) is being implemented over 3 years;
- An additional £0.7m has been committed to recruiting more Children's social workers to meet rising demands;
- Over half of eligible Adult social care users have a cash Personal Budget and approximately 250 clients now use My Community ePurse;
- The Families First project has so far helped some 300 families out of 395 identified with complex needs to make the improvements sought by the national Troubled Families programme. The project has qualified to move to phase 2;
- The Firs respite care centre for children has again been graded Outstanding by Ofsted inspectors.

Making a Difference for Communities

- Cleaner and Safer Streets – 90% litter free compared to 86% in 2013/14 and an average for the year of 99.5% street lights functioning;
- Created a new Town Park and Performance Space at the back of Harrow on the Hill station;
- Trained 45 local people to support residents to improve their health and wellbeing and to signpost them to services they may require;
- Invested £13m in Highway and Street Lighting improvements and maintenance.

Making a Difference for Local Businesses

- Rolled out a period of free parking in all district centres;
- Invested in the Council's Xcite programme to help over 200 workless residents into employment and developed a 'How to' guide for taking on apprentices;
- Supported 300 local businesses with events including Barclays Ready for Business Seminar, regular mentoring seminar in partnership with Ministry of Growth and Harrow College and NatWest mobile Business School.

Making a Difference for Families

- Housing Growth fund bids of £5.3m have been awarded for a new build programme;
- We have helped ensure that 98% of 16-18 year olds are in education, training or employment;
- Strong schools inspection results continue;
- The Schools Expansion Programme sees a £45m investment in schools to meet increasing demand for places and Special Educational Needs as summarised below:-
 - Rebuild of Marlborough school;
 - Expansion of Whitefriars Community School to be an all age school;
 - Permanently increased Reception intakes at 8 Primary schools in September 2013 and at a further 15 schools by September 2015.

Efficient and Effective Organisation

- 68,500 residents now have Access Harrow accounts and 75% of customer interactions are by self-service;
- The Council has been awarded the Investors in People mark;
- Over 120 staff successfully completed the Leadership Development Programme which has been accredited by the Institute of Management and Development.

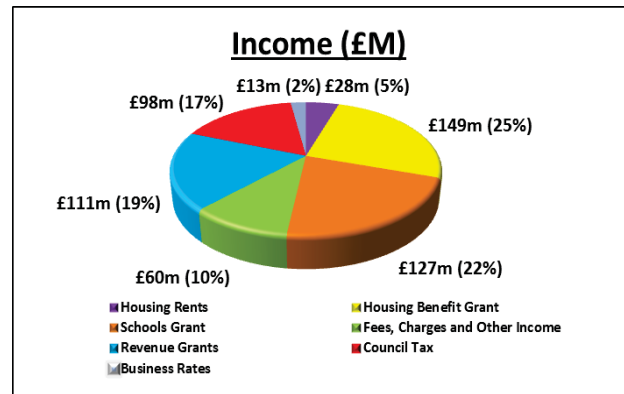
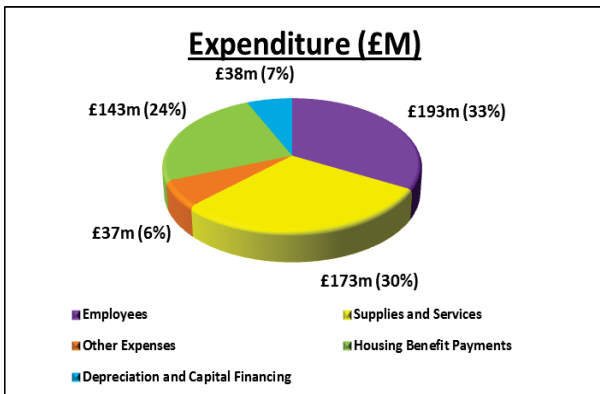
Summary of the 2014-15 Financial Performance of the Council

During the year the Council delivered its services within the approved budget, contained the pressures arising from the challenging financial environment and managed the risks around demand pressures. This resulted in a net underspend of £5.381m and represented 3% of the approved budget £174.426m.

The under spend has been used to increase specific reserves. This maintains the Council's capacity to manage risks arising in future years from continuing demographic pressures, the economy, welfare reforms and further Government funding cuts.

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

	2014-15		Variation
	Budget £000	Actuals £000	£000
Directorate costs			
Resources	27,011	25,881	-1,130
Environment & Enterprise	37,424	36,916	-508
Community, Health & Wellbeing	76,589	77,578	989
Children & Families	43,918	43,239	-679
Total - Directorate	184,942	183,614	-1,328
Other operating income			
Contingencies, Corporate Items and Non-service grants	-9,572	-13,484	-3,912
Capital Financing and Interest	-944	-1,085	-141
Net Expenditure	174,426	169,045	-5,381
Funded by :			
Government Grant	-63,174	-63,174	0
Collection Fund Surplus	-1,676	-1,676	0
Council Tax income	-95,067	-95,067	0
Business Rates income	-14,509	-14,509	0
Total	-174,426	-174,426	0
Underspends for the year		-5,381	
Contribution to specific reserves			
Projects in progress		1,598	
IT Implementation		2,854	
Rapid Response		75	
MTFS Implementation Costs		54	
Standing Up for Those in Need		800	
Surplus for the year		0	
General Fund balance at 31 March 2014		10,008	
General Fund balance at 31 March 2015		10,008	

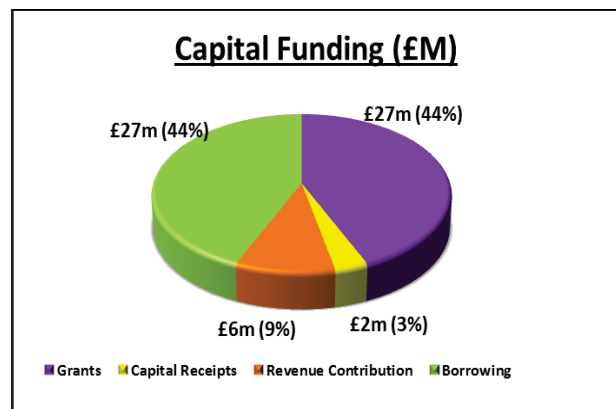
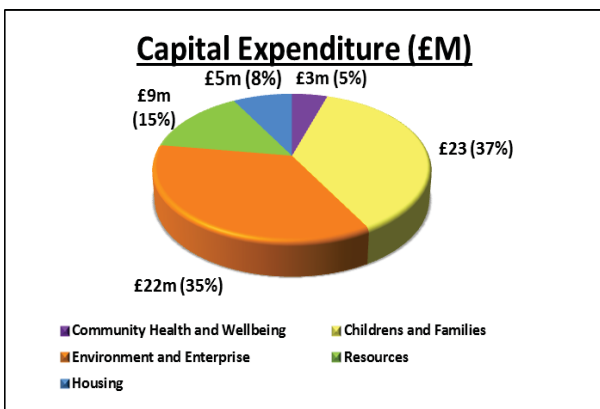


Capital

During 2014-15 Council invested £62m on developing or acquiring capital assets as summarised below. This was mainly funded from external grants (£27m) and the balance of £35m funded from borrowing, revenue contributions and capital receipts.

Major projects included in the programme were:

- Continued investment in new technology to improve Council Services;
- Highways improvement programme;
- Improvements to the Council’s housing stock; and
- Schools expansion programme.



Housing

The Council provides rented accommodation of 4,878 units. In 2014-15, average Council rents were £112.48 per week. The HRA outturn confirmed a surplus of £1m in 2014-15 reflected by an increase in HRA reserves from £3.6m to £4.6m.

Collection Fund

The in-year Council tax collection rate for 2014-15 was 97.3% which compared favourably with the target of 96.5%. Business rate collection was 96.3% which was marginally above the target of 96%, resulting from the positive economy and awards of business retail relief. The overall position for the Collection Fund is a net deficit of £0.463m against an estimated surplus of £1.533m resulting in an adverse variance of £1.996m. This was mainly due to an increase in the appeals provision to £4.2m.

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 0.97% in the year, which compares favourably with three month LIBID of 0.43%.

During 2014-15, a market loan of £6m was repaid. The borrowing at year end stood at £134m and the average interest rate on debt remained at the same level as last year at 4.3%. The strategy to fund capital expenditure 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. The Fund's net assets increased by £84m to £675m, reflecting the net return on both investment income and the change in market value of investments (£90m), after net costs of £6m from dealings with fund members. The Fund's investments return for 1 year was 15.2% compared to the benchmark of 13.4%.

The financial statements include the relevant pension costs and provisions required to reflect the pension accounting arrangements under the International Accounting Standards (IAS19). For balance sheet purposes, the Council's estimated liabilities for retirement benefits exceeded the assets in the relevant funds by £401 million at 31st March 2015. This is £63m more than the net liabilities of £338m twelve months earlier (see note 5.38). 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 £234m. The Council's contribution rate for the financial year 2014-15 was 16% plus £3.2m.

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 some 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 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.

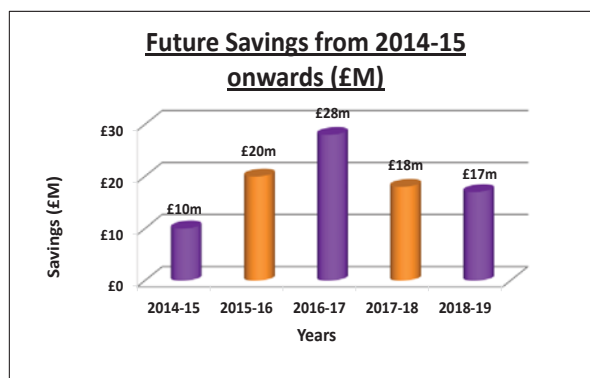
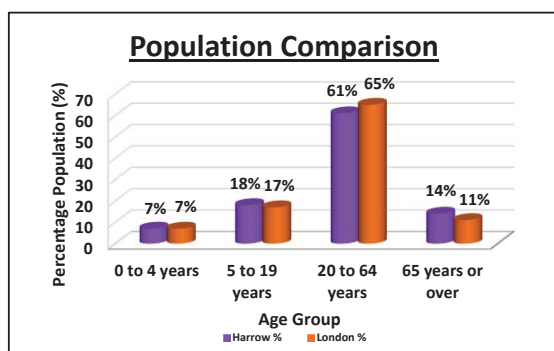
Harrow is one of the lowest funded councils in London. A recent review identified that in 2015-16 Harrow's revenue spending power per head is projected to be £159 (or 17.3%) lower than the London average which ranks Harrow 26th out of 32. A similar comparison with the England average shows Harrow's revenue spending power per head is £127 (or 14.3%) below average and ranks Harrow 105th out of 120.

The major influences on the finances going forward are:-

- The continued reduction in Government funding, Government reforms, demand and inflationary pressures;

- Increase in population as evidenced by the 2011 Census data where the figures for Harrow shows there has been a 15% increase in population in the last 10 years;
- The most significant change in the demographic is the biggest growth in the birth rate with a 33% increase in 0-4 year olds increasing the demand for both school and nursery places; and
- Continuing high demand for Adult Social Care.

The MTF5 2015-16 to 2018-19 addresses these challenges, aligns with the Corporate Plan and identifies total cost savings of £83m over the coming four years. To meet this savings target the Council is re-engineering its future business and organisational arrangements. The budget for 2015-16 includes savings of £20m and growth in services of £8m. In the medium term budget at February 2015 for 2016-17 to 2018-19 the council had identified £11m of savings but there remained a funding gap of £52m which the Council aims to address and formalise savings plans by October 2015.



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 2014-15;
- 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.

1.5 The Statement of Accounts

- **Statement of Responsibilities for the Statement of Accounts** sets out the respective responsibilities of the Council and the Chief Finance Officer.
- **Auditors Statement** gives the auditors opinion of the financial statements and of the Council'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 Council, 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 Council'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 true economic cost of providing services in the year, valued in accordance with proper accounting practices. Differences between the true economic cost of providing services and the level of expenditure allowed by regulations to be funded by local taxation is explained in the Movement in Reserves Statement.
- **Balance Sheet** shows the value of the assets and liabilities recognised by the Council as at 31st March 2015, valued in accordance with proper accounting practices. The net value of these assets and liabilities is matched by the value of the Council's reserves. Usable Reserves can be used to provide services, subject to any statutory limitations on their use. Unusable Reserves cannot be used to provide services. These include reserves holding unrealised gains and losses on assets, which will only become available to provide services if the assets are sold, and reserves holding timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.
- **Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing or financing activities. Cash flows from operating activities show how the operations of the Council are funded by way of taxation, grant income and receipts from services provided by the Council. Cash flows from investing activities shows cash flows intended to contribute to the Council'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 Council.
- **Housing Revenue Account (HRA)** shows the true economic cost in the year of providing housing services, valued in accordance with proper accounting practices. Differences between the true economic cost of providing housing services and the level of expenditure allowed by regulations to be funded by rental income is explained in the Statement of Movement on the HRA Balance.
- **The Collection Fund** is an agent's statement that reflects the statutory obligation of the billing Council to maintain a separate Collection Fund. The statement show tax income collected from local taxpayers and the distribution of this money to the Council, the Government and the GLA.
- **The Pension Fund Account** provides information about the financial position, performance and financial adaptability of the Fund. It shows contributions to the Council's Pension Fund

for employees during 2014-15, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund.

1.6 Receipt of further Information

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

1.7 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 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.

A handwritten signature in black ink that reads "D. Calvert". The signature is written in a cursive style with a large initial 'D'.

Dawn Calvert CPFA
Director of Finance
30th September 2015

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;
- 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's Responsibilities

The Director of Finance 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 (the Code).

In preparing this Statement of Accounts, the Director of Finance 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 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:

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 2015 and its income and expenditure for the year ended 31 March 2015.



Dawn Calvert CPFA

Director of Finance

30th September 2015

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 10 September 2015.

Signed on behalf of London Borough of Harrow Council

Councillor Antonio Weiss
Chairman (GARMSC)
30th September 2015

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 2015 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 5.41, 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 2014/15.

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 2015 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 2014/15.

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 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 9.4. 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 2014/15.

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

Respective responsibilities of the 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2015 and the amount and disposition of the fund's assets and liabilities as at 31 March 2015, 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 2013, 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 2015.

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 2013, 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 2015.]¹

¹ As discussed in our ISA260 report our opinion in this regard has not yet been finalised

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 15

DRAFT

4 Presentation of Financial Statements

4.1 Movement in Reserves Statement

	General Fund Balance £000	Earmarked 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 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)/Deficit 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 5.19.1 and 5.19.2)	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
Balance at 31 March 2014	-10,008	-25,154	-13,218	-3,574	-7,200	-4,582	-20,165	-83,901	-75,161	-159,062
Movement in reserves during 2014-15										
(Surplus)/Deficit on the provision of services	1,909	0	0	-63,911	0	0	0	-62,002	0	-62,002
Other Comprehensive Expenditure and (Income) (Note 4.2)	26,189	0	0	0	0	0	0	26,189	0	26,189
Total Comprehensive Expenditure and (Income) (Note 4.2)	28,098	0	0	-63,911	0	0	0	-35,813	0	-35,813
Adjustments between accounting basis & funding basis under regulations (Note 5.5)	-28,171	0	0	62,846	-2,609	-3,460	-3,997	24,609	-24,611	-2
Net (Increase)/Decrease before Transfers to Earmarked Reserves	-73	0	0	-1,065	-2,609	-3,460	-3,997	-11,204	-24,611	-35,815
Other Adjustments (Notes 5.19.1 and 5.19.2)	0	0	0	0	470	0	-470	0	0	0
Transfers (to)/from Earmarked Reserves (Note 5.6)	73	1,589	-1,717	55	0	0	0	0	0	0
(Increase)/Decrease in 2014-15	0	1,589	-1,717	-1,010	-2,139	-3,460	-4,467	-11,204	-24,611	-35,815
Balance at 31 March 2015 carried forward (Note 4.3)	-10,008	-23,565	-14,935	-4,584	-9,339	-8,042	-24,632	-95,105	-99,772	-194,877

4.3 Balance Sheet

31-Mar-14 £000		Notes	31-Mar-15 £000
782,924	Property Plant and Equipment	5.10	871,976
29,367	Investment Property	5.12	30,062
22,000	Long Term Investments	5.13	28,000
2,636	Long Term Debtors	5.14	8,593
<u>836,927</u>	Long Term Assets		<u>938,631</u>
75,248	Short Term Investments	5.13	73,260
19,174	Short Term Debtors	5.15	27,785
35,250	Cash and Cash Equivalents	5.24	12,817
<u>129,672</u>	Current Assets		<u>113,862</u>
-22,468	Short Term Borrowing	5.13	-4,349
-72,712	Short Term Creditors	5.16	-66,731
-3,306	Provisions	5.17	-4,115
<u>-98,486</u>	Current Liabilities		<u>-75,195</u>
-5,362	Provisions	5.17	-5,566
-334,261	Long Term Borrowing	5.13	-334,434
-358,056	Other Long Term Liabilities	5.18	-419,071
-11,372	Capital Grants Receipts in Advance	5.32.3	-23,350
<u>-709,051</u>	Long Term Liabilities		<u>-782,421</u>
<u>159,062</u>	Net Assets		<u>194,877</u>
-83,901	Usable Reserves	5.19	-95,105
-75,161	Unusable Reserves	5.20	-99,772
<u>-159,062</u>	Total Reserves		<u>-194,877</u>

4.4 Cash Flow Statement

2013-14 £000 *		Notes	2014-15 £000
32,483	Net Surplus on the provision of services	4.2	62,002
25,454	Adjustments to net deficit on the provision of services for non cash movements	5.21	-13,162
-23,465	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	5.21	-36,352
<u>34,472</u>	Net cash flow from Operating Activities		<u>12,488</u>
-8,969	Investing Activities	5.22	-15,547
-7,870	Financing Activities	5.23	-19,374
17,633	Net increase/(decrease) in cash and cash equivalents		<u>-22,433</u>
17,618	Cash and cash equivalents at the beginning of the reporting period		35,250
<u>35,250</u>	Cash and cash equivalents at the end of the reporting period	4.3	<u>12,817</u>

* Previous years figures have been amended to reflect adoption of a new format for the cashflow statement

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 2014-15 financial year and its position as at 31 March 2015. 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 2014-15 and the Service Reporting Code of Practice 2014-15 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 have been prepared on a going concern basis, that is, the accounts have been prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

Primacy of Legislative Requirements

Local Council 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 is recognised when goods or services are supplied or made available to external customers and title and risk of loss is passed to the customer.
- Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms.
- 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;
- 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.

Where a change in accounting policies 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, trading accounts and the HRA 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.

Capital charges to the HRA are made in accordance with the Item 8 Determination. The HRA is not required to make MRP. Instead, depreciation charged to the HRA is transferred to the Major Repairs Reserve to be used to fund future HRA capital expenditure.

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, paid sick leave 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 at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs of a restructuring which include the payment of termination benefits.

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 pension liability is analysed into the following 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. Regulations allow the impact on the General Fund Balance of these gains and losses 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.

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.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (revenue grants and contributions attributable to specific services) or Taxation and Non-Specific Grant Income (non- ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where Revenue grants that have been credited to the Comprehensive Income and Expenditure Statement are intended to meet specific service expenditure that has not yet been incurred, an equivalent amount is transferred from the General Fund Balance to an Earmarked Reserve in the Statement of Movement in Reserves. A transfer back is made in future years to match expenditure as it is incurred.

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.

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 2014-15 (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; and
- Civic insignia are de minimis for inclusion in the balance sheet.

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.

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; and

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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

- infrastructure 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));
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV); and
- assets that local Council intend to hold in perpetuity and have no determinable useful life and may have restrictions in their disposal are classified as community assets, and in this instance are generally valued at a nominal £1.

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.

The Council has a rolling programme that ensures all Property, Plant and Equipment (PPE) included in the Balance Sheet at fair value are revalued at least every five years and are reviewed at the year-end to ensure that their carrying amount is not materially different from their fair value. Assets Under Construction are valued in the year that they come 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.

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.

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.

Componentisation

Material components are identified, valued at DRC, and depreciated separately.

For Council Dwellings the Council identified the following material components:

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 60% or less 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 assets and liabilities 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, Contingent Liabilities and Contingent Assets

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 of the amount of the obligation can be made, but where the timing of the transfer is uncertain.

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.

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, average redundancy costs are used 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 Council 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 Council 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:

Funding

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.

Leases

The Council has examined its leases, and classified them as either operational or finance leases. In some cases the lease transaction is not always conclusive and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. In reassessing the lease the Council has estimated the implied interest rate within the lease to calculate interest and principal payments.

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 2015 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 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.
Business Rates	The Council must meet its relevant share of backdated business rate appeals. A provision has been made within the accounts, utilising Valuation Office data and the analysis of successful appeals to date as at the end of the reporting period.	If the refunds payable are higher than the provision, the difference will result into deficit on the Collection Fund. The proportionate share of the deficit will impact on the Council's general fund in future years.
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 2014-15 Code of Practice:

- IFRS 13 Fair Value Measurement (May 2011);
- IFRIC 21 Levies;
- Annual Improvements to IFRSs (2011 – 2013 Cycle) which includes minor amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.

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

5.5 Adjustment between accounting basis and funding basis under regulations

2014-15	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the CIES:</u>						
Depreciation	-20,602	-7,350	0	0	0	-27,952
Impairment	-1,022	61,130	0	0	0	60,108
Movements in the market value of Investment Properties	1,395	0	0	0	0	1,395
Capital grants and contributions - Applied	20,531	42	0	0	5,971	26,544
Capital grants and contributions - Unapplied credited to CIES	9,906	62	0	0	-9,968	0
Revenue expenditure funded from capital under statute	-2,614	-84	0	0	0	-2,698
Non Current assets written out on disposal	-15,980	-2,299	0	0	0	-18,279
<u>Insertion of items not debited or credited to the CIES:</u>						
Minimum Revenue Provision	16,150	12	0	0	0	16,162
Capital expenditure charged against the General Fund and HRA balances	2,538	0	0	0	0	2,538
Adjustments involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited to the CIES	873	4,968	-5,849	0	0	-8
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	2,523	0	0	2,523
Less Administrative Cost of disposals	-12	0	12	0	0	0
Less payments to the Capital Receipt Pool	0	-705	705	0	0	0
Adjustment involving the Major Repairs Reserve						
Reversal of Major Repairs Allowance credited to the HRA	0	7,338	0	-7,338	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	3,878	0	3,878
Adjustments involving the Financial Instruments Adjustment Account:						
Premiums and Discounts on Debt Restructure	-293	-82	0	0	0	-375
Adjustments involving the Pensions Reserve:						
Charges made for retirement benefits in accordance with IAS19	-31,798	-765	0	0	0	-32,563
Employer's pensions contributions payable in the year	17,536	579	0	0	0	18,115
Adjustments involving the Collection Fund Adjustment Account:						
Adjustment involving the Accumulating Compensated Absences Account	210	0	0	0	0	210
	1,200	0	0	0	0	1,200
Total Adjustments	-1,982	62,846	-2,609	-3,460	-3,997	50,798

2013-14	General Fund Balance	Usable Reserves Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:						
<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	791	0	0	0	0	791
Adjustment involving the Accumulating Compensated Absences Account	-443	0	0	0	0	-443
Total Adjustments	16,670	7,796	-3,480	-1,198	-5,309	14,480

5.6 Transfers to/from Earmarked Reserves

	Balance at 31-Mar-13	Transfers Out 2013-14	Transfers In 2013-14	Balance at 31-Mar-14	Transfers Out 2014-15	Transfers In 2014-15	Balance at 31-Mar-15
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
Compensatory Added Years	-876	79	-4	-801	79	0	-722
Transformation and Priority Initiatives Fund	-1,117	747	-3,000	-3,370	352	-801	-3,819
PFI Schools	-3,461	560	-345	-3,246	2,496	-2,204	-2,954
PFI Neighbourhood Resource Centre	-866	0	-154	-1,020	974	-1,108	-1,154
HSIP	0	0	0	0	0	-1,261	-1,261
IT Implementation	0	0	0	0	0	-2,854	-2,854
Children's Social Care	0	0	0	0	0	-866	-866
Standing Up for Those in Need	0	0	0	0	0	-800	-800
Projects in progress	-3,346	3,203	-3,171	-3,314	3,176	-1,598	-1,736
Insurance reserve	-500	0	0	-500	0	0	-500
Revenue Grant Reserve	-585	532	-932	-985	832	-55	-208
Public Health	0	0	-666	-666	0	-242	-908
Revenue Contribution for Capital from Schools	-63	0	-1,784	-1,847	1,847	0	0
Business Risk	-1,691	832	-2,000	-2,859	750	0	-2,109
MTFS Implementation cost	-4,849	1,571	-2,796	-6,074	4,390	-1,120	-2,804
Other earmarked reserves	-355	3	-120	-472	318	-716	-870
Subtotal General Fund Reserves	-17,709	7,527	-14,972	-25,154	15,214	-13,625	-23,565
Balances held by schools under a scheme of delegation	-14,407	1,189	0	-13,218	0	-1,717	-14,935
Total	-32,116	8,716	-14,972	-38,372	15,214	-15,342	-38,500

Compensatory Added Years: An estimate of, and a source of funding for, the pension cost of added years of service awarded to some employees made redundant in past years.

Transformation and Priority Initiative Fund: Resources set aside for initiatives to deliver ongoing revenue savings.

PFI Schools and Neighbourhood Resource Centre: The balance of unspent PFI grants. These will be used to fund future payments to PFI contractors.

HSIP: Holds the surplus generated by the Harrow Schools Improvement Partnership.

IT Implementation: Transformation and transition costs relating to the new IT contract.

Projects in Progress: Resources set aside for expenditure committed but not yet incurred as at the 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: Unspent balances of school funding which schools can carry forward to fund future expenditure. These balances are not available to the Council for general use.

5.7 Other Operating Expenditure

2013-14 £000		2014-15 £000
	Levies	
264	London Boroughs Grants Committee	239
308	London Pension Fund Authority	308
7,727	West London Waste Authority (WLWA)	7,280
252	Lee Valley Regional Park Authority	247
181	Environment Agency	181
8,732	Sub Total Levies	8,255
787	Payments to the Government Housing Capital Receipts Pool	705
-796	Losses/(gains) on the disposal of non current assets	12,506
8,723	Total	21,466

5.8 Financing and investment income and expenditure

2013-14 £000		2014-15 £000
17,015	Interest payable and similar charges	16,111
14,568	Net interest on the net defined benefit liability	14,487
-1,881	Interest receivable and similar income	-1,715
-2,988	Income in relation to investment properties & changes in their fair value	-2,219
26,714	Total	26,664

5.9 Taxation and non- specific grant income

2013-14 £000		2014-15 £000
-94,876	Council tax income	-98,011
-14,725	Business Rates Retention	-13,436
-52,098	Revenue Support Grant	-42,638
-20,154	Business Rates Top-Up Grant	-20,546
-3,284	Education Services Grant	-3,041
-3,025	New Home Bonus Grant	-3,064
0	Section 31 Grants	-1,129
0	Council Tax Freeze Grant	-1,050
-294	Other General Grants	-24
-15,014	Capital grants and contributions (Note 5.32.2)	-30,523
-203,470	Total	-213,462

5.10 Property, Plant and Equipment

2014-15

	Council Dwellings and Buildings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Property, Plant, IT and Equipment	Total	PFI Assets Included in Property, Plant, IT and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2014	286,711	375,775	119,513	196,174	886	20,911	999,970	999,970	25,824
Fully depreciated assets derecognised *	0	0	-61,070	-2,215	0	0	-63,285	-63,285	0
Reversal of accumulated depreciation on revaluation	-6,776	-4,507	0	0	0	0	-11,283	-11,283	0
Additions	4,180	3,112	5,420	13,568	0	27,699	53,979	53,979	241
Revaluation increases recognised in the Revaluation Reserve	2,027	20,238	0	0	0	0	22,265	22,265	1,539
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	61,130	-2,790	0	0	0	0	58,340	58,340	0
Derecognition - Disposals	-2,675	-16,931	0	0	0	0	-19,606	-19,606	0
Derecognition - Other **	0	0	-11,363	-42,634	0	0	-53,997	-53,997	0
Assets reclassified from Asset Under Construction	0	3,328	3,803	3,747	0	-10,878	0	0	295
Other movements in cost or valuation***	0	3,574	-3,574	0	0	0	0	0	0
At 31 March 2015	344,597	381,799	52,729	168,640	886	37,732	986,383	986,383	27,899
Accumulated Depreciation									
At 1 April 2014	-6,776	-7,496	-97,655	-104,234	-885	0	-217,046	-217,046	-367
Fully depreciated assets derecognised *	0	0	61,070	2,215	0	0	63,285	63,285	0
Reversal of accumulated depreciation on revaluation	6,776	4,507	0	0	0	0	11,283	11,283	0
Depreciation charges for 2014-15	-7,095	-5,240	-8,098	-7,519	0	0	-27,952	-27,952	-315
Derecognition - Depreciation on Disposal	376	1,650	0	0	0	0	2,026	2,026	0
Derecognition - Other **	0	0	11,363	42,634	0	0	53,997	53,997	0
Reclassification of assets***	0	-1,967	1,967	0	0	0	0	0	0
At 31 March 2015	-6,719	-8,546	-31,353	-66,904	-885	0	-114,407	-114,407	-682
Net Book Value									
At 31 March 2015	337,878	373,253	21,376	101,736	1	37,732	871,976	871,976	27,217
At 31 March 2014	279,935	368,279	21,858	91,940	1	20,911	782,923	782,923	25,457

* The gross book value of fully depreciated assets that are no longer in use prior to 2014-15

** The gross book value of fully depreciated assets that ceased being used in 2014-15

*** Reclassification of assets following a review of the Fixed Asset Register

2013-14	Council Dwellings and Buildings	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Property, Plant, IT and Equipment	Total	PFI Assets Included in Property, Plant, IT and Equipment
	£000	£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	-5,485	0	0	0	0	-7,493	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	375,776	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	782,925	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

5.10.1 Depreciation

The following useful lives have been used in the calculation of depreciation:

- Council dwellings –50 years, with the exception of material components: 15–20 years;
- Other buildings –20-80 years;
- Vehicles, plant, furniture and equipment: 5 years;
- Infrastructure assets –10-80 years; and
- Freehold land - not depreciated.

5.10.2 Capital Commitments

The Council has entered into contracts for the construction or enhancement of Property, Plant and Equipment. Expenditure committed under these contracts but not yet incurred as at 31 March is set out below:

31-Mar-14		31-Mar-15
£000	Directorate	£000
4,790	Resources	2,811
5,474	Children and Families	41,463
183	Community, Health & Wellbeing	1,304
786	Housing Services (HRA)	1,527
<u>6,359</u>	Environment & Enterprise	<u>4,027</u>
<u>17,592</u>		<u>51,132</u>

5.10.3 Revaluations

The Council has a rolling programme that ensures all Property, Plant and Equipment (PPE) included in the Balance Sheet at fair value is revalued at least every five years and reviewed at year-end to ensure that their carrying amount is not materially different from their fair value. All valuations were carried out internally as at 1 April 2014. 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. In estimating fair value, regard has been given to the nature of the property by reference to its use, location, size, method of construction, age, all other relevant matters, and the prevailing market forces.

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

- infrastructure 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);
- 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); and
- assets that local Council intend to hold in perpetuity and have no determinable useful life and may have restrictions in their disposal are classified as community assets, and in this instance are generally valued at a nominal £1.

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.

The HRA portfolio is valued in line with the 5 year rolling programme as at 1 April. The Land Registry Index is used to calculate the movement in property values between 1 April 2014 and 31 March 2015. The movement in HRA assets has been analysed in note 6.2.3.

Rolling revaluation programme:

	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	21,376	101,736	37,732	160,844	0
Valued at fair value:							
As at 31st March 2015	337,878	74,705	0	0	0	412,583	30,062
As at 31st March 2014	0	29,530	0	0	0	29,530	0
As at 1st April 2013	0	11,581	0	0	0	11,581	0
As at 1st April 2012	0	14,815	0	0	0	14,815	0
As at 1st April 2011	0	242,622	0	0	0	242,622	0
Total Cost or Valuation as at 31.03.15	337,878	373,253	21,376	101,736	37,732	871,975	30,062

This table excludes community assets valued at £1K

5.10.4 Trust, Foundation, Voluntary Aided and Academy Schools

The Council has a number of schools that are operated by various trusts, are classed as voluntary aided schools, or have transferred to Academy status. The Council is responsible for providing funding to the schools from the Dedicated Schools Grant (DSG) and Capital Resources, with the exception of the Academies who receive funding direct from the Government.

The Trustees of these schools have control of the school buildings and associated land. The assets are therefore not shown on the Council's Balance Sheet. During the year, 2 further schools transferred to Academy status.

5.11 Heritage Assets

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

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. Headstone Manor (Grade I) was built circa 1310 and altered/added to in the 17th and 18th Centuries. The Tithe Barn (Grade II) dates from 1506 and the Small Barn has 14th century foundations.

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).

3. Pinner Hill Ice House: Believed to date from the mid 19th Century and 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: This represents a rare survival of ancient landscape in Greater London.

6. Civic Insignia: The Council owns items of Civic Insignia. There is a formal policy for the safe keeping and security of these items. These items are held at the Civic Centre and can be viewed by appointment through the Mayor's Office.

7. 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.

5.12 Investment Properties

2013-14			2014-15	
£000			£000	
27,820	Balance at start of the year		29,367	
-235	Disposals		-700	
1,782	Net gains from fair value adjustments		1,395	
<u>29,367</u>	Balance at end of the year		<u>30,062</u>	

5.13 Financial instruments

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

	Long-term		Current	
	31-Mar-15	31-Mar-14	31-Mar-15	31-Mar-14
	£000	£000	£000	£000
Investments				
Loans and receivables	28,000	22,000	73,260	75,245
Cash and cash equivalents			18,436	35,250
Total investments	28,000	22,000	91,696	110,495
Debtors				
Loans and receivables	8,593	2,636	0	0
Financial assets carried at contract amounts	0	0	15,953	9,300
Total Debtors	8,593	2,636	15,953	9,300
Borrowings				
Financial liabilities at amortised cost	-334,434	-334,261	-9,969	-22,468
Total borrowings	-334,434	-334,261	-9,969	-22,468
Other Liabilities				
PFI and finance lease liabilities	-18,075	-19,962	-1,862	-1,879
Total other liabilities	-18,075	-19,962	-1,862	-1,879
Creditors				
Financial liabilities carried at contract amount	0	0	-43,891	-49,268
Total creditors	0	0	-43,891	-49,268

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 £11.49m (£9.18m in 2013-14). The creditors balance excludes £22.50m (£22.75m in 2013-14). The cash and cash equivalents and current (short term) borrowings figures differ from the balance sheet because the £5.6m bank overdraft balance has been treated as current borrowings for the purposes of this note.

Gains and Losses on Financial Instruments

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

Financial Liabilities Measured at amortised cost	Financial Assets Loans and receivables	Total		Financial Liabilities Measured at amortised cost	Financial Assets Loans and receivables	Total
2013-14 £000	2013-14 £000	2013-14 £000		2014-15 £000	2014-15 £000	2014-15 £000
17,015	0	17,015	Interest Expenses	16,111	0	16,111
0	143	143	Impairment Losses	0	1,534	1,534
17,015	143	17,158	Interest payable and similar charges	16,111	1,534	17,645
0	-1,881	-1,881	Interest income	0	-1,715	-1,715
0	-1,881	-1,881	Interest and investment income	0	-1,715	-1,715
17,015	-1,738	15,277	Net gain/(loss) for the year	16,111	-181	15,930

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:

Carrying Amount	Fair Value		Carrying Amount	Fair Value
2013-14 £000	2013-14 £000		2014-15 £000	2014-15 £000
97,245	96,329	Investments	101,260	102,283
35,250	35,186	Cash and Cash Equivalents	18,436	18,448
-356,729	-346,710	Borrowing	-344,386	-410,716

5.14 Long term debtors

31-Mar-14 £000		31-Mar-15 £000
2,379	West London Waste Authority	8,368
257	Other Loans	225
<u>2,636</u>	Total	<u>8,593</u>

5.15 Short term debtors

31-Mar-14		31-Mar-15
£000		£000
5,203	Central government bodies	4,290
1,849	Other local authorities	8,018
984	NHS bodies	5,551
11,138	Other entities and individuals	9,926
<u>19,174</u>	Total	<u>27,785</u>

5.16 Short term creditors

31-Mar-14		31-Mar-15
£000		£000
-13,729	Central government bodies	-14,278
-6,913	Other local authorities	-5,843
-1,354	NHS bodies	-2,525
-50,716	Other entities and individuals	-44,085
<u>-72,712</u>	Total	<u>-66,731</u>

5.17 Provisions

	Outstanding Legal Cases £000	Insurance £000	Business Rate Appeals £000	Employment £000	Other Provisions £000	Total £000
Short Term						
Balance at 1 April 2014	-472	-1,604	-420	-104	-706	-3,306
Transfer from creditors	0	0	0	0	-145	-145
Additional provisions made in 2014-15	-380	-1,579	-1,260	-179	-239	-3,637
Transferred to Long Term	0	204	0	0	0	204
Amounts used in 2014-15	87	1,434	420	104	543	2,588
Unused amounts reversed in 2014-15	46	0	0	0	135	181
Balance at 31 March 2015	<u>-719</u>	<u>-1,545</u>	<u>-1,260</u>	<u>-179</u>	<u>-412</u>	<u>-4,115</u>
Long Term						
Balance at 1 April 2014	0	-5,362	0	0	0	-5,362
Transferred from Short Term	0	-204	0	0	0	-204
Balance at 31 March 2015	<u>0</u>	<u>-5,566</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-5,566</u>

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

Insurance: 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 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 £1.76m to cover the cost of payments to Municipal Mutual Insurance in respect of future claims.

Business Rate Appeals: The Council's share of the estimated business rate income that will be repaid due to successful appeals against the rateable value of business premises.

Employment: The estimated liability to employees for redundancies resulting from the Council's current transformation programme.

5.18 Other long term liabilities

31-Mar-14 £000		31-Mar-15 £000
-17,418	PFI Lease Liability (Note 5.36)	-16,959
-2,544	Finance Lease Liability (Note 5.35.1.1)	-1,116
-338,094	IAS19 Pension Liability (Note 5.38.5)	-400,996
<u>-358,056</u>	Total	<u>-419,071</u>

5.19 Usable reserves

31-Mar-14 £000		Note	31-Mar-15 £000
-10,008	General Fund	4.1	-10,008
-25,154	Earmarked Reserves General Fund	5.6	-23,565
-13,218	Earmarked Reserves Locally Managed Schools	5.6	-14,935
-3,574	Housing Revenue Account	6.1	-4,584
-4,582	Major Repairs Reserve	6.2.4	-8,042
-7,200	Capital Receipts Reserve	5.19.1	-9,339
-20,165	Capital Grants and Contributions Unapplied	5.19.2	-24,632
<u>-83,901</u>	Total Usable Reserves		<u>-95,105</u>

5.19.1 Capital Receipts Reserve

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

General Fund 2013-14 £000	HRA 2013-14 £000	Total 2013-14 £000		General Fund 2014-15 £000	HRA 2014-15 £000	Total 2014-15 £000
-1,466	-1,845	-3,311	Balance unapplied at 1 April	-1,496	-5,704	-7,200
0	-409	-409	Transfer to/from Capital Grants Unapplied	0	470	470
-4,441	-221	-4,662	Receipts in year - Others	-873	-5	-878
0	-4,166	-4,166	Receipts in year - Right to Buy	0	-4,984	-4,984
126	0	126	Disposal Costs	13	0	13
0	787	787	Pooling payment to the DCLG	0	705	705
4,285	150	4,435	Applied during the year - others	2,356	126	2,482
0	0	0	Applied during the year - Right to Buy	0	53	53
<u>-1,496</u>	<u>-5,704</u>	<u>-7,200</u>	Balance unapplied at 31 March	<u>0</u>	<u>-9,339</u>	<u>-9,339</u>

5.19.2 Capital Grants and Contributions Unapplied

The Council receives various grants and contributions towards the financing of its capital programme each year. The following table details the transactions posted to the account for the period:

General Fund 2013-14 £000	HRA 2013-14 £000	Total 2013-14 £000		General Fund 2014-15 £000	HRA 2014-15 £000	Total 2014-15 £000
-11,378	-3,887	-15,265	Balance unapplied at 1 April	-16,669	-3,496	-20,165
0	409	409	Transfer to/from Capital Receipt Reserve	0	-470	-470
-10,039	-18	-10,057	Receipts in year	-9,907	-61	-9,968
4,748	0	4,748	Applied during the year	5,627	344	5,971
<u>-16,669</u>	<u>-3,496</u>	<u>-20,165</u>	Balance unapplied at 31 March	<u>-20,949</u>	<u>-3,683</u>	<u>-24,632</u>

5.20 Unusable reserves

31-Mar-14 £000				31-Mar-15 £000	
-15,156		Revaluation Reserve	5.20.1	-35,016	
-2,423		Deferred Capital Receipts		-24	
-404,544		Capital Adjustment Account	5.20.2	-473,560	
5,243		Financial Instruments Adjustment Account	5.20.3	5,618	
338,094		Pensions Reserve	5.20.4	400,996	
-1,683		Collection Fund Adjustment Account	5.20.5	-1,893	
5,308		Accumulating Compensated Absences Adjustment Account	5.20.6	4,107	
-75,161		Total Unusable Reserves		-99,772	

5.20.1 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.

2013-14				2014-15		
General Fund £000	HRA £000	Total £000		General Fund £000	HRA £000	Total £000
-13,414	-368	-13,782	Balance at 1 April	-13,937	-1,218	-15,155
-35,760	-7,961	-43,721	Upward revaluation of assets	-36,419	-65,420	-101,839
1,562	3	1,565	Downward revaluation of assets not charged to the Surplus/Deficit on the Provision of Services	2,305	0	2,305
32,496	6,921	39,417	Reversal of prior year impairments charged to CIES	16,139	61,130	77,269
-1,702	-1,037	-2,739	(Surplus) deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-17,975	-4,290	-22,265
357	129	486	Difference between fair value depreciation and historical cost depreciation	356	1,633	1,989
822	58	880	Accumulated gains on assets sold or scrapped	0	415	415
1,179	187	1,366	Amount written off to the Capital Adjustment Account	356	2,048	2,404
-13,937	-1,218	-15,155	Balance at 31 March	-31,556	-3,460	-35,016

5.20.2 Capital adjustment account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements, and for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets, under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties.

The Account 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.

2013-14				2014-15		
£000	£000	£000		£000	£000	£000
General Fund	HRA	Total		General Fund	HRA	Total
-222,289	-152,593	-374,882	Balance at 1 April	-248,460	-156,084	-404,544
			Reversal of items relating to capital expenditure debited or credited to CIES			
22,908	7,309	30,217	Asset Depreciation	19,103	7,338	26,441
1,685	35	1,720	Leasing Depreciation	1,499	12	1,511
-27,727	-6,887	-34,614	Asset Impairment/ (Reversal of Impairment)	1,022	-61,130	-60,108
4,711	2,538	7,249	Non Current assets written out on Disposal	15,980	2,299	18,279
1,876	0	1,876	Revenue expenditure funded from capital under statute	2,614	84	2,698
2,379	0	2,379	Deferred Capital receipts	-2,379	0	-2,379
-822	-58	-880	Revaluation reserve on disposal to CIES	0	-415	-415
5,010	2,937	7,947		37,839	-51,812	-13,973
-357	-129	-486	Depreciation written out of the Revaluation reserve	-356	-1,633	-1,989
4,653	2,808	7,461	Net written out amount of the cost of non current assets consumed in the year	37,483	-53,445	-15,962
			Capital financing applied in the year:			
-4,284	-150	-4,434	Use of the Capital Receipts Reserve	-2,356	-180	-2,536
0	-6,111	-6,111	Use of the Major Repairs Reserve	0	-3,878	-3,878
-4,732	0	-4,732	Capital grants contributions credited to CIES	-20,532	-42	-20,574
-4,748	0	-4,748	Application of grants from the Capital Grants Unapplied Account	-5,626	-344	-5,970
-14,641	-38	-14,679	Minimum Revenue Provision	-16,151	-12	-16,163
-637	0	-637	Revenue Contribution to Capital Outlay	-2,538	0	-2,538
-24,389	-3,491	-27,880		-9,720	-57,901	-67,621
-1,782	0	-1,782	Movements in the market value of Investment Properties debited/credited to CIES	-1,395	0	-1,395
-248,460	-156,084	-404,544	Balance at 31 March	-259,575	-213,985	-473,560

5.20.3 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 and discounts paid on the early redemption of loans. Premiums are debited and discounts credited 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 balance 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.

2013-14			2014-15	
£000			£000	
4,939		Balance at 1 April	5,243	
		Premiums and Discounts incurred in previous financial years to be charged against the Balance in accordance with statutory requirements		
257	General Fund		293	
47	HRA		82	
5,243		Balance at 31 March	5,618	

5.20.4 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.

2013-14 £000		2014-15 £000
323,131	Balance at 1 April	338,094
-1,266	Remeasurements of the net defined benefit liability	48,454
34,208	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	32,563
-17,979	Employer's pensions contributions and direct payments to pensioners payable in the year	-18,115
<u>338,094</u>	Balance at 31 March	<u>400,996</u>

5.20.5 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.

2013-14 £000		2014-15 £000
-892	Balance at 1 April	-1,683
-791	Amount by which council tax and NNDR income credited to CIES is different from income calculated for the year in accordance with Statute	-210
<u>-1,683</u>	Balance at 31 March	<u>-1,893</u>

5.20.6 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.

2013-14 £000		2014-15 £000
4,865	Balance at 1 April	5,308
-4,865	Settlement or cancellation of accrual made at the end of the preceding year	-5,308
5,308	Amounts accrued at the end of the current year	4,107
<u>5,308</u>	Balance at 31 March	<u>4,107</u>

5.21 Cash flow statement – operating activities

2013-14 £000		2014-15 £000
	The surplus or deficit on the provision of services has been adjusted for the following noncash movements:	
16,229	Adjustment for pension funding	14,449
-1,768	Change in Provisions	1,013
31,937	Depreciation	27,952
-34,366	Impairment of property, plant and equipment	-58,339
443	Accumulated Absence	-1,200
7,249	Carrying value of non-current assets sold or de-recognised	18,279
-1,782	Movement in the value of investment properties	-1,395
0	Other non-cash items charged to the CIES	64
	Items on an accrual basis	
2,067	(-)Increase/Decrease in Debtors	-6,693
5,445	Increase/Decrease(-) in Creditors	-7,292
25,454	Adjustments for non cash movements	-13,162
-8,451	Proceeds from the sale of property, plant and equipment	-5,829
-15,014	Grants for the financing of capital expenditure	-30,523
-23,465	Adjustments for investment and financing activities	-36,352

5.22 Cash flow statement – investing activities

2013-14 £000		2014-15 £000
-31,138	Purchase of property, plant and equipment, investment property and intangible assets	-52,267
-71,631	Purchase of short-term and long-term investments	-71,006
24,748	Capital grants received in year	40,971
8,451	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,829
60,000	Proceeds from short-term and long-term investments	66,946
2,990	Other long term loans repaid	0
-2,389	Other long term loans granted	-6,020
-8,969	Net cash flows from investing activities	-15,547

5.23 Cash flow statement – financing activities

2013-14 £000		2014-15 £000
5418	Cash receipts of short and long term borrowing	213
-2,167	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet service concession arrangements (PFI) contracts	-2,050
-10,065	Repayments of short- and long-term borrowing	-18,022
-1056	Billing authority collection fund adjustments	485
-7,870	Net cash flows from financing activities	-19,374

5.24 Cash and cash equivalents

31-Mar-14 £000		31-Mar-15 £000
84	Cash held by the Authority	51
964	Bank current accounts	-5,619
34,202	Short-term deposits with Banks and Building Societies	18,385
35,250	Total Cash and Cash Equivalents	12,817

5.25 Amounts reported for Resource Allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the 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, the costs of retirement benefits, accumulated absences, PFI schemes and finance leases are based on cash flows rather than amounts calculated under the relevant accounting standards.

5.25.1 Directorate income and expenditure

2014-15	Community, Health and Wellbeing	Children's and Families	Environment and Enterprise	Resources	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	-24,313	-13,221	-21,622	-12,008	-71,164
Support service recharges	1	-2,531	-4,028	-30,318	-36,876
Government grants	-11,722	-141,090	-486	-149,936	-303,234
Total Income	-36,034	-156,842	-26,136	-192,262	-411,274
Employee expenses	21,747	117,664	21,162	27,554	188,127
Other service expenses	77,787	70,743	17,011	178,178	343,719
Support service charges	9,802	7,519	7,101	9,035	33,457
Depreciation, amortisation and impairment	4,277	4,155	10,070	2,829	21,331
Precepts & Levies	0	0	7,708	547	8,255
Total Expenditure	113,613	200,081	63,052	218,143	594,889
Net Departmental Costs	77,579	43,239	36,916	25,881	183,615

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	-20,340	-15,370	-22,339	-12,276	-70,325
Support service recharges	0	-3,228	-4,193	-32,010	-39,431
Government grants	-11,232	-140,428	-603	-148,629	-300,892
Total Income	-31,572	-159,026	-27,135	-192,915	-410,648
Employee expenses	25,090	121,641	21,215	27,501	195,447
Other service expenses	70,905	70,721	15,673	174,725	332,024
Support service charges	8,993	7,606	7,332	12,218	36,149
Depreciation, amortisation and impairment	3,722	4,827	12,098	4,073	24,720
Precepts & Levies	0	0	8,159	572	8,731
Total Expenditure	108,710	204,795	64,477	219,089	597,071
Net Departmental Costs	77,138	45,769	37,342	26,174	186,423

5.25.2 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.

2013-14		2014-15
£000		£000
186,423	Net expenditure in the Directorate Analysis (note 5.25.1)	183,615
-42,936	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	-71,869
-7,937	Amounts included in the Analysis not included in the CIES Cost of Services	-8,416
<u>135,550</u>	Cost of Services in CIES	<u>103,330</u>

5.25.3 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.

	2014-15	Directorate Analysis	HRA not reported to management for decision making	Other not reported to management for decision making	Amounts not included in Services	Cost of services	Corporate Amounts	Total
		£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income								
Support service recharges		-71,164	-31,806	-1,721	9,668	-95,023	0	-95,023
Interest and investment income		-36,876	0	0	36,650	-226	0	-226
Income from council tax		0	0	0	0	0	-3,934	-3,934
Income from business rates retention		0	0	0	0	0	-98,010	-98,010
Government grants and contributions		-303,235	-120	0	0	0	-13,436	-13,436
Gain or Loss on Disposal of Fixed Assets		0	0	0	0	-303,355	-102,015	-405,370
Total income		-411,275	-31,926	-1,721	46,318	-398,604	-204,889	-603,493
Employee expenses		188,128	5,708	-1,323	-20,970	171,543	0	171,543
Other service expenses		343,719	6,944	-4,399	-16,761	329,503	0	329,503
Support Service charges		33,457	3,051	3,936	-4,988	35,456	0	35,456
Depreciation, amortisation and impairment		21,331	-51,931	-208	-3,760	-34,568	0	-34,568
Interest Payments		0	0	0	0	0	30,597	30,597
Precepts & Levies		8,255	0	0	-8,255	0	8,255	8,255
Payments to Housing Capital Receipts Pool		0	0	0	0	0	705	705
Total expenditure		594,890	-36,228	-1,994	-54,734	501,934	39,557	541,491
Surplus or deficit on the provision of services		183,615	-68,154	-3,715	-8,416	103,330	-165,332	-62,002

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	-70,325	-31,509	66	10,142	-91,626	0	-91,626
Support service recharges	-39,431	0	1,796	37,635	0	0	0
Interest and investment income	0	0	0	0	0	-4,869	-4,869
Income from council tax	0	0	0	0	0	-94,876	-94,876
Income from business rates retention	0	0	0	0	0	-14,725	-14,725
Government grants and contributions	-300,892	0	2,769	0	-298,123	-93,869	-391,992
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	-795	-795
Total income	-410,648	-31,509	4,631	47,777	-389,749	-209,134	-598,883
Employee expenses	195,447	4,872	1,988	-20,518	181,789	0	181,789
Other service expenses	332,024	9,358	-8,332	-17,391	315,659	0	315,659
Support Service charges	36,149	2,960	-1,631	-3,751	33,727	0	33,727
Depreciation, amortisation and impairment	24,720	706	-25,979	-5,323	-5,876	0	-5,876
Interest Payments	0	0	0	0	0	31,583	31,583
Precepts & Levies	8,731	0	0	-8,731	0	8,731	8,731
Payments to Housing Capital Receipts Pool	0	0	0	0	0	787	787
Total expenditure	597,071	17,896	-33,954	-55,714	525,299	41,101	566,400
Surplus or deficit on the provision of services	186,423	-13,613	-29,323	-7,937	135,550	-168,033	-32,483

The presentation of the 2013-14 figures has been adjusted for both Business Rates Retention & Support Service Recharges & Charges

5.26 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.

2013-14 £000		2014-15 £000
-6,805	Penalty Charge Notices	-7,429
-1,205	On street meters	-968
-406	Residents Permits	-415
<u>-8,416</u>	Total income	<u>-8,812</u>
1,531	Enforcement contract/costs	1,610
1,160	Other expenditure	1,183
<u>2,691</u>	Total expenditure	<u>2,793</u>
<u>-5,725</u>	Total (surplus) for the year ending 31 March 2014	<u>-6,019</u>
	<u>Utilisation of Surplus</u>	
5,725	Concessionary fares	6,019
<u>5,725</u>		<u>6,019</u>

5.27 Pooled Budgets

The Council is the lead body for the Public Health Service with Barnet Council. The Council's surplus has been carried forward in an earmarked reserve to fund future Public Health Service expenditure:

2013-14 £000		2014-15 £000
-8,874	Funding provided to the pooled budget	
-13,798	· Harrow Public Health Grant	-9,146
<u>-22,672</u>	· Barnet Public Health Grant	<u>-14,335</u>
		<u>-23,481</u>
8,208	Expenditure met from the pooled budget:	
12,967	· Harrow public health expenditure	8,904
<u>21,175</u>	· Barnet public health expenditure	<u>14,044</u>
		<u>22,948</u>
-666	Surplus for the year	
-831	· Harrow	-242
<u>-1,497</u>	· Barnet	<u>-291</u>
		<u>-533</u>

Section 75 of the NHS Act 2006 allows partnership arrangements between NHS bodies, local Council, 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:

2013-14 £000		2014-15 £000
-215	Funding provided to the pooled budget:	
-33	· Harrow Contribution	-29
-51	· Schools Contribution	-35
-556	· Misc Income	-102
<u>-855</u>	· Integrated Care Organisation	<u>-728</u>
		<u>-894</u>
820	Expenditure met from the pooled budget:	
<u>-35</u>	· Gross Expenditure	<u>881</u>
	Surplus for the year	<u>-13</u>

5.28 Members' Allowances

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

2013-14			2014-15	
£000			£000	
815	Allowances		837	
<u>815</u>	Total		<u>837</u>	

5.29 Remuneration

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

5.29.1 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
	2014-15	2014-15	2013-14	2013-14	2014-15	2014-15	2013-14	2013-14
£50,000 - £54,999	35	2	23	6	35	0	43	0
£55,000 - £59,999	32	4	41	5	21	0	22	0
£60,000 - £64,999	8	1	11	4	13	0	9	2
£65,000 - £69,999	12	1	14	7	10	0	18	0
£70,000 - £74,999	8	3	6	4	11	1	8	1
£75,000 - £79,999	5	2	4	7	9	0	6	2
£80,000 - £84,999	3	3	2	0	8	0	6	0
£85,000 - £89,999	3	2	2	3	3	0	5	0
£90,000 - £94,999	5	0	5	2	2	0	5	0
£95,000 - £99,999	2	0	3	4	2	0	1	0
£100,000 - £104,999	1	2	1	1	0	0	1	0
£105,000 - £109,999	0	1	0	2	1	0	1	0
£110,000 - £114,999	1	0	0	2	0	0	0	0
£115,000 - £119,999	0	0	2	0	0	0	1	0
£125,000 - £129,999	0	1	0	3	0	0	0	0
£130,000 - £134,999	0	3	0	0	0	0	0	0
£135,000 - £139,999	0	1	0	0	0	0	0	0
£140,000 - £144,999	0	1	0	2	0	0	0	0
£155,000 - £159,999	0	0	0	1	0	0	0	0
£210,000 - £214,999	0	0	0	1	0	0	0	0
	115	27	114	54	115	1	126	5

5.29.2 Senior officer remuneration

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

Position Held	Salary, (including Fees and Allowances)		Benefits in Kind		Total Remuneration excluding employers pension contributions		Employers Pension Contribution		Exit Payments		Total Remuneration including employers pension contributions	
	£	2013-14	£	2013-14	£	2013-14	£	2013-14	£	2013-14	£	2013-14
Notes												
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
1	24,854	167,838	0	568	24,854	168,406	0	32,477	0	30,000	24,854	230,883
Michael Lockwood (Chief Executive)	24,854	167,838	0	568	24,854	168,406	0	32,477	0	30,000	24,854	230,883

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

Position Held	Salary, (including Fees and Allowances)		Benefits in Kind		Total Remuneration excluding employers pension contributions		Employers Pension Contribution		Exit Payments		Total Remuneration including employers pension contributions	
	£	2013-14	£	2013-14	£	2013-14	£	2013-14	£	2013-14	£	2013-14
Notes												
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
2	146,704	140,752	619	619	147,323	141,371	29,121	27,235	0	0	176,444	168,606
Corporate Director - Community, Health & Well Being												
3	0	137,137	0	0	0	137,137	0	26,536	0	35,001	0	198,674
Corporate Director - Children and Families												
Corporate Director - Environment and Enterprise												
Corporate Director - Resources												
4	138,252	134,226	0	0	138,252	134,226	27,443	25,973	0	0	165,695	160,199
Director of Legal and Democratic Services												
Director - Finance and Assurance												
Director - Public Health												
Director - Adult Social Services												
	134,226	126,657	619	619	134,845	127,276	26,644	24,508	0	0	161,489	151,784
	143,669	132,280	619	619	144,288	132,899	28,518	24,494	0	0	172,806	157,393
	113,325	113,325	0	0	113,325	113,325	22,495	21,928	0	0	135,820	135,253
	132,772	127,095	0	0	132,772	127,095	18,588	17,793	0	0	151,360	144,888
	122,061	115,207	619	619	122,680	115,826	24,229	22,293	0	0	146,909	138,119
	931,009	1,026,679	2,476	2,476	933,485	1,029,155	177,038	190,760	0	35,001	1,110,523	1,254,916

Note 1 Michael Lockwood left the Council on 28th February 2014. He was subsequently reappointed as Chief Executive Officer on 5th February 2015. There are no pension contributions for 2014-15 as he has not rejoined the pension scheme.

Note 2 The Corporate Director - Community, Health and Wellbeing was also Head of Paid Service until 4th February 2015.

Note 3 The Corporate Director - Children and Families left the Council on 28th March 2014. The position was filled by an interim member of staff in 2014-15 at a cost to the Council, including agency fees, of £245,403.

Note 4 The salary of the Director – Public Health is funded from the pooled Public Health Service budget with Barnet Council. See note 5.27.

5.30 External Audit Costs

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:

2013-14 £000		2014-15 £000
	Fees Payable to external auditors in respect of:	
222	External audit services carried out by the appointed auditor for the year	222
40	Certification of grant claims and returns for the year	36
5	Other	11 *
267	Total	269

* includes fees for Tax advice on Commercialisation Strategy and Objection work completed in 14/15

5.31 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 2014-15 are as follows:

	Individual Schools		Total £000
	Central Expenditure £000	Expenditure £000	
Final DSG allocation 2014-15			-181,624
Less			
Academy recoupment			53,216
Final DSG after recoupment 2014-15			-128,408
Plus: Brought forward from 2013-14			-6,240
Less: Carry forward to 2015-16 agreed in advance			1,675
Agreed budgeted distribution in 2014-15	-34,308	-98,665	-132,973
In-year adjustments	-214		-214
Final budget distribution for 2014-15	-34,522	-98,665	-133,187
Less: Actual central expenditure	27,036		27,036
Less: Actual ISB deployed to schools		99,798	99,798
Carry forward to 2015-16	-7,486	1,133	-6,353
Total Surplus Carry forward to 2015-16			-8,028

5.32 Grants income

5.32.1 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:

2013-14		Awarding Body	2014-15
£000	Grant		£000
-126,712	Dedicated schools grant	Department for Education	-126,834
-5,041	Pupil Premium	Department for Education	-5,948
-551	Adoption Improvement Grant	Department for Education	-248
0	Universal Infant Free School Meals	Department for Education	-1,616
-1,543	Private finance initiative	Education Funding Agency	-1,543
-539	Troubled Families Grant	Department of Communities and Local Gov.	-387
-966	Private finance initiative	Department of Health	-1,201
-8,874	Public Health	Department of Health	-9,146
-122,501	Rent Allowance	Department of Work and Pensions	-122,875
-1,805	Housing Benefit administration grant	Department of Work and Pensions	-1,388
-1,223	Discretionary Housing Benefit	Department of Work and Pensions	-1,139
-21,956	HRA Rent Rebate	Department of Work and Pensions	-23,351
-491	Social Fund Reform	Department of Work and Pensions	-483
-574	Unaccompanied Asylum Seekers Grant	Home Office - UK Border Agency	-578
-483	Community Learning Trust	Skills Funding Agency	-510
-2,010	EFA 6th Form Funding	Young People's Learning Agency	-2,131
-382	Transport for London schemes	Transport for London	-362
-2,472	Other		-3,615
-298,123			-303,355

5.32.2 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:

2013-14		Awarding Body	2014-15
£000	Grant		£000
-522	Community Capacity	Department of Health	-532
-740	Devolved Formula Capital	Department for Education	-510
-9,517	LA Capital Maintenance and Basic Need Grant	Department for Education	-9,349
-515	Disabled Facilities Grant	Department for Communities and Local Government	-532
0	Better/ Empty Property Grants	WLP/ GLA	-576
-1,601	Local Implementation Plan	Transport for London	-3,081
-1,339	Targeted Basic Needs	Department for Education	-14,255
-222	Outer London Fund	Greater London Authority	-734
0	Section 106 income		-692
-210	Section 20 Income		-43
-348	Other		-219
-15,014	Total Capital Grants included in Comprehensive Income and Expenditure Account		-30,523

5.32.3 Capital grants receipts in advance

2013-14 £000	Grant - Capital	Awarding Body	2014-15 £000
-699	Devolved Formula Grant	Department for Education	-567
-8,164	Targeted Basic Needs Grant	Department for Education	-18,373
35	Outer London Fund	Greater London Authority	-484
0	Green Deal	Department of Energy and Climate Change	-1,361
-2,258	Section 106 Capital Receipts		-1,730
-286	Other Capital Grants		-835
<u>-11,372</u>			<u>-23,350</u>

5.33 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.

5.33.1 United Kingdom Government and other Public Bodies

Central government has significant influence over the general operations of the Council by providing the statutory framework within which the Council operates, significant funding in the form of grants and by prescribing 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 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. Pooled budget arrangements with other public bodies are disclosed in notes to the accounts.

Members

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

The Register of Interests for Members 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 controlling their governing bodies.

The Council has significant influence over the decisions of several local charities due to a significant number of Members also being trustees on the governing body of those charities. In 2014-15, the Council made the following payments for grants and services to these charities:

Organisation	Amount £000
Harrow Citizen's Advice Bureau	330
Harrow Association of Disabled People	260
Harrow Heritage Trust	19

5.33.2 London Borough of Harrow Pension Fund

The Council is the Administering Authority for the Pension Fund.

2013-14 £000		2014-15 £000
15,042	Employers Pension Contributions to the Fund	16,162
-787	Administration expenses paid by the Fund	-1,061
1,678	Cash Due to the Fund	1,566

5.34 Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

2013-14 £000		2014-15 £000
401,363	Opening Capital Financing Requirement	401,352
	Adjustment	-7,599
	<i>Capital Investment</i>	
31,075	Property, Plant and Equipment	53,979
2,379	Loan to WLWA	5,604
1,876	Revenue Expenditure Funded from Capital under Statute	2,698
	<i>Sources of finance</i>	
-4,434	Capital receipts	-2,534
-9,480	Government grants and other contributions	-26,543
	Sums set aside from revenue:	
-637	· Direct revenue contributions	-2,538
-14,679	· Minimum Revenue Provision	-16,163
-6,111	· Major Repairs Reserve	-3,878
<u>401,352</u>	<i>Closing Capital Financing Requirement</i>	<u>404,378</u>
	<i>Explanation of movements in year</i>	
14,668	Increase in unsupported borrowing	26,787
-14,679	Minimum Revenue provision	-16,163
<u>-11</u>	<i>Increase in Capital Financing Requirement</i>	<u>10,624</u>

The 2014-15 opening balance has been adjusted to correct prior year abortive costs

5.35 Leases

5.35.1 The council as Lessee

5.35.1.1 Finance Leases

The majority of the Council's finance leases relate to its fleet of vehicles.

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 £2.29m (£3.66m in 2013-14).

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 will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31-Mar-15	31-Mar-14	31-Mar-15	31-Mar-14
	£000	£000	£000	£000
Not later than one year	1,477	1,672	1,403	1,468
Later than one year and not later than five years	1,150	2,600	1,116	2,544
	<u>2,627</u>	<u>4,272</u>	<u>2,519</u>	<u>4,012</u>
Finance costs payable in future years			108	260
			<u>2,627</u>	<u>4,272</u>

5.35.1.2 Operating Leases

The Council continues to enter into operating leases, principally in respect of properties and also for school IT assets and 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 is analysed below.

31-Mar-14		31-Mar-15	
£000		£000	
286	Not later than one year	406	
916	Later than one year and not later than five years	1,342	
<u>2,751</u>	Later than five years	<u>2,385</u>	
<u>3,954</u>		<u>4,133</u>	
<u>379</u>	Min. lease payments charged to revenue in 14-15	<u>448</u>	

5.35.2 The Council as Lessor

5.35.2.1 Finance Leases

The Council has granted 125 year peppercorn leases in respect of 10 maintained schools which transferred to Academy status under the provisions of the Academies Act 2010. 8 transferred to Academy status prior to 2014-15, and Aylward and Heathland schools with effect from April 2014 and July 2014 respectively. The transfers are not included in the Council's balance sheet although the Council retains the freehold.

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 £15.28m has been recognised in the CIES in 2014-15 respect of the transfer of the 2 schools.

The Council does not lease out any other assets under finance lease arrangements.

5.35.2.2 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, generating a rental stream of £1,453k in 2014-15 (£1,067k in 2013-14).

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

31-Mar-14 £000	Land and Buildings	31-Mar-15 £000
1,120	Not later than one year	1,218
3,447	Later than one year and not later than five years	3,741
13,973	Later than five years	13,865
<u>18,540</u>		<u>18,824</u>

5.36 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 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.

Outstanding PFI lease liabilities are as follows:

Special schools		
2013-14 £000		2014-15 £000
-12,232	Balance outstanding at start of year	-11,952
1,403	Lease repayments during the year	1,362
-1,123	Finance charge	-1,098
<u>-11,952</u>	Balance outstanding at year end	<u>-11,688</u>
NRCs		
2013-14 £000		2014-15 £000
-5,988	Balance outstanding at start of year	-5,877
608	Lease repayments during the year	634
-497	Finance charge	-487
<u>-5,877</u>	Balance outstanding at year end	<u>-5,730</u>

5.36.1 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 2015-16	886	200	1,073	306	68	2,533
Payable within 2 to 5 years	3,769	1,105	4,009	1,353	223	10,459
Payable within 6 to 10 years	5,267	1,924	4,149	2,362	174	13,876
Payable within 11 to 15 years	5,958	2,196	2,959	3,518	244	14,875
Payable within 16 + years	4,751	734	936	4,149	786	11,356
Total	20,631	6,159	13,126	11,688	1,495	53,099

5.36.2 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 2015-16	189	35	476	154	147	1,001
Payable within 2 to 5 years	804	223	1,773	688	769	4,257
Payable within 6 to 10 years	1,124	318	1,842	1,231	1,434	5,949
Payable within 11 to 15 years	1,272	696	1,265	1,607	1,891	6,731
Payable within 16 + years	1,435	333	440	2,050	2,126	6,384
Total	4,824	1,605	5,796	5,730	6,367	24,322

5.36.3 Sancroft Hall

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

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

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

Sancroft	Payment for Services £000	Minimum Lease Payments £000	Total £000
Payable in 2015-16	1,246	471	1,717
Payable within 2 to 5 years	5,180	1,960	7,140
Payable within 6 to 10 years	6,342	2,400	8,742
Total	12,768	4,831	17,599

5.37 Termination benefits

The number of exit payments split between compulsory and other redundancies and the total cost per band are set out 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	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
							£000	£000
£0 - £20,000	14	22	55	27	69	49	555	444
£20,001 - £40,000	15	18	9	11	24	29	713	844
£40,001 - £60,000	9	17	0	2	9	19	409	925
£60,001 - £80,000	2	8	5	0	7	8	478	552
£80,001 - £100,000	0	2	0	0	0	2	0	178
£100,001 - £150,000	4	0	2	0	6	0	721	0
£150,001 - £200,000	1	0	0	0	1	0	185	0
Total	45	67	71	40	116	107	3061	2943

'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:

Exit Payment liabilities

2013-14 £000		2014-15 £000
2,839	Exit payments not provided for in 2014-15	2,882
104	Employment provision (note 5.17)	179
2,943	Included in cost of services	3,061

5.38 Defined benefit pension schemes

5.38.1 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.

5.38.2 Transactions relating to Post-employment Benefits

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

Cumulative actuarial remeasurement losses of £325.217m have been recognised in the Movement in Reserves Statement up to and including 2014-15 (£276.764m in 2013-14).

Expected employer contributions for 2015-16 are £15.795m, excluding any contributions in respect of unfunded benefits.

2013-14 £000		2014-15 £000
	Cost of Services:	
18,488	• current service cost	19,096
1,606	• past service costs	1,566
-454	• settlements and curtailments	-2,586
	Financing and Investment Income and Expenditure	
35,875	• interest cost	36,912
-21,307	• interest income on scheme assets	-22,425
34,208	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	32,563
	Other Post Employment Benefit Charged to the CIES	
	Remeasurements in net liability due to	
8,984	• changes in demographic assumptions	0
20,084	• changes in financial assumptions	118,064
-36,595	• return on plan assets	-62,865
6,261	• changes in other experience	-6,745
-1,266		48,454
32,942	Total Post Employment Benefit Charged to the CIES	81,017
17,979	Actual amount charged to the General Fund balance in the year	18,115

5.38.3 Reconciliation of present value of the scheme liabilities

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

2013-14 £000		2014-15 £000
806,824	Opening balance at 1 April	866,059
18,488	Current service cost	19,096
35,875	Interest cost	36,912
5,089	Contributions by scheme participants	5,100
	Remeasurement (gains)/losses arising from changes in:	
8,984	Demographic Assumptions	0
20,084	Financial Assumptions	118,064
6,261	Other Experience	-6,745
-30,210	Benefits paid	-33,361
-6,942	Effect of settlements	-3,879
1,606	Past service costs	1,566
866,059	Closing balance at 31 March	1,002,812

5.38.4 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 £85.290m (2013-14: £57.902m).

2013-14 £000		2014-15 £000
483,693	Opening balance at 1 April	527,965
21,307	Interest income on plan assets	22,425
36,595	Remeasurement gain/(loss)	62,865
-6,488	Effect of settlements	-1,293
17,979	Employer contributions	18,115
5,089	Contributions by scheme participants	5,100
-30,210	Benefits paid	-33,361
527,965	Closing balance at 31 March	601,816

5.38.5 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. 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.

	2014-15 £000	2013-14 £000	2012-13 £000	2011-12 £000	2010-11 £000
Present value of liabilities	-1,002,812	-866,059	-806,824	-702,045	-644,631
Fair value of assets	601,816	527,965	483,693	431,758	432,124
Net deficit in the scheme	-400,996	-338,094	-323,131	-270,287	-212,507

5.38.6 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 9.4.15 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:

2013-14		2014-15
	Long-term expected rate of return on assets in the scheme:	
7.7%	Equity investments	16.3%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.1	Men	22.1
24.4	Women	24.4
	Longevity at 65 for future pensioners:	
24.5	Men	24.5
26.9	Women	26.9
	Financial assumptions:	
4.1%	Rate of increase in salaries	3.8%
2.8%	Rate of increase in pensions (CPI)	2.4%
4.3%	Rate for discounting scheme liabilities	3.2%
	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%

5.38.7 Scheme Assets

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

31-Mar-14		31-Mar-15
12.0%	Debt Securities - Corporate Bonds	13.0%
4.0%	Private Equity	4.0%
8.0%	Real Estate: UK Property	8.0%
	Investment Funds and Unit Trusts:	
66.0%	Equities	65.0%
9.0%	Other	9.0%
1.0%	Cash and Equivalents	1.0%
100%		100%

5.38.8 History of experience gains and losses

	2014-15	2013-14	2012-13	2011-12	2010-11
	%	%	%	%	%
Differences between the expected and actual return on assets	10.45	6.93	7.49	-5.32	-5.61
Experience gains and (losses) on liabilities	0.67	-0.72	0.03	-1.41	4.03

5.38.9 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 expectancy	3	30,084
0.5% increase in rate of increase in salaries	2	24,276
0.5% increase in the rate of increase in pensions	7	67,276
0.5% decrease in the real discount rate	9	93,111

The sensitivity analysis 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 while all the other assumptions remain constant. Changes in some assumptions may however be interrelated. Estimations in the sensitivity analysis follow the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

5.39 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. 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 2014-15 the Council made £5.834m (£6.188m in 2013-14) of employer contributions to the TPA and £170k (£202k in 2013-14) to the NHSBSA. The current contribution rates are at 14.1% (14.1% in 2013-14) for teacher's pensions and 14% (14% in 2013-14) 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 2014-15 these amounted to £0.709m (£0.720m in 2013-14) for teacher's pensions representing 1.73% of pensionable pay. No payments were made for NHS pensions in either 2014-15 or 2013-14.

5.40 Nature and extent of risks arising from financial instruments

The Council has adopted CIPFA's code of Practice on Treasury Management and complies with The Prudential Code for Capital Finance in Local Authorities. As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Department for Communities and Local Government (CLG) Investment Guidance for local authorities. The guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy, together with its Treasury Management Practices are based on these principles.

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.

- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that 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. The Council does not rely solely on the credit ratings but also has regard to other measures including credit default swaps and equity prices when selecting commercial organisations for investment. 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-15	Historical experience of default	Historical experience adjusted for market conditions at 31-Mar-15	Estimated maximum exposure to default and uncollectability 31-Mar-15
	£000	%	%	£000
UK Banks	101,126	0.00	0.14	57
Overseas Banks	5,259	0.00	0.00	0
UK Money Market Funds	7,693	0.00	0.00	0
UK Local Authorities	5,000	0.00	0.01	1
Customers	8,761	5.59%	25.22%	2,210
Total	<u>127,839</u>			<u>2,268</u>

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-14 £000		Amount at 31-Mar-15 £000
4216	Less than three months	7648
418	Three to six months	662
844	Six months to one year	108
1847	More than one year	343
<u>7,325</u>	Total Debtors	<u>8,761</u>

Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets to cover any day to day cash flow need and the Public Works Loans Board (PWLB) and money market for access to longer term funds. The Authority is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore 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 with Prudential Indicators included in the

Treasury Management Strategy setting maximum levels of debt to mature within any financial year. This also ensures to minimise the financial impact of re-borrowing at a time of unfavourable interest rates.

The maturity structure of long term borrowing is as follows:

31-Mar-14 £000		31-Mar-15 £000
	Source of Loan:	
-218,461	Public Works Loan Board	-218,461
-115,800	Market Loans	-115,800
0	Other financial institutions	-173
<u>-334,261</u>	Total	<u>-334,434</u>
	Analysis of loans by maturity:	
0	1-2 years (1.4.2016 - 31.3.2017)	-27
-20,000	2-5 years (1.4.2017 - 31.3.2020)	-32,082
-17,000	5-10 years (1.4.2020 - 31.3.2025)	-5,064
-297,261	More than 10 years (1.4.2025 onwards)	-297,261
<u>-334,261</u>	Total	<u>-334,434</u>

The above analysis within more than ten years category includes principal of £83.8m of LOBO – Lender Option Borrower Option loans where the lender may ask for the rate payable to be changed. The Authority has the option to either accept this increase or repay the loan in full, without penalty. In the current economic climate it is not anticipated that any of these will be called and require repayment. However, if the lenders do exercise their rights, then these loans can be repaid from cash flow and maturing deposits in 2015-16 if required thus reducing credit risk. These repayments are not subject to liquidity risk and as there is no need to replace this borrowing in the short term.

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall;
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

The Council has a number of strategies for managing interest rate risk. The Council seeks to minimise this risk through expert advice on forecasts of interest rates received from our treasury management consultants. This is used to formulate a strategy for the year for both investments and borrowing. The Treasury Team monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates

borrowing would be postponed. Also, where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The long term borrowing of the Council is held at a fixed rate and thus there would be no effect on the Comprehensive Income and Expenditure Statement, if interest rates were different from those that prevailed on the Balance Sheet date.

The average balance of investments was £145m (£151m in 2013-14). 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 £1.45m, although only two thirds of this would benefit the General Fund.

5.41 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 2014-15 was £214k (£216k in 2013-14).

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 2014-15 was £9,398k (£8,656k in 2013-14).

5.42 Prior Period Adjustments

The authority has made a prior period adjustment to the Cash Flow Notes:

- 4.4 – Cash Flow Statement
- 5.21 – Operating Activities
- 5.22 – Investing Activities
- 5.23 – Financing Activities

The following adjustments have been made to ensure the Authority complies with the requirements of the Code of Practice:

- 1 – Figures for the disposal of non-current assets had previously been shown Net of the receipt & carrying value, headings have now been inserted into Operating Activities to show these amounts gross
- 2 – The ‘movement in the value of investment properties’ had previously been shown within Operating Activities - ‘other non-cash items charged to CIES’, a heading has been inserted into Operating Activities to show this amount separately
- 3 – NDR & Council Tax amounts attributable to DCLG & GLA had previously been shown within Operating Activities - ‘increase/decrease(-) in Creditors’ these amounts are now shown within Financing Activities – ‘billing authority collection fund adjustments’
- 4 – Correction of debtors amounts between Operating Activities & Investing Activities for capital debtors and interest receivable

	Reported 2013-14 £000	Change 2013-14 £000	Restated 2013-14 £000	Adjustment
Note 4.4 Cash Flow Statement				
Adjustments to net deficit on the provision of services for non cash movements	16,640	8,814	25,454	1
Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	-15,030	-8,435	-23,465	1
Investing Activities	-9,645	676	-8,969	4
Financing Activities	-6,816	-1,054	-7,870	3
Note 5.21 Cash Flow Statement – Operating Activities				
Gain/Loss (-) on disposal of non-current assets	-1,202	1,202	0	1
Carrying value of non-current assets sold or de-recognised	0	7,249	7,249	1
Movement in the value of investment properties	0	-1,782	-1,782	2
Other non-cash items charged to the CIES	-1,121	1,121	0	2&4
(-)Increase/Decrease in Debtors	2,117	-50	2,067	4
Increase/Decrease(-) in Creditors	4,371	1,074	5,445	3
Proceeds from the sale of property, plant and equipment	0	-8,451	-8,451	1
Grants for the financing of capital expenditure	-15,030	16	-15,014	4
Note 5.22 Cash Flow Statement – Investing Activities				
Purchase of short-term and long-term investments	-11,576	-60,055	-71,631	5
Capital grants received in year	24,017	731	24,748	4
Proceeds from short-term and long-term investments	601	59,399	60,000	5
Other long term loans repaid	0	2,990	2,990	6
Other long term loans granted	0	-2,389	-2,389	6
Note 5.23 Cash Flow Statement – Financing Activities				
Cash receipts of short and long term borrowing	0	5,418	5,418	7
Repayments of short- and long-term borrowing	-4,649	-5,416	-10,065	7
Billing authority collection fund adjustments	0	-1,056	-1,056	3

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.

2013-14 Total	Housing Stock	Houses	Flats	Bungalows	2014-15 Total
105	4 or more bedrooms	103	1	0	104
1,377	3 bedrooms	1,271	93	1	1,365
1,444	2 bedrooms	546	860	25	1,431
1,989	1 bedroom	0	1,843	135	1,978
4,915	LBH managed stock as at 1 April	1,920	2,797	161	4,878
870	Garages				870
	Summary of change in stock				
4,951	Stock as at 1 April				4,915
	Less				
-36	Sales				-37
4,915	Total HRA stock at 31 March				4,878
	Measures of performance & information for disclosure notes to HRA				
£56.72	Average weekly costs per dwelling of management and maintenance				£58.74
£1.251m	Rent arrears (current and former tenants)				£1.129m
98.78%	Rent collection rate (BVPI 66a)				98.32%
1.48%	Current tenant arrears as percentage of the authorities rent roll (whether dwellings occupied or not)				1.58%
0.44%	Rent loss through voids				0.33%
£0.339m	Write offs in year				£0.170m
£0.558m	Provision for bad debts				£0.736m

Statement of Movement on the HRA Balance

2013-14 £000		Note	2014-15 £000
-3,175	Balance on HRA at end of the previous year		-3,574
-8,295	Surplus for the year on the HRA Income & Expenditure Statement		-63,911
1,582	Adjustment between accounting basis and funding basis under regulations	6.2.9	2,588
-6,713	Net increase or decrease before transfers from reserves		-61,323
6,314	Transfer to reserves	6.2.9	60,313
-399	Increase in year on the HRA		-1,010
-3,574	Balance on HRA at end of the current year		-4,584

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 0.35% of lettable properties were vacant (0.41% in 2013-14). The average depooled rents were £112.48 per week (£106.88 in 2013-14). There was an average rent increase of 5.24% over the previous year. The average increase, after taking into account service charges, was 4.63%.

6.2.2 Non-dwelling Rents

This includes garages. At the year-end 55.40% of garages were vacant compared with 55.05% in 2013-14.

6.2.3 Depreciation

Depreciation	Land £000	Dwellings £000	Assets under constructio n £000	Garages £000	Community Halls £000	Shops £000	Non operational assets £000	Total 2014-15 £000
Net book value as at 1 April 2014	96,558	183,377	0	7,846	3,633	3,237	69	294,720
Revaluations and restatements	8,478	58,680	179	-1,456	1,987	27	0	67,895
Value at 31 March 2015	105,036	242,057	179	6,390	5,620	3,264	69	362,615
Disposals	-805	-1,494	0	0	0	0	0	-2,299
Gross book value as at 31 March 2015	104,231	240,563	179	6,390	5,620	3,264	69	360,316
Depreciation for year	0	-7,094	0	-172	-50	-22	0	-7,338
Net book value as at 31 March 2015	104,231	233,469	179	6,218	5,570	3,242	69	352,978

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 January 2014 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 5.10.3.

A vacant possession valuation for dwellings at 1 April 2014 would have been £1,111.487m (£1,029.214m at 1 April 2013), therefore recognising the economic cost to the Government of providing Council housing at less than open market value of £833.615m (2013-14 £771.910m).

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 £1.765m (2013-14 £0.282m). 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-14 £000	Transfer to Reserve £000	Capital Expenditure £000	Balance 31-Mar-15 £000
Analysis of the Movement	-4,582	-7,338	3,878	-8,042

6.2.5 Capital Expenditure and Funding Statement

2013-14 £000		2014-15 £000
6,261	HRA Capital Expenditure	
	Dwellings & garages	4,442
<u>6,261</u>	Total	<u>4,442</u>
	Financed by:	
6,111	Major Repairs Reserve	3,878
150	Capital receipts - Right to Buy, Affordable Housing & other	178
0	Contributions & Grants	386
<u>6,261</u>	Total	<u>4,442</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.

2013-14 £000		2014-15 £000
584	Balance at 1 April	3,973
	Receipts in year:	
4,176	Houses, Mortgage Redemptions & other	4,989
-787	Paid to DCLG Pool	-705
0	Applied in the year	-178
<u>3,973</u>	Balance at 31 March	<u>8,079</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 5.38.

6.2.8 Housing Revenue Account Statistics

2013-14 Total	Housing Stock	Houses	Flats	Bungalows	2014-15 Total
105	4 or more bedrooms	103	1	0	104
1,377	3 bedrooms	1,271	93	1	1,365
1,444	2 bedrooms	546	860	25	1,431
1,989	1 bedroom	0	1,843	135	1,978
<u>4,915</u>	LBH managed stock as at 1 April				<u>4,878</u>
870	Garages				870
	Summary of change in stock				
4,951	Stock as at 1 April				4,915
	Less				
-36	Sales				-37
<u>4,915</u>	Total HRA stock at 31 March				<u>4,878</u>
	Measures of performance & information for disclosure notes to HRA				
£56.72	Average weekly costs per dwelling of management and maintenance				£58.74
£1.251m	Rent arrears (current and former tenants)				£1.129m
98.78%	Rent collection rate (BVPI 66a)				98.32%
1.48%	Current tenant arrears as percentage of the authorities rent roll (whether dwellings)				1.58%
0.44%	Rent loss through voids				0.33%
£0.339m	Write offs in year				£0.170m
£0.558m	Provision for bad debts				£0.736m

6.2.9 Statement of Movement on the HRA Balance

2013-14 £000		2014-15 £000
	Adjustment between accounting basis and funding basis under regulations	
-47	Difference between amortisation of premiums & discounts determined in accordance with the Code and those determined in accordance with statute	-82
	Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	
1,629	Gain on sale of HRA fixed assets	2,670
<u>1,582</u>		<u>2,588</u>
	Transfer to / (from) earmarked reserves	
	HRA share of contributions to/from Pensions reserve :	
-116	Net charges made for retirement benefits in accordance with IAS19	-765
0	Employer's contributions payable in the year	579
	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	
6,887	Impairment	61,130
0	Revenue expenditure funded from capital resources under statute	-84
0	Capital expenditure funded by Grants	42
36	Voluntary set aside	12
-35	Finance Lease Depreciation	-12
-7,309	Depreciation transfer	-7,338
7,309	Transfer to the Major Repairs Reserve	7,338
	Transfers to/from Capital Reserves	
-787	Pooling payments to DCLG financed through capital reserves	-705
329	Other	116
<u>6,314</u>		<u>60,313</u>
<u>7,896</u>		<u>62,901</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

2013-14		2014-15		Total
		Business Rates & Crossrail	Council Tax	
£000		£000	£000	£000
Income				
-121,162	Income from Council Tax	0	-123,435	-123,435
-51,137	Income Collectable from Business Ratepayers	-50,710	0	-50,710
-1,231	Income Collectable from Business Ratepayers - BRS	-1,191	0	-1,191
-173,530	Total Income	-51,901	-123,435	-175,336
Expenditure				
Apportionment of Previous year surplus				
1,048	Harrow Council	0	1,676	1,676
271	Greater London Authority	0	420	420
Precepts, demands and Shares				
107,764	Local Demand (Harrow)	14,493	95,067	109,560
34,334	Greater London Authority	10,847	23,486	34,333
24,542	Central Government	24,156	0	24,156
-				-
Impairment of Debts/appeals				
0	Write offs of uncollectable amounts	594	0	594
3,538	Increase in bad debt provisions	873	1,218	2,091
1,400	Increase in provision for appeals	4,200	0	4,200
263	Costs of Collection	264	0	264
173,160	Total Expenditure	55,427	121,867	177,294
-370	Movement on Fund balance: Surplus(-)/Deficit for the year	3,526	-1,568	1,958
-1,124	Surplus(-)/Deficit brought forward	974	-2,469	-1,495
-1,494	Surplus(-)/Deficit carried forward	4,500	-4,037	463

Notes to the Collection Fund

7.1.1 Income from Council Tax

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

Band D Ratio	2013-14 Property Numbers	Council Tax £	Valuation Bands	Band D Ratio	2014-15 Property Numbers	Council Tax £
6/9	211	1,008.85	A = Not exceeding £40,000	6/9	229	1,006.18
7/9	1,373	1,177.00	B = £40,001 - £52,000	7/9	1,359	1,173.88
8/9	11,329	1,345.13	C = £52,001 - £68,000	8/9	11,925	1,341.58
1	22,102	1,513.28	D = £68,001 - £88,000	1	22,662	1,509.28
11/9	22,427	1,849.56	E = £88,001 - £120,000	11/9	22,780	1,844.67
13/9	9,930	2,185.85	F = £120,001 - £160,000	13/9	10,047	2,180.07
15/9	9,326	2,522.13	G = £160,001 - £320,000	15/9	9,395	2,515.46
18/9	2,147	3,026.56	H = £320,001 +	2	2,167	3,018.56
	<u>78,845</u>		Total		<u>80,564</u>	
	<u>-1,971</u>		Adjustment for non-collection		<u>-2,014</u>	
	<u>76,874</u>		Council tax base		<u>78,550</u>	

7.1.2 Business Rates

The Business Rates is levied on non-domestic properties with the charge based on the valuation band assessed for each property. The Council acts as an agent, collecting business rates on behalf of central government and the GLA, but also collecting business rates for itself. Business rates collected in the Borough are split between relevant preceptors, 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 £125.4m (£128.9m in 2013-14) and the national non-domestic rate multiplier for 2014-15 was 0.482 (0.471 in 2013-14).

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

8.1.1 Harrow Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under section 3 of 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.

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

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

http://harrowhub.harrow.gov.uk/info/200190/audit/991/code_of_corporate_governance

This statement explains how the Council has complied with the code and the governance framework and also meets the requirements of regulation 6) of the Accounts and Audit Regulations 2015 in relation to the publication of this Annual Governance Statement.

8.2 The Purpose of the Governance Framework

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

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

8.2.3 The governance framework has been in place at Harrow Council for the year ended 31 March 2015 and up to the date of approval of the statement of accounts.

8.3 The Governance Framework

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

8.3.2 In May 2014, a new Administration took control of the Council, and agreed at Council on the 12 June a new vision and set of priorities:

Vision: Working Together to Make a Difference for Harrow

Priorities: Making a difference for the vulnerable

Making a difference for communities

Making a difference for local businesses

Making a difference for families

8.3.3 The vision and priorities are based on the new Administration's 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 the run up to the local elections. These formed part of the Administration's manifesto which was publicly campaigned upon.

8.3.4 The Council's strategic direction, its vision, priorities, core outcomes and key initiatives are reviewed annually and set out in the Corporate Plan. The Council's Corporate Plan 2015-2019 was agreed in February 2015 following further consultation and events involving residents and local organisations. Proposals relating to major financial and service decisions set out in the plan were consulted upon with residents through the Take Part Consultation.

8.3.5 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 Community Health and Wellbeing. In July 2014 the new Administration launched a consultation with Harrow Council staff, Councillors and the Trade Unions on the senior management arrangements of the Council. In September 2014, following the consultation, in which two thirds of the respondents expressed a preference for the re-instatement of the Chief Executive position; Cabinet resolved that the post of Chief Executive should be re-instated in the Council's management structure. An appointment was made and ratified by full Council on November 2014 and the position filled in February 2015.

8.3.6 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 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 Officers 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 key boards have continued to lead on the governance of our partnerships.

- 8.3.7** 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.
- 8.3.8** The development of the Council's 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
 - The Financial settlement continues to be on an annual basis making medium term financial planning difficult.
 - 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
 - Statutory guidelines around provision of many service areas and a demanding regulatory environment particularly regarding Ofsted
- 8.3.9** During 2014/15 as part of its preparations for meeting savings targets in 2014/17 and beyond a number of projects were launched across the Council to review outsourcing, in house and shared services options for the delivery of services. All of these which had an impact on services to the public were consulted upon with residents through the Take Part Consultation.
- 8.3.10** The authority strives to deliver best value for money to its residents by improving performance and minimising costs. Each directorate is required to identify efficiencies and improvements as part of their commissioning plans, considered by the Commissioning Panels. The Council's Reputation Tracker in March 2015 showed the second highest residents' satisfaction score in eight years and 48% of respondents agreed or strongly agreed that the Council gives local people good value for money.
- 8.3.11** Allocation of Responsibilities of the Executive and the individual members are set out in the Council's Constitution. Minutes of all decisions made by the Executive and individual Executive members are available on the intranet and internet and records are maintained by Legal & Governance Services. The Council's Constitution includes details of Director responsibilities, committee terms of reference and details of the statutory obligations (Head of Paid Service, Directors of Children's, Adult Social Services, Director of Public Health, Chief Financial Officer (S151 Officer), Monitoring Officer and Returning Officer).

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

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

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

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

8.3.14 Standards of behaviour for members and staff are defined in their respective Codes of Conduct which are available on the intranet and used as a basis for training.

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

8.3.16 A Corporate Anti-fraud Policy and Corruption Strategy is maintained by the Council's Corporate Anti-fraud team. During 2014/15 Fraud Governance was assessed using the CIPFA Fraud Governance Checklist and has been assessed as a Red/Amber assurance due to weaknesses identified in raising the awareness of fraud and identifying fraud risk across the Council. A detailed action plan will be agreed and implemented to address the weakness identified once a self-assessment against the new CIPFA Fraud Code has been undertaken.

8.3.17 Throughout 2014/15 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 was consistent throughout 2014/15 however following the post-holders departure in May 2015 the post has been filled by the officer who was previously the Deputy CFO. This has helped to provide a smooth transition and a consistent approach to the Council's finances. The CFO reports operationally to the Corporate Director of Resources and has the right of access to the Chief Executive and Leader of the Council as necessary or appropriate on matters relating to their statutory role. In addition the CFO with the Monitoring Officer meets the Chief Executive on a monthly basis and 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.

- 8.3.18** The Council's top management team form the Corporate Strategic Board (CSB). It is chaired by the Chief Executive and comprises the four corporate directors (three from June 2015 Cabinet), the Director of Legal Services and the Director of Finance. CSB meets fortnightly to discuss future strategy, major change, cross Council issues and the medium term financial strategy (MTFS). In addition the board meets fortnightly as the Statutory Directors Board (SDB) to deal with operational matters e.g. Cabinet reports, performance, operational and service changes, and financial monitoring. SDB comprises members of CSB as well as the following statutory officers: Director of Adult Social Services and the Director of Public Health. On a quarterly basis, SDB holds a performance morning to review service and financial performance information, risk and programme monitoring etc.
- 8.3.19** 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. During 2014/15 the Council entered into an agreement (agreed by Cabinet March 2015) with Buckinghamshire County Council and the postholder now works at the County Council 2 days a week and at Harrow Council 3 days a week. As the postholder is contactable 5 days a week and a Deputy Monitoring Officer is also in post this arrangement does not impact on the fulfilment of this Statutory role. The arrangements for the discharge of the Head of Paid Service is covered in the constitution and this role was fulfilled by the interim Head of Paid Service from April 2014 to February 2015 and the Chief Executive the rest of the year and to date.
- 8.3.20** The Governance, Audit, Risk Management and Standards (GARMS) Committee undertakes 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 GARMS Committee is independent of the executive and scrutiny functions. As the political make-up of the Council changed in May 2014 the GARM Committee membership changed but has not changed significantly since.
- 8.3.21** 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.
- 8.3.22** 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. All new and existing members elected in May 2014 were provided with training on the Code of

Conduct, Register of Interests and the Council's Social media Protocol. 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. During 2014-15 the Council, following an external, independent assessment, received the Investors in People accreditation. The assessor highlighted the Council's significant commitment to wellbeing, communications, staff engagement and staff loyalty.

8.3.23 The Council's Reputation Tracker seeks residents' opinions on a wide range of service and community issues, there was only one survey carried out in 2014/15 following the appointment of the new communications supplier, Lambeth Communications. Service User Groups are in place in some Directorates for example, Neighbourhood Champions and Park User Groups in Environment and Enterprise; the Local Account Group in Adults Social Care and the Whitefriars sub-group of the School Expansion Programme Stakeholders Reference Group in Childrens. 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.

8.3.24 During 2013/14 an independent review was commissioned by the Council into allegations of institutional racism. A report was issued on the 11th April 2014 that concluded that there is no evidence of institutional racism at Harrow Council. However, it makes nine recommendations. The Council will now consider these recommendations and any actions which are necessary as a result of the report. The full report is available on the Council's Website:

http://www.harrow.gov.uk/news/article/193/report_published_into_claims_of_institutional_racism

In May 2015 a report went to Cabinet providing an update of the Council's performance against its equalities agenda in the last twelve months (2014/15) as well as summarising the actions taken in response to the recommendations from the investigation commissioned in March 2014 into alleged institutional racism. Following the review the Council's Corporate Equalities Group started work on the action plan which culminated in the report to Cabinet. The Cabinet report is available via the following link:

<http://modern.gov:8080/documents/g62363/Public%20reports%20pack%20Thursday%2021-May-2015%2018.30%20Cabinet.pdf?T=10>

8.3.25 At Cabinet in June 2015 a Commercialisation Strategy was agreed as part of the response to addressing the Council's funding gap and a vision and a set of objectives were laid out for commercialisation. The Strategy also identified a number of priority opportunities for commercialisation and in July 2015 Cabinet agreed that the Council would set up a company to deliver services to customers for the purpose of generating revenue, a holding company to group the trading vehicles together and an LLP to hold certain property assets. This will result in the use of corporate vehicles wholly owned by the Council to deliver services, whether that is to third party customers for profit, or to the Council as a more efficient model for service delivery or investment. Quarterly financial and delivery plans for the companies will be presented to Cabinet along with audited annual financial reports.

8.3.26 Following consultation a new senior management structure was agreed by Cabinet in June 2015 that will enable the Council to better meet the significant challenges it faces and maximise the opportunities that are available to the organisation. The new structure will achieve a significant reduction in senior management revenue costs and more importantly the agreed proposals go beyond structural changes to also deliver service benefits to Harrow residents. Key highlights include:

- A co-ordinated commissioning arrangement across the Council;
- Development and exploitation of commercial/business opportunities;
- To bring significant external investment into the Borough to contribute to the physical, social and economic regeneration of Harrow;
- To promote a step change in how the Council engages with and involves local people;
- To build some new cultural values that will underpin everything that we do but will also reflect the times and new challenges we now face. There is a need to embed a culture that encourages innovation, creativity and calculated risk taking and for us to become a more entrepreneurial and 'business-like' Council to reflect our greater emphasis on commercialisation;
- To require senior managers to be more effective leaders.

8.3.27 The 2014/15 Corporate Plan prioritised regeneration and a draft Regeneration Strategy for public consultation was agreed by Cabinet in December 2014. The draft strategy covers the period to 2026, setting out three core objectives:

- Place – providing the homes, schools and other infrastructure needed to meet the demands of our growing population and business base, with high quality town and district centres that attract business investment and foster community engagement;
- Communities - Creating new jobs, breaking down barriers to employment, tackling overcrowding and fuel poverty in our homes and working alongside other services to address health and welfare issues;
- Business - reinforcing our commercial centres, promoting Harrow as an investment location, addressing skills shortages and supporting new business start-ups, developing local supply chains through procurement.

An engagement programme with local residents is already in train, with a new Residents Panel formed to provide a continued dialogue with residents as the programme develops. This will be supported by a programme of site by site engagement as individual proposals are developed.

8.4 Review of Effectiveness

8.4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have the responsibility for the development and maintenance of the governance environment, assurance provided by managers, 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.

8.4.2 The effectiveness of the governance framework has been evaluated by:

- Undertaking an annual review of governance arrangements in place against the Council's governance framework as reflected in the Code of Corporate Governance;
- Considering the Head of Internal Audit's overall annual opinion on the adequacy and effectiveness of the authority's control environment;
- 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;

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

8.5 Annual Review of Governance

8.5.1 The process employed for the annual review of governance followed the CIPFA guidance '*delivering good governance in Local Government 2012 Edition (published in November 2012)*).

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

8.5.3 The aim of the governance review is to demonstrate that the authority's governance arrangements are adequate and working effectively in practice and, where gaps in governance are identified that will impact on the authority's achievement of its objectives, that appropriate action is taken to improve governance in the future. To this end an action plan will be agreed as part of the annual review process and any significant governance gaps identified by this process will be outlined in paragraph 8.

8.6 Head of Internal Audit's Opinion

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

8.6.2 The overall audit opinion for the Council's control environment for 2014/15 was assessed as "good" however two reviews identified significant weaknesses in the Council's arrangements for Business Continuity/IT Disaster Recovery and the Council's IT Data Centre which could potentially have a major detrimental impact on the Council control environment if not improved . A detailed action plan is already in place for Business Continuity/IT Disaster Recovery and management are currently considering the IT Data Centre report. The detailed reasoning behind this assessment is covered in the Committee

report for the AGS to be considered by the Governance, Audit, Risk Management and Standards Committee (GARMS) in September 2015.

8.7 Declaration (Part I)

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


8.8 Significant Governance Issues

8.8.1 The review process for 2015/16 has identified a significant governance gap in relation to the combined impact of control weaknesses identified in the systems for Business Continuity/IT Disaster Recovery and the IT Data Centre (as recognised above in the HIA’s Opinion). Whilst the likelihood of an IT disaster occurring is considered unlikely the impact could be significant given the control weaknesses identified. A detailed action plan is already in place and being implemented for Business Continuity/IT Disaster Recovery (and once fully implemented will close this element of the gap) and a plan is currently being developed for the IT Data Centre. In addition 10 minor gaps were identified.

8.8.2 An overarching action plan will be agreed as part of this process to address the gaps identified to further enhance our governance arrangements.

8.9 Declaration (Part II)

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



Signed

.....

Councillor David Perry
Leader

Michael Lockwood
Chief Executive

Date 20th August 2015

19th August 2015

9 Pension Fund Financial Statements

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2014-15

I certify that the Financial Statements set out in Section 9 present fairly the financial position of the Pension Fund as at 31 March 2015 and its income and expenditure for the year.

A handwritten signature in black ink that reads "D. Calvert". The signature is written in a cursive style with a large initial 'D'.

Dawn Calvert CPFA

Director of Finance

30th September 2015

9.1 Administration of the Fund

The Harrow Pension Fund ('the Fund') is part of the Local Government Pension Scheme ("LGPS") and is administered by the London Borough of Harrow. The Council is the reporting entity for the Fund. It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies. Teachers are not included as they have a separate national pension scheme.

These benefits include retirement pensions, early payment of benefits on medical grounds and payment of death where death occurs either in service or in retirement. The benefits payable in respect of service from 1 April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is financed by accumulated contributions paid by employees and their employers together with returns from the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Currently, employer contribution rates range from 14.9% to 27.9% of pensionable pay.

The Scheme is governed by the Public Service Pensions Act 2013 and the following regulations:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

a) Memberships

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.

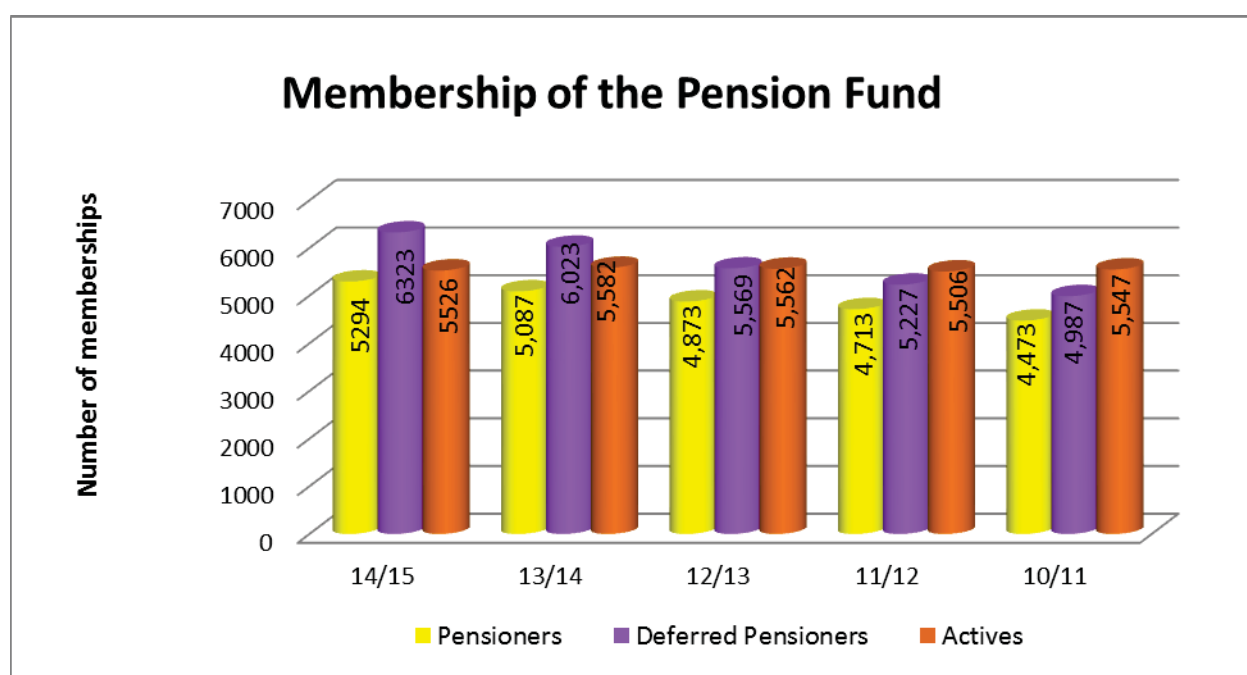
Organisations participating in the Fund are:

- **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).
- **Community Admission Body:** These are typically charities or other not-for-profit public sector bodies providing a public service which has sufficient links with the administering employer to be regarded as having a community of interest.
- **Transferee Admission Body:** These are typically private sector companies or charities who will have taken on staff from a local authority as a result of an outsourcing of services.

There are 29 employer organisations within the Harrow Pension Fund including the Council itself, as detailed in the next page.

Membership of the Fund

Employer	Status	Actives	Deferred	Pensioners	Total	%
Harrow	Scheduled Body	4,066	5,469	4,982	14,517	84.68
Stanmore	Scheduled Body	87	127	63	277	1.62
Harrow College	Scheduled Body	152	257	137	546	3.18
St Dominics	Scheduled Body	49	25	30	104	0.61
Bentley Wood	Scheduled Body	60	43	7	110	0.64
Canons High	Scheduled Body	91	29	6	126	0.73
Harrow High	Scheduled Body	64	30	6	100	0.58
Hatch End	Scheduled Body	87	110	8	205	1.20
Nower Hill	Scheduled Body	124	71	6	201	1.17
Park High	Scheduled Body	83	36	2	121	0.71
Rooks Heath	Scheduled Body	117	30	5	152	0.89
Krishna Avanti	Scheduled Body	25	4	-	29	0.17
Salvatorian	Scheduled Body	49	37	5	91	0.53
Avanti House	Scheduled Body	15	1	-	16	0.09
Alexandra	Scheduled Body	27	1	1	29	0.17
Heathland and Whitefriars	Scheduled Body	129	3	-	132	0.77
Aylward	Scheduled Body	73	5	-	78	0.45
NLCS	Community Admission Body	75	30	28	133	0.78
Julius Rutherford	Transferee Admission Body	1	2	1	4	0.02
CAPITA	Transferee Admission Body	11	1	-	12	0.07
Granary Kids	Transferee Admission Body	1	1	1	3	0.02
Linbrook	Transferee Admission Body	4	1	-	5	0.03
TEMCO	Transferee Admission Body	2	-	-	2	0.01
Carillions	Transferee Admission Body	81	6	6	93	0.54
Jubilee	Transferee Admission Body	16	4	-	20	0.12
Govindas	Transferee Admission Body	5	-	-	5	0.03
Taylor Shaw	Transferee Admission Body	3	-	-	3	0.02
Chartwells	Transferee Admission Body	19	-	-	19	0.11
Birkin	Transferee Admission Body	10	-	-	10	0.06
Total		5,526	6,323	5,294	17,143	100.00



b) Governance

The Council has delegated management of the fund to the Pension Fund Committee (the Committee) which decides and is responsible for the investment policy most suitable to meet the liabilities of the Fund. The Committee is made up of four Members of the Council each of whom has voting rights.

In implementing the Fund's investment policy, the Committee considers views from the Director of Finance and obtains as necessary advice from the Fund's appointed Investment advisors, fund managers and actuary.

9.2 Investment Policy and Performance

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

- The types of investment to be held;
- The balance between different types of investment;
- Risk measurement and management; and
- Compliance with the Myners principles of investment management.

The latest approved Statement of Investment Principles is available on Council's website at:

<http://www.harrow.gov.uk/>

The investment objective of the Fund is to achieve a return that is sufficient to meet the funding objectives, subject to an appropriate level of risk (implicit in the target) and liquidity. Over the long-term, it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

The Council has delegated the management of the Fund's investments to 10 professional investment managers (see note 9.4.9), appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

During the year overall equity portfolio was rebalanced to implement the strategy agreed by the Pension Fund Committee on 6 March 2013 which resulted in termination of contracts with Fidelity, Wellington and Barings and new agreements put in place with GMO, Oldfields and Insight.

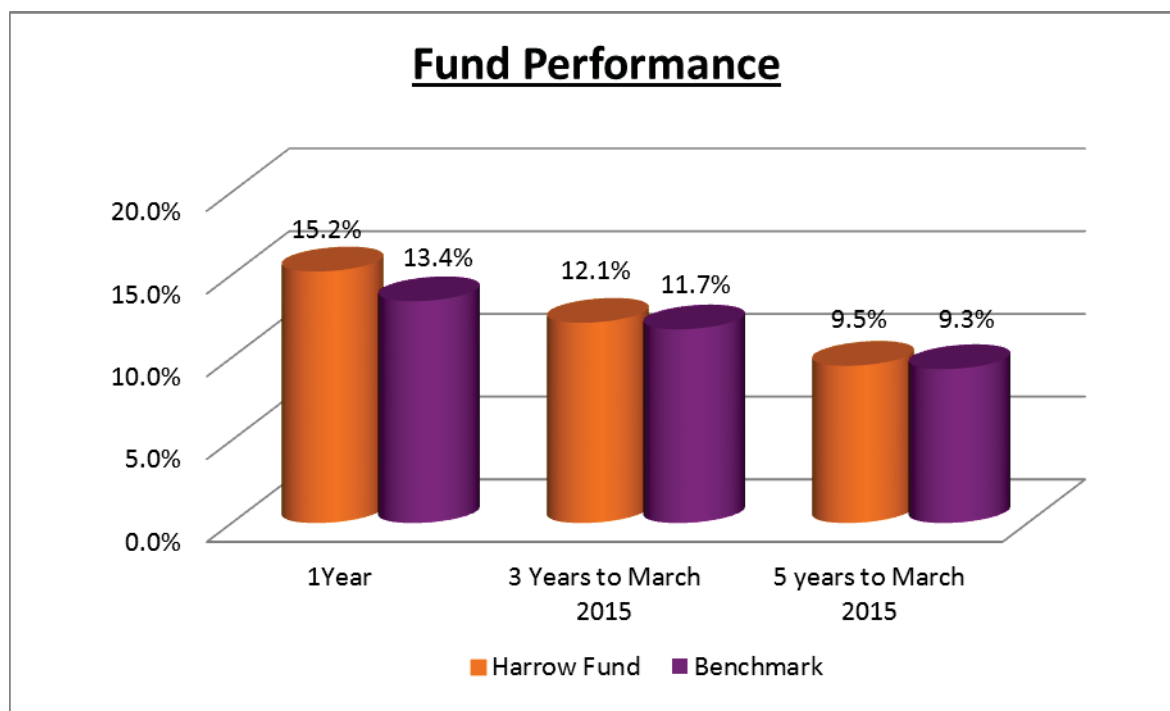
Market Commentary

Equity markets performed strongly but with marked regional differences. UK equities returned only 6% for the year with investors concerned about the possibility of political uncertainty resulting from a hung Parliament post the upcoming general election. Japan was the strongest performing of the major overseas markets returning over 30% to local investors, but a slightly lower 27% to UK investors as the Yen continued to weaken against Sterling. Conversely UK investors benefited from the strength of the US Dollar over the year which represented almost half of the US equity return of 25%, Pacific and emerging markets returned 16% and 14% respectively whilst Europe returned a respectable 9% for the year.

After the near flat outcome in 2013-14, UK bonds bounced back strongly, producing double digit returns. Long dated gilts produced returns approaching 30% as yields reached historic lows. Investors needing to hold them for liability matching purposes continued to buy them at any price. On the other, hand, short dated bonds returned only 3% for the year. The index-linked story for the year was much the same; funds returning 20% on average with the return driven by longer dated issues.

Alternative investments in aggregate also enjoyed a good year. Private equity returned 16% whilst hedge funds averaged 9%. Pooled multi asset (diversified growth) investments, which have recently been gaining traction amongst funds, returned a strong 10%, well ahead of most funds' targets for this asset class. Property returned 16% for the year.

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



The Fund's return of 15.2% during 2014-15 was due to positive returns for all assets classes. 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 State Street Global Services) returned 13% on its assets during the year. The Council's Fund was ranked 14th (19th 2013-14) in the local authority annual league table of investment returns for the year. This was almost entirely due to the successful stock selection policies of the various Fund Managers.

9.3 London Borough of Harrow Pension Fund Financial Statements

9.3.1 Pension Fund Account for the year ended 31st March 2015

2013-14 £000		Notes	2014-15 £000
	Contributions and Benefits		
-25,458	Contributions receivable	9.4.4	-28,013
-2,874	Individual transfers in from other schemes		-1,267
-306	Other income		-35
<u>-28,638</u>			<u>-29,315</u>
31,259	Benefits payable	9.4.5	32,008
1,074	Payments to and on account of leavers	9.4.6	2,266
<u>32,333</u>			<u>34,274</u>
3,695	Net reductions from dealings with members		4,959
820	Management expenses	9.4.7	1,095
	Returns on Investments		
-7,468	Investment income	9.4.8	-10,863
-35,562	Change in market value of investments	9.4.9	-79,332
-75	Investment management expenses	9.4.7	113
<u>-43,105</u>	Net Returns on Investments		<u>-90,082</u>
-38,590	Net (Increase)/decrease in Fund during the year		-84,028
-552,227	Net assets at start of year		-590,817
<u>-590,817</u>	Net assets at end of year		<u>-674,845</u>

9.3.2 Net Assets Statement

2013-14 £000		Notes	2014-15 £000
	Investment Assets		
583,565	Pooled investment vehicles	9.4.10	669,407
1,351	Derivative contracts	9.4.11	1,459
<u>584,916</u>			<u>670,866</u>
	Investment Liabilities		
-238	Derivative contracts	9.4.11	-4,108
<u>584,678</u>			<u>666,758</u>
4,873	Cash deposits	9.4.18	6,930
<u>589,551</u>	Net Investment Assets		<u>673,688</u>
2,000	Current assets	9.4.13	2,051
-734	Current liabilities	9.4.13	-894
<u>590,817</u>	Net assets of the Fund available to fund benefits at 31 March 2015		<u>674,845</u>

The Financial Statements summarise the transactions of the Fund and show the value as at 31st March 2015 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 9.4.15 and 9.4.16.

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 2014-15 which is based upon International Financial Reporting Standards (IFRS) as amended by UK public sector. Except where otherwise stated the accounts have been prepared on an accruals basis.

Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the financial year to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

Transfers to and from other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Investment income

- i) Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination;
- ii) Distributions from pooled Funds are recognised at the date of issue;
- iii) Changes in the net market value of investments are recognised in the year and comprise all realised and unrealised profits/losses during the year.

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

The Fund is a registered public service Scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Expenses and Recharges

The Council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

All expenses and fees are accounted for on an accruals basis. All staff costs of the Fund's administration and investment team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account.

The values of investments as shown in the net assets statement have been determined as follows:

- i) The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) Fixed interest securities are recorded at bid market price ruling on the final day of the accounting period.
- iii) Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.
- iv) Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing price available. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

Derivatives

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits in note 9.4.16.

9.4.2 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 involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2015 was £22.9m (31 March 2014 £24.6 m).

Pension Fund liability

The pension fund liability is calculated every three years by the appointed actuary. Annual updates in the intervening years use the methodology in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 9.4.16. The latter estimate is subject to significant variances based on changes to the underlying assumptions underpinning the valuations.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	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 fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £93m . A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £24m , a 0.5% increase in pension increase would increase the liability by approximately £67m and a one-year increase in assumed life expectancy would increase the liability by approximately £30m .
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £22.9m. There is a risk that this investment may be under- or overstated in the accounts.

9.4.4 Contributions Receivable

2013-14 £000		2014-15 £000
	Employers - normal	
-15,042	London Borough of Harrow	-16,162
-3,756	Scheduled Bodies	-4,257
-344	Admitted Bodies	-1,033
	Members - normal	
-5,094	London Borough of Harrow	-5,081
-1,137	Scheduled Bodies	-1,215
-85	Admitted Bodies	-265
<u>-25,458</u>		<u>-28,013</u>

9.4.5 Benefits Payable

2013-14 £000		2014-15 £000
	Pensions	
22,359	London Borough of Harrow	24,118
868	Scheduled Bodies	864
69	Admitted Bodies	206
<u>23,296</u>		<u>25,188</u>
	Commutation of Pensions and Lump Sum Retirement Benefits and Commitments	
5,909	London Borough of Harrow	5,413
625	Scheduled Bodies	518
423	Admitted Bodies	137
<u>6,957</u>		<u>6,068</u>
	Lump Sum Death Benefits	
841	London Borough of Harrow	736
135	Scheduled Bodies	16
30	Admitted Bodies	0
<u>1,006</u>		<u>752</u>
<u>31,259</u>		<u>32,008</u>

9.4.6 Payments to and on Account of Leavers

2013-14 £000		2014-15 £000
17	Refunds to members	44
1,057	Individual transfers to other schemes	2,222
<u>1,074</u>		<u>2,266</u>

9.4.7 Investment Management and Administration Expenses

2013-14 £000		2014-15 £000
-444	Management Fees	-181
369	Miscellaneous (including Actuary & Consultancy Fees)	294
<u>-75</u>		<u>113</u>
	Scheme administration	
787	London Borough of Harrow	1,061
33	Miscellaneous	34
<u>820</u>	Total Administration Expenses	<u>1,095</u>
<u>745</u>	Total Expenses	<u>1,208</u>

9.4.8 Investment Income

2013-14 £000		2014-15 £000
-2,773	Income from pooled investment	-3,200
-1,534	Pooled Property Investments	-1,940
-3,100	Private equity income	-5,723
-61	Interest on cash deposits	0
-7,468		-10,863

9.4.9 Investments

	Value at 01-Apr-14 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 31-Mar-15 £000
Pooled Investment Vehicles:					
Property	45,051	0	0	5,511	50,562
Other	538,514	396,452	-393,005	76,884	618,845
Derivatives	1,113	1,282	-1,713	-3,331	-2,649
	584,678	397,734	-394,718	79,064	666,758
Cash in Transition	0	0	0	268	268
	584,678	397,734	-394,718	79,332	667,026
Cash Deposits	4,873				6,662
	589,551				673,688

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.

	2014-15 £000	2014-15 %	2013-14 £000	2013-14 %
Aviva	50,562	8	45,051	8 UK Property
State Street	0	0	155,512	27 UK Equities Passive
State Street	220,601	33	0	0 Global Equities
GMO	76,541	11	0	0 Global Equities
Oldfields	77,276	12	0	0 Global Equities
BlackRock	86,377	13	72,035	12 Corporate and Index-linked bonds
Fidelity	0	0	68,381	12 Global Equities
Longview	75,561	11	49,507	8 Global Equities
Wellington	0	0	113,911	19 Global Equities
Barings	0	0	26,630	5 Alternatives
Insight	28,857	4	0	0 Alternatives
Standard Life	30,678	5	27,890	5 Alternatives
Pantheon	22,954	3	24,648	4 Private Equity
Record	-2,649	0	1,113	0 Passive currency
Total Fund	666,758	100	584,678	100

Investments Exceeding 5% of the Total Value of Net Assets

2013-14			2014-15	
£000	%		£000	%
155.5	32	SSGA MPF UK Equity Index Sub-Fund	0.0	0
113.9	24	Wellington Global Pooled Value Equity Portfolio	0.0	0
61.2	13	Fidelity Institutional Select Global Pooled Equities	0.0	0
57.6	12	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	69.2	12
49.5	10	Longview Partners Invest - Global Pooled Equities FD K Class	75.6	13
45.1	9	Aviva Investors UK Real Estate Fund of Funds Open Ended	50.6	9
0.0	0	SSGA MPF All World Equity Index Sub-Fund	220.6	39
0.0	0	GMO Emerging Domestic Opportunities Equity Fund	76.5	13
0.0	0	Overstone Global Equity CCF (USD Class A1 Units)	77.3	14
<u>482.8</u>	<u>100</u>		<u>569.8</u>	<u>100</u>

9.4.10 Investments

2013-14			2014-15	
£000			£000	
UNITED KINGDOM				
45,051		Managed funds Property - Unit Trust	50,562	
155,512		Managed funds Other - Unitised Insurance Policy	0	
57,567		Fixed interest securities - Corporate	69,247	
14,468		Index linked securities - Public Sector	17,130	
GLOBAL				
141,801		Managed funds Other - Unit Trust	30,678	
0		Managed funds Other - Unitised Insurance Policy	220,601	
24,648		Managed funds Other - Private Equity	22,954	
144,518		Managed funds Other - Other	258,235	
<u>583,565</u>		TOTAL	<u>669,407</u>	

9.4.11 Derivatives

2013-14			2014-15	
£000			£000	
Investment Assets				
1,351		Forward foreign exchange contracts	1,459	
Investment Liabilities				
-238		Forward foreign exchange contracts	-4,108	
<u>1,113</u>		Net Derivatives	<u>-2,649</u>	

Counterparty	Duration	No. of Contracts	Value at 31-Mar-15	
			Assets £000	Liabilities £000
Barclays Bank - London	3mths	1	19	0
Northern Trust - London	9 days - 6 mths	5	372	-39
Royal Bank of Canada - London	3 mths - 6 mths	4	359	-787
Standard Chartered - London	9 days - 6 mths	5	48	-357
State Street - London	3 mths - 6 mths	6	163	-894
Toronto Dominion - Toronto	9 days - 6 mths	6	134	-1,620
UBS AG - London	10 days -3 mths	9	277	-107
Westpac - Sydney	9 days - 6 mths	6	87	-304
		<u>42</u>	<u>1,459</u>	<u>-4,108</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 £203m. The main currency exposures before hedging in sterling are US\$ £114m, Yen £44m and Euro £17m.

9.4.12 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.

AVC contributions of £0.36m were paid directly to the providers during the year (2013-14 £0.37m).

2013-14		2014-15
2,211	Value of AVC Fund at 1 April	2,410
371	Employee contributions	361
86	Investment income and change in market value	121
10	Transfer values in	0
-268	Benefits paid and transfers out	-606
<u>2,410</u>	Value of AVC Fund at 31 March	<u>2,286</u>

9.4.13 Current Assets & Liabilities

2013-14 £000		2014-15 £000
	Current Liabilities	
-154	Unpaid benefits	-327
-580	Other unpaid liabilities	-567
<u>-734</u>		<u>-894</u>
	Current Assets	
1,678	Cash balances held by London Borough of Harrow	1,566
283	Contributions due from employers	381
39	Other current assets	104
<u>2,000</u>		<u>2,051</u>
<u>1,266</u>	Net Current Assets	<u>1,157</u>

9.4.14 Related Party Transactions

2013-14 £000		2014-15 £000
-15,042	Employer's pension contribution to the Fund	-16,162
787	Administration expenses paid to the Council	1,061
1,678	Cash held by Council	1,566

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 9.4.4 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.

9.4.15 Actuarial Valuation

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

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

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

Assumption

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

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.

9.4.16 Actuarial present value of promised retirement benefits

IAS26 Accounting and Reporting by Retirement Benefit Plans imposes a requirement on administering Council 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 2015 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:

2013-14		2014-15	
2.8%	Rate of inflation	2.4%	
4.1%	Rate of increase in salaries	2.8%	
2.8%	Rate of increase in pensions	2.4%	
4.3%	Rate for discounting scheme liabilities	3.2%	

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 present value of funded liability at 31 March 2015 (£959m) has been estimated by the actuary as comprising £406m in respect of employee members, £178m in respect of deferred pensioners and £375m in respect of pensioners. The actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises.

9.4.17 Financial Instruments

Classification of Financial Instruments

The following table shows the classification of the Fund's financial instruments:

Fair Value	2013-14			2014-15		
	Loans & Receivables	Financial Liabilities		Fair Value	Loans & Receivables	Financial Liabilities
£000		£000		£000		£000
			Pooled Funds UK			
57,567	0	0	Fixed income unit trust	69,247	0	0
14,468	0	0	Index linked unit trust	17,130	0	0
441,831	0	0	Global Unit Trusts	509,514	0	0
45,051	0	0	Pooled Property Investments	50,562	0	0
24,648	0	0	Private equity	22,954	0	0
1,351	0	0	Derivative contracts	1,459	0	0
0	6,551	0	Cash	0	8,496	0
0	322	0	Debtors	0	485	0
584,916	6,873	0		670,866	8,981	0
			Financial Liabilities			
-238	0	0	Derivative contracts	-4,108	0	0
0	0	-734	Creditors	0	0	-894
584,678	6,873	-734	Total creditors	666,758	8,981	-894

All the Financial Instruments are carried at Fair Value in the Fund's Net Asset Statement.

Valuation of Financial Instruments carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge Fund of Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity Funds in which Harrow Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Observable Inputs	2013-14		With significant unobservable inputs	Observable Inputs	2014-15	
	Quoted Market Price	Level 3			Quoted Market Price	With significant unobservable inputs
Level 1 £000	Level 2 £000	Level 3 £000		Level 1 £000	Level 2 £000	Level 3 £000
Financial Assets						
1,351	558,917	24,648		1,459	646,453	22,954
0	6,873	0		0	8,981	0
Financial Liabilities						
-238	0	0		-4,108	0	0
0	0	-734		0	0	-894
1,113	565,790	23,914		-2,649	655,434	22,060
Net Financial Assets						

9.4.18 Nature and extent of risks arising from Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund's performance advisor has analysed historical data and expected return movement during the financial year. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on fund's asset allocations. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix.

The volatility shown for Total Assets incorporates the impact of correlation across the asset classes (which dampens volatility) therefore the value on increase/decrease figures for the asset classes will not sum to the total asset figures.

Had the market price of the Fund's investments increased/decreased the change in the value of assets would have been as follows:

Asset Type	Value as at	Change	Value on	Value on
	March 2015		Increase	Decrease
	£000	%	£000	£000
Unit Trusts	472,933	9.01	515,544	430,322
Fixed interest & index linked securities	86,377	8.49	93,710	79,044
Alternative investments	59,535	6.93	63,658	55,412
Pooled property investments	50,562	2.60	51,877	49,247
Derivative contracts: net forward currency	-2,649	0.00	-2,649	-2,649
Total	666,758		722,140	611,376

b) Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Council recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits.

The Fund's direct exposure to interest rate movements of 1% as at 31 March 2015 is set out below.

Asset Type	Value as at	Change		Value on	Value on
	March 2015	%	£000	Increase	Decrease
	£000			£000	£000
Cash and cash equivalents	6,930	1.00	+/- 0	6,930	6,930
Fixed interest securities	69,247	1.00	+/- 692	68,555	69,939
Total	76,177			75,485	76,869

This analysis demonstrates that changes in interest rates do not impact on the value of cash & cash equivalents balances but do affect the fair value on fixed interest securities. Changes in interest rates affect interest income received on cash balances but have no effect on income from fixed income securities. However since the funds cash balances are low the effect of interest changes is minimal.

c) Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on its global equities pooled fund investments, some of which are denominated in currencies other than

the pound. To mitigate this risk, the Fund uses derivatives and hedges 50% of the overseas equity portfolio arising from the developed market currencies.

Following analysis of historical data in consultation with the Fund's performance advisors the Council's considers the likely volatility associated with foreign exchange rate movements to be 3.62%. This fluctuation is based on the advisor's analysis of long term historical movements in the month end exchange rates over a rolling 3 year period.

A 3.62% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

Asset Type	Value as at March 2015 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas Equities	398,206	3.62	412,621	383,791

d) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions. However the selection of high quality counterparties, brokers and financial institutions by Fund managers should minimise the credit risk that may occur.

Cash deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria.

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years.

The Fund's cash holding at 31 March 2015 was £6.9m (31 March 2014: £4.9m). This was held with the following institutions.

31-Mar-14 £000		31-Mar-15 £000
530	Royal Bank of Scotland	4,633
3,741	JP Morgan	1,432
602	BlackRock	865
<u>4,873</u>	Total	<u>6,930</u>

e) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2015 the value of illiquid assets was £73.5m, which represented 11% of the total Fund assets (31 March 2014: £69.7m, which represented 12% of the total Fund assets)

All financial liabilities at 31 March 2015 are due within one year.

f) Refinancing risk

The Pension Fund does not have any financial instruments that have a refinancing risk.

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 Council 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 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 Council engage in specifically because they are elected, multipurpose Council 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 Council 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 Council 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 Council 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 Council 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, and 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 Council tax base is taken into account when it calculates its council tax, and when central government calculates entitlement to Formula Grant.

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

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

10.2 Abbreviations

ASB	Accounting Standards Board
AVC	Additional Voluntary Contributions
CFR	Capital Financing Regulations
CIPFA	Chartered Institute of Public Finance and Accountancy
CSB	Corporate Strategy Board
DSG	Dedicated Schools Grant
EU	European Union
FRS	Financial Reporting Standards
GARMS	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)

	2014-15 Gross Expend. £000	2014-15 Gross Income £000	2014-15 Net Expend. £000	2013-14 Net Expend. £000
Division of Service				
Service Reporting Code of Practice Summary				
Central Services	7,191	-3,777	3,414	1,936
Court Services	168	0	168	216
Cultural and Related Services	11,073	-3,296	7,777	9,908
Environmental and Regulatory Services	17,396	-2,305	15,091	16,721
Planning Services	6,978	-3,288	3,690	3,619
Education and Children's Services	197,589	-157,566	40,023	15,435
Highways & Transport Services	34,084	-13,456	20,628	17,765
Housing Services - general fund	166,443	-155,724	10,719	11,665
Housing Services - HRA	-36,632	-31,926	-68,558	-14,011
Adult Social Care	79,260	-16,851	62,409	62,087
Public Health	10,045	-9,208	837	335
Corporate and Democratic Core	8,936	-1,091	7,845	8,440
Non Distributed Costs	-597	-116	-713	1,434
Cost of Services	501,934	-398,604	103,330	135,550
Other items			-165,332	-168,033
Surplus or Deficit on the Provision of Services			-62,002	-32,483
Central Services				
Local Tax Collection	3,466	-1,380	2,086	1,803
Registration of Births, Deaths & Marriages	1,029	-1,083	-54	-75
Elections	1,189	-145	1,044	458
Emergency Planning	302	-69	233	210
Local Land Charges	400	-617	-217	-157
General Grants, Bequests & Donations	15	0	15	16
Local Welfare Assistance Schemes	790	-483	307	-319
	7,191	-3,777	3,414	1,936
Court Services				
Coroners' Court Services	168	0	168	216
	168	0	168	216
Cultural and Related Services				
Culture & Heritage	1,214	-804	410	1,187
Recreation & Sport	1,236	-1,297	-61	86
Open Spaces	4,592	-950	3,642	2,960
Library Service	4,031	-245	3,786	5,675
	11,073	-3,296	7,777	9,908
Environmental and Regulatory Services				
Cemetery, Cremation & Mortuary services	563	-354	209	275
Community safety (Crime Reduction)	511	-13	498	332
Community Safety (CCTV)	654	-1	653	601
Flood Defence & Land Drainage	588	-52	536	1,042
Regulatory Services	3,365	-860	2,505	2,339
Street Cleansing (not chargeable to highways)	2,636	-15	2,621	4,370
Waste Collection	3,566	-111	3,455	3,192
Waste disposal	972	-271	701	910
Trade Waste	306	-521	-215	-243
Recycling	4,235	-107	4,128	3,588
Climate Change Costs	0	0	0	315
	17,396	-2,305	15,091	16,721

Appendices

Division of Service	2014-15 Gross Expend. £000	2014-15 Gross Income £000	2014-15 Net Expend. £000	2013-14 Net Expend. £000
Planning Services				
Building Control	869	-734	135	408
Development Control	2,986	-1,956	1,030	989
Planning Policy	789	-76	713	631
Economic Development	1,051	-107	944	577
Community Development	1,283	-415	868	1,014
	6,978	-3,288	3,690	3,619
Children's and Education Services				
Early Years	9,275	-8,365	910	1,635
Primary Schools	96,248	-95,319	929	-28,218
Secondary Schools	14,788	-15,290	-502	95
Special Schools	26,195	-25,182	1,013	1,499
Post-16 Provision	1,476	-1,483	-7	20
Other School Related Education Services	16,664	-9,096	7,568	9,990
Sure Start Children's Centres/Flying Start & Early Years	2,302	-216	2,086	2,944
Children Looked After	9,337	-419	8,918	8,099
Other Children & Family Services	1,504	-330	1,174	1,401
Family Support Services	3,498	-408	3,090	2,740
Youth Justice	960	-280	680	664
Safeguarding Children & Young Peoples Services	10,488	-552	9,936	10,452
Asylum Seekers	1,402	-578	824	931
Services for Young People	3,452	-48	3,404	3,183
	197,589	-157,566	40,023	15,435
Highways and Transport Services				
Transport Planning, Policy & Strategy	350	-358	-8	-302
Structural Maintenance	855	-338	517	986
Environment Safety & Routine Maintenance	13,051	-1,832	11,219	7,476
Street Lighting	2,268	-14	2,254	1,957
Winter Service	375	-45	330	307
Traffic Management & Road Safety: Education & Safe Routes	95	0	95	84
Traffic Management & Road Safety: Other	943	-366	577	3,115
Parking Services	6,337	-10,473	-4,136	-5,717
Public Transport	9,810	-30	9,780	9,859
	34,084	-13,456	20,628	17,765
Housing Services				
Housing strategy, advice, advances, enabling, renewals and licensing	2,526	-279	2,247	1,888
Homelessness	11,233	-5,842	5,391	4,730
Housing benefits payments	145,585	-146,225	-640	-815
Housing benefits administration	4,828	-3,084	1,744	1,858
Other council property	0	-3	-3	1
Housing Welfare: Supporting People	2,271	-291	1,980	4,003
Housing Revenue Account	-36,632	-31,926	-68,558	-14,011
	129,811	-187,650	-57,839	-2,346

Appendices

Division of Service	2014-15 Gross Expend. £000	2014-15 Gross Income £000	2014-15 Net Expend. £000	2013-14 Net Expend. £000
Adult Social Care				
Physical support - adults (18–64)	5,473	-1,336	4,137	4,628
Physical support - older people (65+)	20,897	-6,299	14,598	13,809
Sensory support - older people (65+)	1,306	-550	756	2,467
Support with memory and cognition - older people (65+)	1,893	-714	1,179	1,113
Learning disability support - adults (18–64)	21,825	-2,892	18,933	18,213
Learning disability support - older people (65+)	3,958	-2,514	1,444	1,482
Mental health support - adults (18–64)	6,066	-375	5,691	5,405
Social support: Support for carer	695	-67	628	559
Social care activities	9,391	-1,613	7,778	7,088
Information and early intervention	2,901	-22	2,879	2,671
Commissioning and service delivery	4,855	-469	4,386	4,652
	79,260	-16,851	62,409	62,087
Public Health				
Sexual Health	3,487	-3,338	149	148
NHS Health Check Programme	387	-585	-198	-182
Health Protection	17	-27	-10	-11
National Child Measurement Programme	13	-18	-5	-5
Public Health Advice	29	-119	-90	-80
Obesity	60	-64	-4	-22
Physical Activity	88	-92	-4	-31
Substance Misuse	3,610	-3,038	572	443
Smoking & Tobacco	182	-375	-193	-104
Children 5-19 Public Health Programmes	997	-750	247	41
Misc Public Health Services	1,175	-802	373	138
	10,045	-9,208	837	335
Corporate and Democratic Core				
Democratic Representation & Management	3,982	-404	3,578	3,651
Corporate Management	4,954	-687	4,267	4,789
	8,936	-1,091	7,845	8,440
Non Distributed Costs				
Retirement Benefits	-597	-116	-713	1,434
	-597	-116	-713	1,434