

# Statement of Accounts

2016 - 2017



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London Borough of Harrow  
Statement of Accounts  
2016 - 2017

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## 1 Narrative Report

### Message from the Director of Finance

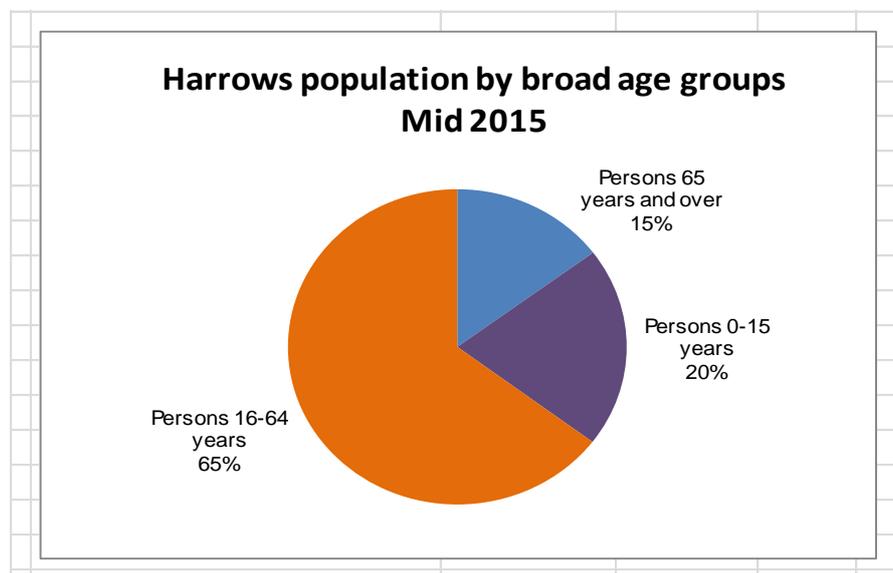
	<p>As the Council's statutory Chief Finance Officer, I have pleasure in writing the Narrative Report to Harrow Council's Statement of Accounts for 2016-17. The Narrative Report provides an analysis of Council performance during the year, an explanation of the financial results included in the Statement of Accounts and an overview of the future outlook beyond 2016-17.</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 Statement of Accounts
- 1.6 Receipt of Further Information and Acknowledgements

### 1.1 An Introduction to Harrow



Harrow is one of the most diverse places in the country. It is the 12th largest London Borough in terms of geographical area with a population of approximately 247,130 as at 30th June 2015. Harrow covers an area of approximately 50 sq km (just under 20 square miles) and over a quarter of the borough consists of open space, much of which is designated green belt or Metropolitan Open Land. Harrow has a strong entrepreneurial tradition with over 12,500 businesses located in the borough. It is well connected to London and the rest of the UK via the M1, M25 and M40 motorways and easily accessible for Heathrow Airport.

## 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 Strategic Board (CSB).

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

## Organisation Structure

The Corporate Strategic Board comprises the Council's senior Management Team. Senior Management is made up of the Council's Corporate Directors and Statutory Officers, led by the Chief Executive Michael Lockwood.

Chief Executive: Michael Lockwood  
 Corporate Director Community: Tom McCourt  
 Corporate Director People: Chris Spencer  
 Corporate Director Resources: Tom Whiting  
 Director of Finance: Dawn Calvert  
 Director of Legal & Governance: Hugh Peart  
 Director of Adult Social Services: Bernie Flaherty  
 Director of Public Health: Andrew Howe

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 Council is structured as follows:

<p style="text-align: center;"><b>Community</b></p> <ul style="list-style-type: none"> <li>• Environment and Culture</li> <li>• Commissioning and Commercial</li> <li>• Housing</li> </ul>	<p style="text-align: center;"><b>People's Directorate</b></p> <ul style="list-style-type: none"> <li>• Adult Social Care</li> <li>• Public Health</li> <li>• Commissioning and Schools</li> <li>• Children and Young People's Services</li> </ul>
<p style="text-align: center;"><b>Regeneration and Planning</b></p> <ul style="list-style-type: none"> <li>• Regeneration</li> <li>• Planning Services</li> <li>• Economic Development and Research</li> </ul>	<p style="text-align: center;"><b>Resources and Commercial</b></p> <ul style="list-style-type: none"> <li>• Revenues and Benefits</li> <li>• Customer Services and IT</li> <li>• Finance and Assurance</li> <li>• Commercial and Procurement</li> <li>• Human Resources</li> <li>• Legal and Governance</li> </ul>

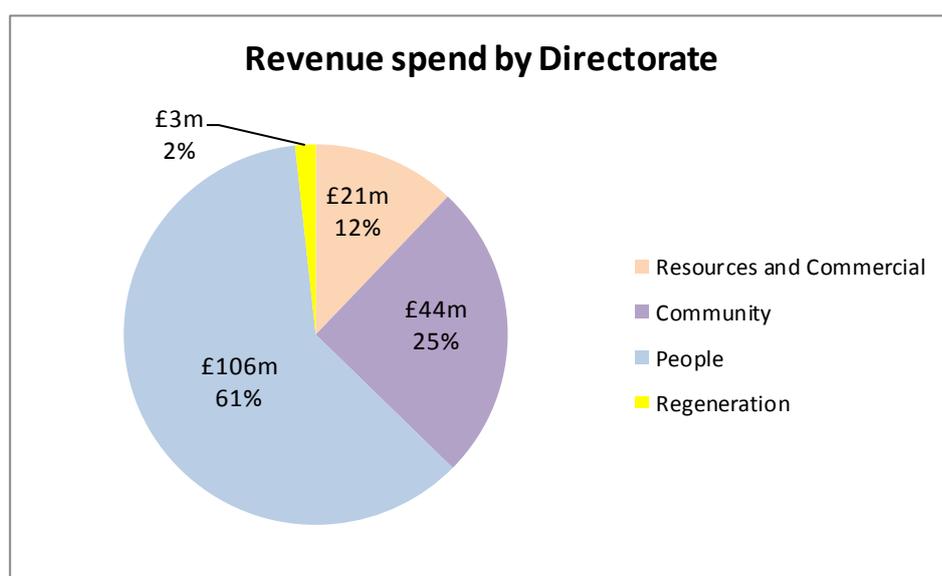
## 1.2 Summary of the 2016-17 Financial Performance of the Council

### Revenue Budget

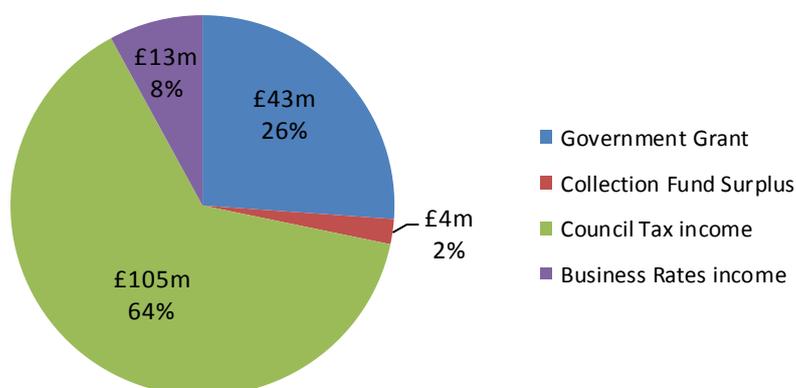
During the year the Council delivered its services within the approved budget, contained the pressures arising from the challenging financial environment and managed the risks around demand pressures. This resulted in an overall nil variance against the budget of £164.987m. The Council has maintained its General Fund Balances at £10.008m in 2016-17. 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:

	2016-17			Carry forwards to 2017-18 £000	variance after reserves £000
	Budget £000	Actuals £000	Variance £000		
<b>Directorate costs</b>					
Resources and Commercial*	21,581	22,520	939	(1,050)	(111)
Community	40,967	43,920	2,953	(32)	2,921
People	98,264	106,945	8,681	(977)	7,704
Regeneration	2,192	(2,480)	(4,672)	5,140	468
<b>Total - Directorate</b>	<b>163,004</b>	<b>170,905</b>	<b>7,901</b>	<b>3,081</b>	<b>10,982</b>
Corporate Items	(1,177)	(11,159)	(9,982)		
<b>Net Expenditure</b>	<b>161,827</b>	<b>159,746</b>	<b>(2,081)</b>		
<b>Contribution to/from Reserves:</b>					
Carry forwards from 2016-17	(1,794)	(1,794)	0		
Carry forwards to 2017-18	0	3,081	3,081		
Planned contribution to reserves:	4,954	3,954	(1,000)		
	3,160	5,241	2,081		
<b>Net Expenditure after reserve transfers</b>	<b>164,987</b>	<b>164,987</b>	<b>0</b>		
<b>Funded by :</b>					
Government Grant		(43,048)			
Collection Fund Surplus		(3,494)			
Council Tax income		(105,256)			
Business Rates income		(13,189)			
<b>Total</b>		<b>(164,987)</b>			
<b>Surplus for the year</b>		0			
General Fund balance at 31 March 2016		10,008			
<b>General Fund balance at 31 March 2017</b>		<b>10,008</b>			



### Revenue Funding Source 2016-17



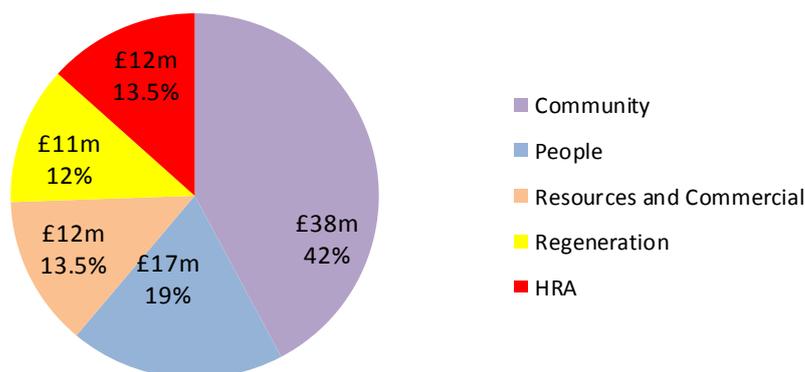
### Capital Programme 2016-17

During 2016-17 the Council invested £90m on developing or acquiring capital assets as summarised below. This was mainly funded from borrowing (£56m) and the balance of £34m funded from external grants, revenue contributions and capital receipts.

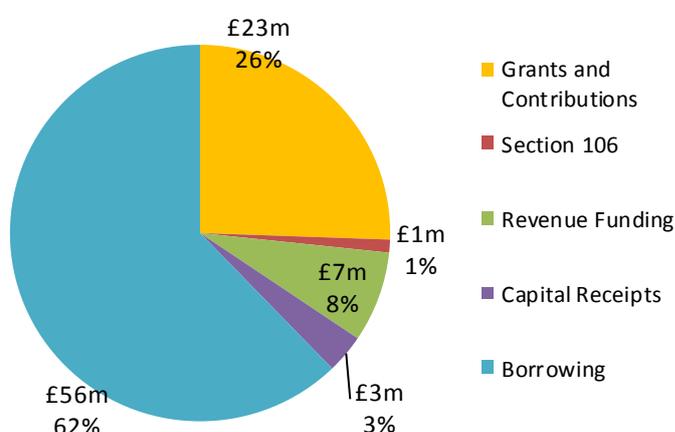
Major projects included in the programme were:

- Continued investment in new technology to improve Council Services;
- Acquisition of Investment Properties;
- Highways improvement programme and Street Lighting Improvements;
- Improvements to parks;
- Acquisition of Homes for Temporary Accommodation;
- Improvements to the Council's housing stock;
- Schools expansion programme, and
- Design and Feasibility Studies for the Regeneration Programme.

### Capital Expenditure by Directorate



### Capital Funding Source 2016-17



### Housing Revenue Account (HRA)

The Council provides rented accommodation of 4,836 units. In 2016-17, average Council rents were £113.80 per week. The Housing Revenue Account (HRA) outturn confirmed a surplus of £157k in 2016-17 reflected by an increase in HRA reserves from £6.7m to £6.9m.

### Collection Fund

The in-year Council tax collection rate for 2016-17 was 97.4% which compared favourably with the target of 97.0%. Business rate collection was 97.6% which was above the target of 96%. This was achieved by taking a more robust attitude to enforcement and carrying out more visits by enforcement agents. The overall position for the Collection Fund is a net surplus of £10.2m against an estimated surplus of £5.7m. This net variance of £4.5m was as a result of a number of factors; there were lower losses in yield from Business Rates appeals culminating in reduced appeals provisions, higher arrears collections, higher than expected council tax yield from significantly higher levels of new properties having come on stream and the Council Tax Support scheme having spent less than anticipated.

### Treasury Management

The main focus for Treasury Management is to maintain the value of investments, to ensure cash balances are maintained in a way to support the capital programme and maintain an adequate level of working capital, to seek optimum returns within these parameters and to minimise borrowing costs. The investment portfolio achieved an average return of 0.59% in the year, which compared favourably with three months LIBID which ranged from 0.46% at the beginning of the year to 0.21% at the end.

During 2016-17, no loans were repaid and no new borrowings taken. The borrowing at year end remained at £334m and the average interest rate remained 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 £146m to £807m, almost entirely due to the increase of £142m in the market value of investments. The Fund's investments return for the year was 22.4%.

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 £369m at 31st March 2017. This is £30m more than the net liabilities of £339m 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 2016-17 was 16% plus £4.3m as the contribution for the year towards the recovery of the shortfall.

## Harrow's 2016-17 Achievements

The Council's key achievements over the last year are summarised by strategic theme below:

### Build a Better Harrow

- In the town centre area, significant progress has been made in the construction of the Hyde Housing/Barratt scheme at 51 College Road, the Fairview scheme at Gayton Road and the Redrow scheme at Lyon Road. These schemes in combination will achieve a substantial transformation of Harrow town centre.
- Masterplanning work for the Poets Corner site (formerly Station Road Quarter) has now progressed to RIBA Stage 3 (Developed Design), with a hybrid planning application due this summer, which will incorporate the site masterplan and the detailed proposals for phase 1 (350 Build to Rent homes).
- The New Civic Centre masterplanning team (led by Gort Scott architects) have participated in further design development and engagement events with staff, public and stakeholders.
- The masterplanning team for the Byron Quarter (Leisure Centre and neighbouring sites) has been engaged and Stage 2 design work completed. Work is progressing towards a planning application for phase 1 (circa 200 homes) in September 2017.

- The programme to purchase 150 homes is progressing well: 58 homes purchased and a further 36 with offers accepted and 41 let.
- A competitive bid to the national Estate Regeneration Fund was successful in securing £365K to assist with the costs of redesigning the Grange Farm scheme.
- Works have been completed on converting the former bowls pavilion at Centenary Park to a bright and airy café and community space in the middle of the park. Two others in Stanmore and Harrow recreation grounds will follow. Amenities at Harrow Weald cemetery have been refurbished.
- In the year, 333 residents were supported into employment, 126 into sustained employment, 303 young people were supported into jobs or apprenticeships, 102 gained new skills to improve their employment prospects, 816 local residents were employed through the Council's supply chain and 36 new self-employed jobs (businesses) were created.
- The Community Champions scheme continues to grow, with the target of 1,100 achieved.

## Be More Business-like and Business Friendly

- The Garden Waste scheme has registered some 28,000 customers (13,823 annual, 14,082 summer service), generating £1.34m income.
- The Council's interactions with its customers stand at 85% self serve and in Q4 there were almost 95,000 My Harrow Accounts open, producing nearly 37,000 log ins per month. Calls that are now handled by self service are now at 45%. The volume of emails has dropped by a quarter compared with the previous year.
- Performance levels for MyHarrow and Web Users at the 'satisfied' and 'very satisfied' levels stood at 91% and 90% respectively against a target of 90%.
- Following the go-live of the new HR Shared Service on 1 August 2016 and establishment of the new shared management structure, the TUPE transfer of staff to Buckinghamshire County Council was completed on 1 April 2017.
- The Council was represented in the finals of both the Local Government Chronicle award for "Entrepreneurial council of the Year" and the Municipal Journal Award for "Best Council Services Team".
- Key achievements under Project Phoenix were as follows:
  - Harrow and Brent Transport Hub became operational in September 2016
  - The Training Academy Centre of Excellence opened in September 2016
  - Gardening Service continues to grow in demand
  - Barnet shared accommodation commenced in December 2016
  - Trade waste customer numbers continue to increase
  - Continued promotion of Events across the borough including Hollywood films and circuses in parks
  - A commercial website went live with a platform that hosts each commercial service

## Protect the Most Vulnerable and Support Families

- Children's Services was judged as 'Good' by Ofsted, who praised the Council's "sharp focus on improving outcomes for children".
- Alternative accommodation was provided for 600 primary school children following the discovery of uncharted chalk mines under Pinner Wood school, with disruption to children's education minimised through outstanding efforts by the school, parents, children, and local education partners, working with the Council.
- Successful prevention activity has produced a reduction in the number of homeless families in bed and breakfast accommodation to 165 at the 2016-17 year end. This is a significant reduction, but homelessness pressures continue.
- The Public Health team has delivered significant training across the Council around mental health awareness. Eleven introductory sessions for school staff and one for parents on Youth Mental Health First Aid were well received. Working with Mind in Harrow, five days of sessions for people working in community groups and service users were provided, with more planned. Suicide prevention and crisis care training was delivered for local GPs and primary care frontline staff.
- The Public Health commissioning team has successfully procured an integrated sexual health service replacing the Genito-Urinary Medicine (GUM) clinic and the Contraception and Sexual Health (CaSH) clinic.

### 1.3 Outlook for the Future

#### Medium Term Financial Strategy 2017-18 onwards

The Council, along with the rest of local government, faces continuing financial challenges in the form of ongoing funding reductions from Central Government, the impact of legislative/policy changes and increases in demand for services. The Council responded to these challenges by identifying further efficiencies and looking at ways to innovate service delivery in accordance with the savings programme agreed by Full Council in February 2017 for the Financial Years 2017-18 to 2019-20.

In 2016-17, the Council set itself a challenging target with the inclusion of £17.5m of savings in the 2016-17 Budget. In addition to this, over the period 2017/18 to 2019/20, further savings of £31m have been included in the Medium Term Financial Strategy (MTFS). These savings are required to set a balanced budget and are largely driven by reduced Government funding, increased demands on services and other costs such as capital financing costs, inflation (contractual and employee) and other cost pressures such as the apprenticeship levy. In response to these challenges, a budget of £165m along with a 4.99% increase in Council Tax was approved by the Council in February 2017. The 4.99% increase reflected a 1.99% increase in respect of the traditional council tax increase and 3% for the Adult Social Care precept (ASC). This ASC precept was introduced for the first time in 2016-17 and gives Council's the ability to levy an additional council tax precept which must be spent exclusively on Adult Social Care. The 3% increase will provide additional income of approximately £3m in 2017-18 which is being used to fund adult social care pressures.

As a result costs have been contained and risks and demands managed despite the economically challenging environment. The General Fund Balance as at 31st March 2017 remains at £10.008m and the Earmarked Reserves are £28.4m at 31<sup>st</sup> March 2017, which compares with £22.9m at the 1st April 2016. 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.

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 impact of Brexit is uncertain and it is not possible to quantify the financial impact which could arise as a result of possible interest rates and inflation rate changes. There is no likelihood of any change in the Government's policy regarding funding levels to Local Government, which continues to reduce year on year. 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.

The major influences on the finances going forward are:-

- The continued reduction in Government funding, Government reforms, demand and inflationary pressures;
- An increase in population as evidenced by the latest population estimates which shows the population to be around 6,600 higher than the 2011 mid-year population estimates, in addition over the decade the borough's population has increased by 11.8 per cent;
- Continuing high demand for Adult Social Care and Children's Services;
- Increased pressures in providing temporary accommodation in the Housing General Fund;
- Pressure on the Housing Revenue Account due to the Government's 1% per annum rent reduction from 2016-17 to 2019-20, along with the potential impact of the levy to fund Housing Association Right-to-Buy, which is likely to lead to reduced stock numbers and a weakened financial position.

The 3 year budget (2017-18 to 2019-20) was set to address the financial challenges faced by the Council and to set out its plans for financial sustainability. This 3 year budget will be refreshed annually to ensure it accurately reflects the ongoing challenges faced.

#### **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 2016-17;
- All relevant International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

## 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.
- **Expenditure and Funding Analysis (EFA)** shows how resources and expenditure are allocated for decision making purposes between the Council's directorates. It shows how expenditure in the year is applied and funded, and compares this with the true economic cost of providing services valued in accordance with proper accounting practices as shown in the CIES. The true economic cost is different from resources and expenditure allocated for decision making purposes because amounts charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes are specified by regulations.
- **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 and dwelling rents are explained in the EFA.
- **Movement in Reserves Statement (MiRS)** 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 Total Comprehensive Expenditure and (Income) line shows the true economic cost of providing the Council's services, more details of which are shown in the CIES.
- **Balance Sheet** shows the value of the assets and liabilities recognised by the Council as at 31st March 2017, 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 reflecting the Council's statutory obligation to maintain a separate Collection Fund. The statement shows tax income collected from local taxpayers and the distribution of this money to the Council, the Government and the GLA.
- **Annual Governance Statement** sets out the framework within which the effectiveness of the Council's internal controls (including financial controls) are managed and reviewed each year. The review reports on significant weaknesses, areas identified for improvement and the actions taken to strengthen these areas.

- **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 2016-17, 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 and acknowledgements**

If you would like to receive further information about these accounts, please do not hesitate to contact me at the Finance Division, Resources and Commercial Directorate, Harrow Council (Dawn.Calvert@harrow.gov.uk).

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.



**Dawn Calvert CPFA**

**Director of Finance**

**9<sup>th</sup> June 2017**

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## 2 Statement of Responsibilities

### The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Director of Finance;
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets; and
- 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 31st March 2017 and its income and expenditure for the year ended 31st March 2017.



**Dawn Calvert CPFA**

**Director of Finance**

**9<sup>th</sup> June 2017**

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

These accounts will be considered and approved by the Governance, Audit, Risk Management and Standards Committee (GARMSC) at the meeting to be held in September 2017.

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

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## 4.3 Movement in Reserves Statement (MiRS)

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2015 brought forward</b>	(48,508)	(4,584)	(9,339)	(8,042)	(24,632)	(95,105)	(99,772)	(194,877)
<b><u>Movement in reserves during 2015-16</u></b>								
<b>Total Comprehensive Expenditure and (Income)</b> (Note 4.2)	(27,135)	(47,410)	0	0	0	(74,545)	(121,532)	(196,077)
Adjustments between accounting basis & funding basis under regulations (Note 5.5.2)	28,016	45,147	(10,814)	2,522	14,675	79,546	(79,546)	0
<b>Net (Increase)/Decrease</b>	881	(2,263)	(10,814)	2,522	14,675	5,001	(201,078)	(196,077)
Other movements	(110)	110	0	0	0	0	0	0
<b>(Increase)/Decrease in 2015-16</b>	771	(2,153)	(10,814)	2,522	14,675	5,001	(201,078)	(196,077)
<b>Balance at 31 March 2016 carried forward (Note 4.4)</b>	<b>(47,737)</b>	<b>(6,737)</b>	<b>(20,153)</b>	<b>(5,520)</b>	<b>(9,957)</b>	<b>(90,104)</b>	<b>(300,850)</b>	<b>(390,954)</b>
<b>Balance at 31 March 2016 brought forward (Note 4.4)</b>	(47,737)	(6,737)	(20,153)	(5,520)	(9,957)	(90,104)	(300,850)	(390,954)
<b><u>Movement in reserves during 2016-17</u></b>								
<b>Total Comprehensive Expenditure and (Income)</b> (Note 4.2)	(12,265)	(6,628)	0	0	0	(18,893)	(68,580)	(87,473)
Adjustments between accounting basis & funding basis under regulations (Note 5.5.2)	10,191	6,125	(2,496)	692	(9,611)	4,901	(4,901)	0
<b>Net (Increase)/Decrease</b>	(2,074)	(503)	(2,496)	692	(9,611)	(13,992)	(73,481)	(87,473)
Other movements	(346)	346	0	0	0	0	0	0
<b>(Increase)/Decrease in 2016-17</b>	(2,420)	(157)	(2,496)	692	(9,611)	(13,992)	(73,481)	(87,473)
<b>Balance at 31 March 2017 carried forward (Note 4.4)</b>	<b>(50,157)</b>	<b>(6,894)</b>	<b>(22,649)</b>	<b>(4,828)</b>	<b>(19,568)</b>	<b>(104,096)</b>	<b>(374,331)</b>	<b>(478,427)</b>

#### 4.4 Balance Sheet

31-Mar-16 £000		Notes	31-Mar-17 £000
1,030,401	Property Plant and Equipment	5.10	1,142,413
16,137	Investment Property	5.12	21,763
5,000	Long Term Investments	5.13	0
13,471	Long Term Debtors	5.14	38,114
1,065,009	<b>Long Term Assets</b>		<b>1,202,290</b>
39,894	Short Term Investments	5.13	27,831
30,810	Short Term Debtors	5.15	30,728
29,714	Cash and Cash Equivalents	5.24	35,115
100,418	<b>Current Assets</b>		<b>93,673</b>
(4,550)	Short Term Borrowing	5.13	(13,821)
(66,165)	Short Term Creditors	5.16	(80,050)
(3,049)	Provisions	5.17	(4,274)
(73,764)	<b>Current Liabilities</b>		<b>(98,145)</b>
(6,320)	Provisions	5.17	(5,837)
(334,434)	Long Term Borrowing	5.13	(324,403)
(356,017)	Other Long Term Liabilities	5.18	(385,632)
(3,940)	Capital Grants Receipts in Advance	5.32.3	(3,523)
(700,711)	<b>Long Term Liabilities</b>		<b>(719,396)</b>
390,952	<b>Net Assets</b>		<b>478,422</b>
(90,102)	Usable Reserves	5.19	(104,093)
(300,850)	Unusable Reserves	5.20	(374,330)
(390,952)	<b>Total Reserves</b>		<b>(478,422)</b>

## 4.5 Cash Flow Statement

2015-16 £000		Notes	2016-17 £000
74,545	Net (deficit)/surplus on the provision of services	4.2	<b>18,893</b>
(1,233)	Adjustments to net deficit on the provision of services for non cash movements	5.21	<b>70,795</b>
<u>(52,295)</u>	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	5.21	<u><b>(68,191)</b></u>
21,017	Net cash flow from Operating Activities		<b>21,497</b>
(1,283)	Investing Activities	5.22	<b>(20,570)</b>
<u>(2,837)</u>	Financing Activities	5.23	<u><b>4,474</b></u>
16,897	Net increase/(decrease) in cash and cash equivalents		<b>5,401</b>
<u>12,817</u>	Cash and cash equivalents at the beginning of the reporting period	5.24	<u><b>29,714</b></u>
<u><u>29,714</u></u>	Cash and cash equivalents at the end of the reporting period	5.24	<u><u><b>35,115</b></u></u>

## 5 Notes to the Financial Statements

### 5.1 Accounting Policies

#### 5.1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2016-17 financial year and its position as at 31 March 2017. The Council is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit (England) Regulations 2015, 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 2016-17 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 and financial instruments. The Council makes use of estimation techniques as deemed appropriate to specific circumstances and these are disclosed in the accounts where material.

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 Councils 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 collected due to non-payment or default, the balance not expected to be collected is written down and a charge made to revenue.

### 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.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### 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 non current assets during the year:

- depreciation or amortisation 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 a MRP. Instead, depreciation charged to the HRA is transferred to the Major Repairs Reserve to be used to fund future HRA capital expenditure. Impairment and valuation losses for HRA non-dwellings, in excess of balances on the revaluation reserve, are charged against the HRA income and expenditure account with no corresponding adjustment to the Capital Adjustment Account.

### **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 salaries and wages, 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 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 salary and wage 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 benefit 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 – market value 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 service segments 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;
- 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;
- 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.

Statutory provisions require the General Fund Balance to be charged with the actual pension amounts 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. This means that there are appropriations in the Movement in Reserves Statement 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.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest). 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. This means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest). 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 of non-payment or default, 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, Contributions and Donated Assets

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 must be met by the recipient as specified, or the grant must be repaid.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (Creditors or Capital Grants Receipts in Advance). When conditions are satisfied, the grant or contribution is credited to the relevant service segment 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 revalued annually at fair value, based on the amount at which the asset could be sold in an orderly transaction between market participants at the measurement date. Investment 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 contribution equal to the amount applied to write down the lease liability is made from revenue funds in accordance with statutory requirements. Depreciation and revaluation and impairment losses are transferred to the Capital Adjustment Account in the Movement in Reserves Statement so that there is no charge against Council Tax.

### 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. if 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. if 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 service segments in accordance with the Council's arrangements for accountability and financial performance.

### 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 are generally 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 (PPE)**

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 PPE.

##### **Recognition**

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it increases the value of the asset and that it yields benefits to the council and the services it provides for more than one financial year.

##### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement. The gain is then reversed out of the General Fund to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure assets and assets under construction – depreciated historical cost;
- Council dwellings – fair value, determined using the basis of existing use value for social housing (Existing Use Value - Social Housing (EUV-SH));
- all other property 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 the local Council intends 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, for example community schools, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.

The Council has a rolling programme that ensures all 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 as follows:

- 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 segment line(s) in the Comprehensive Income and Expenditure Statement;
- with the exception of HRA non-dwelling assets, amounts written down against the relevant service segments are transferred to the Capital Adjustment Account in the Movement in Reserves Statement so that there is no charge against Council Tax.

### **Impairment**

Assets are reviewed at 31<sup>st</sup> March each year to determine whether there is any indication that their carrying amounts are greater than their recoverable amount. Where differences between the two amounts are estimated to be material an impairment loss is recognised.

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 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 90 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: straight- line allocation 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	1.2% of building net book value	15 years
Double glazing	1.7% 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 Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest and will use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to valuation techniques used are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

#### **5.1.17 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.

#### **5.1.18 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 segment 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.

### **5.1.19 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 the Comprehensive Income and Expenditure Statement 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.

#### **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.

### **5.1.20 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. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service segment 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.

Some reserves such as the Revaluation Reserve, Capital Adjustment Account, Collection Fund Adjustment Account, Financial Instruments Adjustment Account, Employee Benefit Reserve and Pensions Reserve are maintained for purely accounting purposes and do not represent usable resources available to the Council. Their use is governed by statutory and / or CIPFA guidance and are explained in the relevant policies.

### 5.1.21 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 segment in the Comprehensive Income and Expenditure Statement in the year. A transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account is then made so that there is no charge against Council Tax.

### 5.1.22 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenues and Customs. VAT receivable is excluded from income.

### 5.1.23 Accounting for Council Tax and NDR

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

Council Tax cash collected belongs proportionately to the Council and the major preceptors. NDR 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 NDR is recognised in the Comprehensive Income and Expenditure Statement. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The balance sheet recognises debtors for unpaid Council Tax and NDR, 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 NDR income received.

### 5.1.24 Joint Operations

The Council discloses pooled budgets and other joint operations where they are material. The pooled budget notes disclose all income and expenditure incurred under the arrangements. The Comprehensive Income and Expenditure Statement and the Balance Sheet include only the Council's share of income and expenditure.

## 5.2 Critical Judgements in Applying Accounting Policies

In applying accounting policies, the Council has made 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 coupled with severe pressures on public expenditure. The Council has, however, put in place a financial strategy to mitigate these risks. As a consequence, it is the Council's view that the level of uncertainty is not significant enough in terms of its anticipated impact to warrant an impairment of assets due to reduced levels of service provision, or a need to close facilities.

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

The Statement of Accounts contains estimated figures that are based on 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 on the Council's Balance Sheet for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	<p>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. Adjustments to valuations and remaining useful economic lives have also been made on the basis of approved regeneration proposals.</p> <p>Assets valued at fair value are estimated based on quoted prices in active markets or other observable inputs for the type of asset being valued (fair value hierarchy levels 1 and 2).</p> <p>The fair value of some of the Council's investment properties and surplus assets cannot be estimated based on quoted prices in active markets or other observable inputs such as similar assets in active markets. In these cases fair value is measured using the most recent valuations adjusted to current valuation by the use of indexation and impairment review (fair value hierarchy level 3).</p>	<p>If the useful lives of assets are reduced, depreciation expense increases and the carrying amounts of the assets fall.</p> <p>Any reduction in asset values will result in a reduction in the Council's overall net asset position.</p>
Provisions	<p>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.</p>	<p>If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's general fund.</p>
Outstanding Debts	<p>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 for will be adequate.</p>	<p>Provisions may not be adequate where there is a deterioration in collection rates caused by default i.e. debtors not being able to pay the amounts they owe the Council. These additional costs of default would have to be met from the Council's general fund.</p>
Business Rates	<p>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.</p>	<p>If the refunds payable are higher than the provision, the difference will reduce the balance on the Collection Fund and reduce the Council's share of business rates income in future years.</p>
Pensions Liability	<p>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.</p>	<p>The assumptions used are reviewed yearly in respect of the calculation of the net liability and triennially in respect of the Council's pension contribution rate. Changes in assumptions may increase the net liability and future pension costs.</p>

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

There are no accounting standards that have been issued but not yet adopted by the 2016-17 Code of Practice.

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

### 5.5.1 Note to the Expenditure and Funding Analysis

	2016-17			
	Adjustments for Capital Purposes £000 (Note a)	Net Pension Adjustments £000 (Note b)	Other Differences £000 (Note c)	Total Adjustments £000 (Note d)
People - Adult Services and Public Health	(711)	521	1,031	841
People - Children and Families	5,809	2,027	3,163	10,999
Community	804	851	(7,861)	(6,206)
Resources and Commercial	1,169	262	(82)	1,349
Regeneration and Corporate items	13,529	469	(848)	13,150
Housing Revenue Account	(6,505)	189	(1,403)	(7,719)
<b>Cost Of Services</b>	<b>14,095</b>	<b>4,319</b>	<b>(6,000)</b>	<b>12,414</b>
Other income and expenditure	(45,533)	11,882	4,919	(28,732)
Difference between General Fund and HRA (Surplus)/Deficit and Comprehensive Income and Expenditure Statement Provision of Services (Surplus)/Deficit on Provision of Services	<b>(31,438)</b>	<b>16,201</b>	<b>(1,081)</b>	<b>(16,318)</b>

	2015-16			
	Adjustments for Capital Purposes £000 (Note a)	Net Pension Adjustments £000 (Note b)	Other Differences £000 (Note c)	Total Adjustments £000 (Note d)
People - Adult Services and Public Health	(764)	1,068	1,033	1,337
People - Children and Families	(6,489)	4,109	(2,345)	(4,725)
Community	(748)	1,684	(5,712)	(4,776)
Resources and Commercial	0	508	(1,216)	(708)
Regeneration and Corporate Items	9,782	(491)	(1,490)	7,801
Housing Revenue Account	(45,740)	388	(1,736)	(47,088)
<b>Cost Of Services</b>	<b>(43,959)</b>	<b>7,266</b>	<b>(11,466)</b>	<b>(48,159)</b>
Other income and expenditure	(42,302)	12,906	4,392	(25,004)
Difference between General Fund and HRA (Surplus)/Deficit and Comprehensive Income and Expenditure Statement Provision of Services (Surplus)/Deficit on Provision of Services	<b>(86,261)</b>	<b>20,172</b>	<b>(7,074)</b>	<b>(73,163)</b>

Note a: Adjustments for Capital Purposes - this column includes capital grants, the minimum revenue provision, gains and losses on the sale of property, plant and equipment, movements on the balance of investment properties, depreciation, amortisation, impairments, revaluation and other gains and losses on charged to services.

Note b: Adjusts for the amount of pension current service cost charged to services which are in excess of the actual pension contributions paid.

Note c: Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.

Note d: The total difference is analysed by nature in the first two columns of note 5.5.2: Note to the Movement in Reserves Statement.

## 5.5.2 Note to the Movement in Reserves Statement

2016-17	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments to Revenue Resources:</b>						
Pension costs transferred to the Pensions Reserve	(13,166)	(189)	0	0	0	13,355
Depreciation	(22,362)	(7,571)	0	0	0	29,933
Impairment	(10,127)	2,403	0	0	0	7,724
Premiums and Discounts on Debt Restructure	(558)	(191)	0	0	0	749
Movements in market value of Investment Properties	1,598	0	0	0	0	(1,598)
Council Tax and NDR transfer to/from the Collection Fund Adjustment Account	290	0	0	0	0	(290)
Holiday pay transfer to/from the Accumulating Compensating Absences Adjustment Account	(1,855)	0	0	0	0	1,855
Revenue expenditure funded from capital	(2,647)	0	0	0	0	2,647
Non Current assets written out on disposal	(32,888)	(2,830)	0	0	0	35,718
<b>Total Adjustments to Revenue Resources</b>	<b>(81,715)</b>	<b>(8,378)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>90,093</b>
<b>Adjustments between Revenue and Capital Resources:</b>						
Minimum Revenue Provision	15,487	14	0	0	0	(15,501)
Capital expenditure funded from revenue balances	254	0	0	0	0	(254)
Capital grants and contributions	50,444	1,235	0	0	(10,390)	(41,289)
Transfer of sale proceeds credited to the CIES	28,131	7,940	(14,800)	0	0	(21,271)
Administrative cost of non-current asset disposals	(33)	0	33	0	0	0
Payment to the Housing Capital Receipts Pool	0	(1,281)	1,281	0	0	0
Use of capital receipts to fund revenue expenditure	(2,377)	0	2,377	0	0	0
Transfer of HRA resources to the Major Repairs Reserve	0	6,595	0	(6,595)	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>91,906</b>	<b>14,503</b>	<b>(11,109)</b>	<b>(6,595)</b>	<b>(10,390)</b>	<b>(78,315)</b>
<b>Adjustments to Capital Resources:</b>						
Use of the Major Repairs Reserve to fund capital expenditure	0	0	0	7,287	0	(7,287)
Use of the Capital Receipts Reserve to fund capital expenditure	0	0	8,613	0	0	(8,613)
Use of Capital Grants Unapplied Account to fund capital expenditure	0	0	0	0	779	(779)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>8,613</b>	<b>7,287</b>	<b>779</b>	<b>(16,679)</b>
<b>Total Adjustments</b>	<b>10,191</b>	<b>6,125</b>	<b>(2,496)</b>	<b>692</b>	<b>(9,611)</b>	<b>(4,901)</b>

2015-16

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments to Revenue Resources:</b>						
Pension costs transferred to the Pensions Reserve	(16,743)	(388)	0	0	0	17,131
Depreciation	(21,103)	(7,797)	0	0	0	28,900
Impairment	3,962	42,966	0	0	0	(46,928)
Premiums and Discounts on Debt Restructure	(320)	(96)	0	0	0	416
Movements in market value of Investment Properties	4,145	0	0	0	0	(4,145)
Council Tax and NDR transfer to/from the Collection Fund Adjustment Account	3,713	0	0	0	0	(3,713)
Holiday pay transfer to/from the Accumulating Compensating Absences Adjustment Account	519	0	0	0	0	(519)
Revenue expenditure funded from capital	(1,736)	(383)	0	0	0	2,119
Non Current assets written out on disposal	(4,310)	(2,805)	(16)	0	0	7,131
<b>Total Adjustments to Revenue Resources</b>	<b>(31,873)</b>	<b>31,497</b>	<b>(16)</b>	<b>0</b>	<b>0</b>	<b>392</b>
<b>Adjustments between Revenue and Capital Resources:</b>						
Minimum Revenue Provision	15,310	16	0	0	0	(15,326)
Capital expenditure funded from revenue balances	340	0	0	0	0	(340)
Capital grants and contributions	37,015	407	0	0	(740)	(36,682)
Transfer of sale proceeds credited to the CIES	7,277	7,668	(14,945)	0	0	0
Administrative cost of non-current asset disposals	(53)	0	53	0	0	0
Payment to the Housing Capital Receipts Pool	0	(812)	812	0	0	0
Transfer of HRA resources to the Major Repairs Reserve	0	6,371	0	(6,371)	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>59,889</b>	<b>13,650</b>	<b>(14,080)</b>	<b>(6,371)</b>	<b>(740)</b>	<b>(52,348)</b>
<b>Adjustments to Capital Resources:</b>						
Use of the Major Repairs Reserve to fund capital expenditure	0	0	0	8,893	0	(8,893)
Use of the Capital Receipts Reserve to fund capital expenditure	0	0	3,282	0	0	(3,282)
Use of Capital Grants Unapplied Account to fund capital expenditure	0	0	0	0	15,415	(15,415)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>3,282</b>	<b>8,893</b>	<b>15,415</b>	<b>(27,590)</b>
<b>Total Adjustments</b>	<b>28,016</b>	<b>45,147</b>	<b>(10,814)</b>	<b>2,522</b>	<b>14,675</b>	<b>(79,546)</b>

## 5.6 General Fund and Earmarked Reserves

	Balance at 31-Mar-15	Transfers Out 2015-16	Transfers In 2015-16	Balance at 31-Mar-16	Transfers Out 2016-17	Transfers In 2016-17	Balance at 31-Mar-17
	£000	£000	£000	£000	£000	£000	£000
<b>Earmarked Reserves:</b>							
Compensatory Added Years	(722)	79	0	(643)	80	0	(563)
Transformation and Priority Initiatives Fund	(3,819)	630	0	(3,189)	655	0	(2,534)
PFI Schools	(2,954)	2,458	(2,294)	(2,790)	278	0	(2,512)
PFI Neighbourhood Resource Centre	(1,154)	986	(1,122)	(1,290)	0	(124)	(1,414)
HSIP	(1,261)	108	0	(1,153)	1,141	0	(12)
IT Implementation	(2,854)	1,000	0	(1,854)	1,176	0	(678)
Standing Up for Those in Need	(800)	0	0	(800)	0	0	(800)
Projects in progress	(1,736)	1,736	(1,793)	(1,793)	1,793	(2,336)	(2,336)
Insurance reserve	(500)	0	0	(500)	0	0	(500)
Revenue Grant Reserve	(208)	47	(1,144)	(1,305)	903	(507)	(909)
Public Health	(908)	10	0	(898)	0	(225)	(1,123)
Business Risk	(2,109)	0	0	(2,109)	0	0	(2,109)
MTFS Implementation cost	(2,804)	2,692	(763)	(875)	1,286	(3,268)	(2,857)
CIL - Harrow	(200)	0	(528)	(728)	0	(5,405)	(6,133)
Commercialisation	0	479	(1,000)	(521)	116	0	(405)
Welfare Reform	0	0	(1,000)	(1,000)	1,000	0	0
Budget Planning	0	0	0	0	0	(2,000)	(2,000)
Other earmarked reserves	(1,536)	657	(576)	(1,455)	219	(323)	(1,559)
<b>Total Earmarked Reserves</b>	<b>(23,565)</b>	<b>10,882</b>	<b>(10,220)</b>	<b>(22,903)</b>	<b>8,647</b>	<b>(14,188)</b>	<b>(28,444)</b>
Locally Managed School Balances	(14,935)	109	0	(14,826)	3,123	0	(11,703)
General Fund	(10,008)	0	0	(10,008)	0	0	(10,008)
<b>Total</b>	<b>(48,508)</b>	<b>10,991</b>	<b>(10,220)</b>	<b>(47,737)</b>	<b>11,770</b>	<b>(14,188)</b>	<b>(50,155)</b>

**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.

**Projects in Progress:** Resources set aside for expenditure committed but not yet incurred as at the balance sheet date.

**Revenue Grants Reserve:** Unspent balances of revenue grants restricted for specific purposes.

**Public Health Reserve:** Unspent balance of public health grant restricted to fund future public health expenditure.

**Business Risk Reserve:** To cover the risk of increased costs from pressure on the social care budget 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.

**CIL – Harrow Reserve:** Holds unspent Community Infrastructure Levy planning charges collected under the Planning Act 2008. The balance is restricted to fund local infrastructure projects.

**Budget Planning Reserve:** Resources set aside as additional one-off contingency to support the budget.

**Locally Managed School Balances:** 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**

2015-16 £000		2016-17 £000
	<b>Levies</b>	
260	London Boroughs Grants Committee	245
303	London Pension Fund Authority	301
7,844	West London Waste Authority (WLWA)	7,258
240	Lee Valley Regional Park Authority	234
183	Environment Agency	186
8,830	Sub Total Levies	8,224
812	Payments to the Government Housing Capital Receipts Pool	1,229
(7,779)	Losses/(gains) on the disposal of non current assets	(466)
1,863	<b>Total</b>	8,987

**5.8 Financing and investment income and expenditure**

2015-16 £000		2016-17 £000
15,975	Interest payable and similar charges	15,929
12,906	Net interest on the net defined benefit liability	11,882
(1,817)	Interest receivable and similar income	(1,555)
(5,226)	Income in relation to investment properties & changes in their fair value	(2,775)
21,838	<b>Total</b>	23,481

**5.9 Taxation and non- specific grant income**

2015-16 £000		2016-17 £000
(102,042)	Council tax income	(108,707)
(15,998)	Business Rates Retention	(13,704)
(32,034)	Revenue Support Grant	(21,935)
(20,939)	Business Rates Top-Up Grant	(21,114)
(2,394)	Education Services Grant	(2,305)
(3,867)	New Home Bonus Grant	(5,250)
(1,251)	Section 31 Grants	(724)
0	Transition Grant	(712)
(155)	Other General Grants	(57)
0	Donated assets	(19,459)
(37,406)	Capital grants and contributions (Note 5.32.2)	(32,220)
(216,086)	<b>Total</b>	(226,187)

## 5.10 Property, Plant and Equipment

2016-17	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant, IT and Equipment	PFI Assets Included in Property, Plant, IT and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1 April 2016	381,422	433,175	44,345	183,971	1	92,366	11,720	1,147,000	36,331
Reversal of accumulated depreciation on revaluation	(7,190)	(6,672)	0	0	0	0	0	(13,862)	(356)
Additions	4,849	25,407	1,799	15,447	769	30,546	0	78,817	51
Donated assets	0	19,459	0	0	0	0	0	19,459	0
Revaluation increases recognised in the Revaluation Reserve	71,244	9,825	0	0	0	0	4,630	85,699	(697)
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	2,403	(8,567)	0	0	(1,560)	0	0	(7,724)	0
Derecognition - Disposals	(2,989)	(31,925)	0	0	0	0	(2,100)	(37,014)	0
Derecognition - Other*	0	(27)	(3,062)	(6,987)	0	0	0	(10,076)	0
Reclassifications	8,852	25,800	945	479	791	(37,108)	0	(241)	25
<b>At 31 March 2017</b>	<b>458,591</b>	<b>466,475</b>	<b>44,027</b>	<b>192,910</b>	<b>1</b>	<b>85,804</b>	<b>14,250</b>	<b>1,262,058</b>	<b>35,354</b>
<b>Accumulated Depreciation</b>									
At 1 April 2016	(7,190)	(8,418)	(26,961)	(74,030)	0	0	0	(116,599)	(713)
Reversal of accumulated depreciation on revaluation	7,190	6,672	0	0	0	0	0	13,862	356
Depreciation charges for 2016-17	(7,291)	(6,995)	(6,717)	(8,930)	0	0	0	(29,933)	(443)
Derecognition - Depreciation on Disposal	404	2,572	0	0	0	0	0	2,976	0
Derecognition - Other*	0	0	3,062	6,987	0	0	0	10,049	0
<b>At 31 March 2017</b>	<b>(6,887)</b>	<b>(6,169)</b>	<b>(30,616)</b>	<b>(75,973)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(119,645)</b>	<b>(800)</b>
<b>Net Book Value</b>									
<b>At 31 March 2017</b>	<b>451,704</b>	<b>460,306</b>	<b>13,411</b>	<b>116,937</b>	<b>1</b>	<b>85,804</b>	<b>14,250</b>	<b>1,142,413</b>	<b>34,554</b>
<b>At 31 March 2016</b>	<b>374,232</b>	<b>424,757</b>	<b>17,384</b>	<b>109,941</b>	<b>1</b>	<b>92,366</b>	<b>11,720</b>	<b>1,030,401</b>	<b>35,618</b>

\* The gross book value of fully depreciated assets that are no longer in use.

2015-16

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant, IT and Equipment	PFI Assets Included in Property, Plant, IT and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1 April 2015	344,597	381,803	52,729	168,641	886	37,733	0	986,389	27,899
Reclassification of investment properties ***	0	1,815	0	0	0	0	11,720	13,535	0
Restatement of community assets **	0	0	0	0	(885)	0	0	(885)	0
Restated balance at 1 April 2015	344,597	383,618	52,729	168,641	1	37,733	11,720	999,039	27,899
Reversal of accumulated depreciation on revaluation	(6,719)	(4,515)	0	0	0	0	0	(11,234)	(416)
Additions	1,842	4,624	2,969	15,295	0	62,509	0	87,239	0
Revaluation increases recognised in the Revaluation Reserve	1,129	41,260	0	0	0	0	0	42,389	8,099
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	42,936	3,817	0	0	0	0	0	46,753	749
Derecognition - Disposals	(3,163)	(1,083)	0	0	0	0	0	(4,246)	0
Derecognition - Other*	0	0	(11,775)	(1,165)	0	0	0	(12,940)	0
Reclassifications	800	5,454	422	1,200	0	(7,876)	0	0	0
<b>At 31 March 2016</b>	<b>381,422</b>	<b>433,175</b>	<b>44,345</b>	<b>183,971</b>	<b>1</b>	<b>92,366</b>	<b>11,720</b>	<b>1,147,000</b>	<b>36,331</b>
<b>Accumulated Depreciation</b>									
At 1 April 2015	(6,719)	(8,548)	(31,354)	(66,904)	(885)	0	0	(114,410)	(682)
Restatement of community assets **	0	0	0	0	885	0	0	885	0
Restated balance at 1 April 2015	(6,719)	(8,548)	(31,354)	(66,904)	0	0	0	(113,525)	(682)
Reversal of accumulated depreciation on revaluation	6,719	4,515	0	0	0	0	0	11,234	416
Depreciation charges for 2015-16	(7,546)	(5,682)	(7,382)	(8,291)	0	0	0	(28,901)	(447)
Derecognition - Depreciation on Disposal	431	1,222	0	0	0	0	0	1,653	0
Derecognition - Other*	0	0	11,775	1,165	0	0	0	12,940	0
Reclassification of assets	(75)	75	0	0	0	0	0	0	0
<b>At 31 March 2016</b>	<b>(7,190)</b>	<b>(8,418)</b>	<b>(26,961)</b>	<b>(74,030)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(116,599)</b>	<b>(713)</b>
<b>Net Book Value</b>									
<b>At 31 March 2016</b>	<b>374,232</b>	<b>424,757</b>	<b>17,384</b>	<b>109,941</b>	<b>1</b>	<b>92,366</b>	<b>11,720</b>	<b>1,030,401</b>	<b>35,618</b>
<b>At 31 March 2015</b>	<b>337,878</b>	<b>373,252</b>	<b>21,375</b>	<b>101,737</b>	<b>1</b>	<b>37,733</b>	<b>0</b>	<b>871,976</b>	<b>27,217</b>

\* The gross book value of fully depreciated assets that are no longer in use.

\*\* Community asset cost and accumulated depreciation has been restated to £1 to reflect the Council's accounting policy.

\*\*\* Refer to note 5.12.

### 5.10.1 Depreciation

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

- Council dwellings – 90 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 a number of contracts for the construction or enhancement of Property, Plant and Equipment at a budgeted cost of £19.8m (£26.8m as at 31<sup>st</sup> March 2016). This expenditure will be incurred in 2017-18 and future years. The major commitments are as follows :

- Acquisition of homes for Temporary Accommodation - £1.5m (£0 as at 31<sup>st</sup> March 2016)
- Affordable Housing Schemes – Construction on Harrow infill sites £4.9m (£2.6m as at 31<sup>st</sup> March 2016)
- Schools Expansion Scheme Phase Three – Expansion of 3 primary schools £8.2m (£9.0m as at 31<sup>st</sup> March 2016)
- Regeneration scheme – Gayton Road development £9.9m (£0 as at 31<sup>st</sup> March 2016)

### 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 the carrying amount is not materially different from fair value. All valuations were carried out internally as at 1st April 2016. 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 assets and assets under construction – depreciated historical cost;
- Council dwellings – fair value, determined using the basis of existing use value for social housing (Existing Use Value - Social Housing (EUV-SH));
- all other property 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 a local Council intends 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 1st April. The Land Registry Index is used to calculate the movement in property values between 1st April 2016 and 31st March 2017. 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	Infra-structure Assets £000	Asset Under Construction £000	Surplus Assets £000	Total £000	Investment Property £000
Valued at historical cost	0	0	13,411	116,937	85,804	14,250	230,402	0
Valued at fair value:								
As at 31st March 2017	451,704	82,725	0	0	0	0	534,429	21,987
As at 31st March 2016	0	95,076	0	0	0	0	95,076	0
As at 31st March 2015	0	88,808	0	0	0	0	88,808	0
As at 31st March 2014	0	73,620	0	0	0	0	73,620	0
As at 31st March 2013	0	119,853	0	0	0	0	119,853	0
Total Cost or Valuation as at 31st March 2017	<b>451,704</b>	<b>460,082</b>	<b>13,411</b>	<b>116,937</b>	<b>85,804</b>	<b>14,250</b>	<b>1,142,188</b>	<b>21,987</b>

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, one additional school transferred to Academy status (note 5.35.2.1).

#### 5.11 Heritage Assets

The Council's heritage assets are as detailed below. With the exception of the Headstone Manor Listed Buildings which are operational assets valued at Existing Use Value, 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, 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 the Borough. The Imperial War Museum publishes a full list of all memorials on its website.

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## 5.12 Investment Properties

2015-16 £000		2016-17 £000
30,062	Balance at start of the year	16,137
<u>(13,535)</u>	Reclassification of investment properties	<u>241</u>
16,527	Restated balance at 1 April	16,378
0	Additions	5,442
<u>(4,535)</u>	Disposals	<u>(1,680)</u>
4,145	Net gains from fair value adjustments	1,623
<u>16,137</u>	Balance at end of the year	<u>21,763</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-17 £000	31-Mar-16 £000	31-Mar-17 £000	31-Mar-16 £000
<b>Investments</b>				
Loans and receivables	0	5,000	27,830	39,894
Cash and cash equivalents	0	0	<u>37,440</u>	<u>31,647</u>
<b>Total investments</b>	<u>0</u>	<u>5,000</u>	<u>65,270</u>	<u>71,541</u>
<b>Debtors</b>				
Loans and receivables	16,843	13,471	0	0
Financial assets carried at contract amounts	0	0	<u>22,363</u>	<u>17,497</u>
<b>Total Debtors</b>	<u>16,843</u>	<u>13,471</u>	<u>22,363</u>	<u>17,497</u>
<b>Borrowings</b>				
Financial liabilities at amortised cost	<u>(324,403)</u>	<u>(334,434)</u>	<u>(16,146)</u>	<u>(6,483)</u>
<b>Total borrowings</b>	<u>(324,403)</u>	<u>(334,434)</u>	<u>(16,146)</u>	<u>(6,483)</u>
<b>Other Liabilities</b>				
PFI and finance lease liabilities	<u>(16,175)</u>	<u>(17,032)</u>	<u>(858)</u>	<u>(1,017)</u>
<b>Total other liabilities</b>	<u>(16,175)</u>	<u>(17,032)</u>	<u>(858)</u>	<u>(1,017)</u>
<b>Creditors</b>				
Financial liabilities carried at contract amount	0	0	<u>(49,115)</u>	<u>(42,506)</u>
<b>Total creditors</b>	<u>0</u>	<u>0</u>	<u>(49,115)</u>	<u>(42,506)</u>

The balances of debtors and creditors disclosed in the above note differ from the balance sheet because they include only balances relating to contractual arrangements and exclude balances relating to statutory functions. The balance of short term debtors excludes £8.4m (£13.3m in 2015-16). The creditors balance excludes £30.9m (£23.7m in 2015-16). The cash and cash equivalents and current (short term) borrowings figures differ from the balance sheet because the £2.3m 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
2015-16	2015-16	2015-16		2016-17	2016-17	2016-17
£000	£000	£000		£000	£000	£000
16,054	0	16,054	Interest Expenses	15,876	0	15,876
0	223	223	Impairment Losses	0	1,051	1,051
16,054	223	16,277	<b>Interest payable and similar charges</b>	15,876	1,051	16,927
0	(1,855)	(1,855)	Interest income	0	(1,555)	(1,555)
0	(1,855)	(1,855)	<b>Interest and investment income</b>	0	(1,555)	(1,555)
16,054	(1,632)	14,422	<b>Net gain/(loss) for the year</b>	15,876	(504)	15,372

## Fair Value of Assets and Liabilities

The fair value of an instrument is an estimate of its current market value. Fair value calculations have been made using the following methodology and assumptions:

- Valuations make use of level 2 inputs i.e. inputs other than quoted market prices that are observable for the financial asset/liability;
- Accrued interest has been included in the fair value calculations;
- The fair value of trade and other receivables is taken to be the carrying value or invoiced or billed amount;
- The fair value of fixed term deposits is calculated by comparing the fixed term investment with a comparable investment with the same or similar lender for the remaining period of the deposit;
- The fair value of loans receivable is calculated using the appropriate benchmark market rate;
- The fair value of borrowing has been calculated using the appropriate premature redemption discount rate.

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

Carrying Amount	Fair Value		Carrying Amount	Fair Value
2015-16	2015-16		2016-17	2016-17
£000	£000		£000	£000
44,894	45,396	Investments	27,830	27,916
13,471	27,286	Loans and receivables	16,843	34,927
31,647	31,663	Cash and Cash Equivalents	37,441	37,441
(340,917)	(510,034)	Borrowing	(308,257)	(529,127)

## 5.14 Long term debtors

31-Mar-16		31-Mar-17
£000		£000
13,124	West London Waste Authority	16,401
0	Deferred proceeds on sale of assets	21,271
347	Other Loans	442
13,471	<b>Total</b>	<b>38,114</b>

**5.15 Short term debtors**

31-Mar-16		31-Mar-17
£000		£000
9,067	Central government bodies	3,831
5,356	Other local authorities	11,113
3,129	NHS bodies	1,334
13,258	Other entities and individuals	14,450
<u>30,810</u>	<b>Total</b>	<u>30,728</u>

**5.16 Short term creditors**

31-Mar-16		31-Mar-17
£000		£000
(12,254)	Central government bodies	(15,993)
(7,888)	Other local authorities	(7,343)
(2,823)	NHS bodies	(2,776)
(43,200)	Other entities and individuals	(53,938)
<u>(66,165)</u>	<b>Total</b>	<u>(80,050)</u>

**5.17 Provisions**

	Insurance £000	Business Rate Appeals £000	Other Provisions £000	Total £000
<b>Short Term</b>				
<b>Balance at 1 April 2016</b>	(1,335)	(420)	(1,294)	(3,049)
Additional provisions made	(1,132)	(1,440)	(466)	(3,038)
Transferred from Long Term	(483)	0	0	(483)
Amounts used	1,615	0	355	1,970
Unused amounts reversed	0	0	326	326
<b>Balance at 31 March 2017</b>	<u>(1,335)</u>	<u>(1,860)</u>	<u>(1,079)</u>	<u>(4,274)</u>
<b>Long Term</b>				
<b>Balance at 1 April 2016</b>	(6,320)	0	0	(6,320)
Transferred to Short Term	483	0	0	483
<b>Balance at 31 March 2017</b>	<u>(5,837)</u>	<u>0</u>	<u>0</u>	<u>(5,837)</u>

**Insurance:** This provision is the estimated liability for insurance claims that the Council self funds, including actual claims submitted, and events for which the Council has not received a claim (incurred but not reported IBNR). The Council's insurance programme consists of a range of insurance covers in three broad classes; liability, property and motor. The Council's maximum potential liability is limited by a series of aggregate stop loss covers with the Council's insurers that are triggered 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 £1.48m to cover the cost of payments to Municipal Mutual Insurance in respect of future claims.

**Business Rate Appeals:** The provision covers 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.

## 5.18 Other long term liabilities

31-Mar-16 £000		31-Mar-17 £000
(16,501)	PFI Lease Liability ( Note 5.36)	(16,049)
(531)	Finance Lease Liability	(125)
(338,985)	IAS19 Pension Liability ( Note 5.38.5)	(369,458)
<u>(356,017)</u>	<b>Total</b>	<u>(385,632)</u>

## 5.19 Usable reserves

31-Mar-16 £000		Note	31-Mar-17 £000
(47,736)	General Fund and Earmarked Reserves	5.6	(50,155)
(6,736)	Housing Revenue Account	6.1	(6,894)
(5,520)	Major Repairs Reserve	6.2.4	(4,828)
(20,153)	Capital Receipts Reserve	5.19.1	(22,650)
(9,957)	Capital Grants and Contributions Unapplied	5.19.2	(19,568)
<u>(90,102)</u>	<b>Total Usable Reserves</b>		<u>(104,095)</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 2015-16 £000	HRA 2015-16 £000	Total 2015-16 £000		General Fund 2016-17 £000	HRA 2016-17 £000	Total 2016-17 £000
0	(9,339)	(9,339)	Balance unapplied at 1 April	(7,795)	(12,358)	(20,153)
(7,277)	(1,145)	(8,422)	Receipts in year - Others	(6,860)	(2,140)	(9,000)
0	(6,539)	(6,539)	Receipts in year - Right to Buy	0	(5,800)	(5,800)
(571)	571	0	Transfers between HRA and GF	0	0	0
53	0	53	Disposal Costs	22	10	32
0	812	812	Pooling payment to the DCLG	0	1,281	1,281
0	0	0	Use of capital receipts to fund revenue expenditure	2,377	0	2,377
0	984	984	Applied during the year - others	5,600	1,878	7,478
0	2,298	2,298	Applied during the year - Right to Buy		1,135	1,135
<u>(7,795)</u>	<u>(12,358)</u>	<u>(20,153)</u>	<b>Balance unapplied at 31 March</b>	<u>(6,656)</u>	<u>(15,994)</u>	<u>(22,650)</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	HRA	Total		General Fund	HRA	Total
2015-16	2015-16	2015-16		2016-17	2016-17	2016-17
£000	£000	£000		£000	£000	£000
(20,949)	(3,683)	(24,632)	Balance unapplied at 1 April	(7,245)	(2,712)	(9,957)
(619)	(263)	(882)	Receipts in year	(10,245)	(145)	(10,390)
14,323	1,234	15,557	Applied during the year	570	209	779
<b>(7,245)</b>	<b>(2,712)</b>	<b>(9,957)</b>	<b>Balance unapplied at 31 March</b>	<b>(16,920)</b>	<b>(2,648)</b>	<b>(19,568)</b>

## 5.20 Unusable reserves

31-Mar-16		Notes	31-Mar-17
£000			£000
(75,163)	Revaluation Reserve	5.20.1	(157,836)
(568,671)	Capital Adjustment Account	5.20.2	(570,998)
6,034	Financial Instruments Adjustment Account	5.20.3	6,783
338,985	Pensions Reserve	5.20.4	369,458
(5,606)	Collection Fund Adjustment Account	5.20.5	(5,896)
3,589	Accumulating Compensated Absences Adjustment Account	5.20.6	5,444
(18)	Deferred Capital Receipts Reserve	5.20.7	(21,286)
<b>(300,850)</b>	<b>Total Unusable Reserves</b>		<b>(374,331)</b>

### 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.

2015-16				2016-17		
General Fund	HRA	Total		General Fund	HRA	Total
£000	£000	£000		£000	£000	£000
(31,556)	(3,460)	(35,016)	<b>Balance at 1 April</b>	(70,955)	(4,208)	(75,163)
(55,115)	(44,982)	(100,097)	Upward revaluation of assets	(30,817)	(75,804)	(106,621)
			Downward revaluation of assets not charged to the (Surplus)/Deficit on the Provision of Services:			
1,069	148	1,217	Downward revaluation charged to the revaluation reserve	6,983	88	7,071
13,554	42,936	56,490	Revaluation charged to Provision of Services (Surplus) / Deficit on revaluation of non-current assets not posted to the (Surplus) / Deficit on the Provision of Services	11,449	2,403	13,852
<b>(72,048)</b>	<b>(5,358)</b>	<b>(77,406)</b>	Difference between fair value depreciation and historical cost depreciation	<b>(83,340)</b>	<b>(77,521)</b>	<b>(160,861)</b>
1,093	826	1,919	Accumulated gains on assets sold or scrapped	1,074	58	1,132
0	324	324	Amount written off to the Capital Adjustment Account	1,447	446	1,893
1,093	1,150	2,243		2,521	504	3,025
<b>(70,955)</b>	<b>(4,208)</b>	<b>(75,163)</b>	<b>Balance at 31 March</b>	<b>(80,819)</b>	<b>(77,017)</b>	<b>(157,836)</b>

### 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.

2015-16				2016-17		
General Fund	HRA	Total		General Fund	HRA	Total
£000	£000	£000		£000	£000	£000
(259,574)	(213,986)	(473,560)	Balance at 1 April	(308,024)	(260,647)	(568,671)
			Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
19,800	7,784	27,584	Asset Depreciation	21,842	7,559	29,401
1,303	13	1,316	Leasing Depreciation	520	12	532
(3,992)	(42,936)	(46,928)	Asset Impairment/ (Reversal of Impairment)	10,127	(2,403)	7,724
4,310	2,815	7,125	Non Current assets written out on Disposal	32,888	2,830	35,718
1,736	383	2,119	Revenue expenditure funded from capital under statute	2,647	0	2,647
0	0	0	Deferred Capital Receipts	(19,459)	0	(19,459)
0	(324)	(324)	Revaluation reserve on disposal to the Cl&E Statement	(1,447)	(446)	(1,893)
23,157	(32,265)	(9,108)		47,118	7,552	54,670
(1,093)	(826)	(1,919)	Depreciation written out of the Revaluation reserve	(1,074)	(58)	(1,132)
22,064	(33,091)	(11,027)	Net written out amount of the cost of non current assets consumed in the year	46,044	7,494	53,538
			Capital financing applied in the year:			
0	(3,282)	(3,282)	Use of the Capital Receipts Reserve	(5,600)	(3,013)	(8,613)
0	(8,893)	(8,893)	Use of the Major Repairs Reserve	0	(7,287)	(7,287)
(36,396)	(144)	(36,540)	Capital grants contributions credited to the Cl&E Statement	(21,833)	0	(21,833)
(14,322)	(1,235)	(15,557)	Application of grants from the Capital Grants Unapplied Account	(779)	0	(779)
(15,310)	(16)	(15,326)	Minimum Revenue Provision	(15,487)	(14)	(15,501)
(340)	0	(340)	Revenue Contribution to Capital Outlay	(254)	0	(254)
(44,304)	(46,661)	(90,965)		2,091	(2,820)	(729)
(4,145)	0	(4,145)	Movements in the market value of Investment Properties debited/credited to the Cl&E Statement	(1,598)	0	(1,598)
(308,023)	(260,647)	(568,670)	Balance at 31 March	(307,531)	(263,467)	(570,998)

### 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.

2015-16 £000		2016-17 £000
5,618	<b>Balance at 1 April</b>	<b>6,034</b>
	Premiums and Discounts incurred in previous financial years to be charged against the Balance in accordance with statutory requirements	
320	General Fund	<b>558</b>
96	HRA	<b>191</b>
<u>6,034</u>	<b>Balance at 31 March</b>	<u><b>6,783</b></u>

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#### 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.

2015-16 £000		2016-17 £000
400,996	<b>Balance at 1 April</b>	<b>338,985</b>
(79,142)	Remeasurement of the net defined benefit liability	17,118
36,198	Reversal of items relating to retirement benefits debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	34,056
(19,067)	Employer's pensions contributions and direct payments to pensioners payable in the year	(20,701)
<u>338,985</u>	<b>Balance at 31 March</b>	<u>369,458</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.

2015-16 £000		2016-17 £000
(1,893)	<b>Balance at 1 April</b>	<b>(5,606)</b>
(3,713)	Amount by which council tax and NNDR income credited to CIES is different from income calculated for the year in accordance with Statute	(290)
<u>(5,606)</u>	<b>Balance at 31 March</b>	<u>(5,896)</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 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2015-16 £000		2016-17 £000
4,107	<b>Balance at 1 April</b>	<b>3,589</b>
(4,107)	Settlement or cancellation of accrual made at the end of the preceding year	(3,589)
3,589	Amounts accrued at the end of the current year	5,444
<u>3,589</u>	<b>Balance at 31 March</b>	<u>5,444</u>

### 5.20.7 Deferred capital receipts reserve

The Deferred Capital Receipts Reserve holds gains recognised on the disposal of non-current assets but for which settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable to finance new capital expenditure until they are received, at which point they are transferred to the Capital Receipts Reserve.

Regeneration				Regeneration		
projects	Other	Total		projects	Other	Total
2015-16	2015-16	2015-16		2016-17	2016-17	2016-17
£000	£000	£000		£000	£000	£000
0	(24)	(24)	Balance deferred at 1 April	0	(18)	(18)
0	0	0	Regeneration Projects sale proceeds	(21,271)	0	(21,271)
0	6	6	Transfer to Capital Receipts Reserve on receipt of proceeds	0	3	3
<u>0</u>	<u>(18)</u>	<u>(18)</u>	<b>Balance deferred at 31 March</b>	<u>(21,271)</u>	<u>(15)</u>	<u>(21,286)</u>

The Council sold land assets to developers in 2016-17 in consideration for a number of newly-constructed dwellings and other property assets which will be transferred to Council ownership once the sites have been developed. The amount disclosed as Regeneration Projects sale proceeds is the fair value of the assets the Council will receive.

### 5.21 Cash flow statement – operating activities

2015-16		2016-17
£000		£000
	<b>The cash flows for operating activities include the following items:</b>	
15,975	Interest payable & similar charges	15,929
(1,817)	Interest and Investment income	(1,555)
(5,226)	Other investment income	(2,775)
	<b>The surplus or deficit on the provision of services has been adjusted for the following noncash movements:</b>	
17,131	Adjustment for pension funding	13,355
(312)	Increase/Decrease(-) in Provision	742
(17,852)	Impairment and Depreciation	37,657
(519)	Accumulated Absence	1,855
7,125	Carrying amount of non-current assets disposed	35,718
0	Carrying amount of donated assets	(19,459)
(466)	Other non cash items charged to CIES	543
(4,145)	Movement in the value of investment properties	(1,598)
	<b>Items on an accrual basis</b>	
(3,935)	(Increase)/Decrease in Debtors	82
1,740	Increase/(Decrease) in Creditors	1,901
<u>(1,233)</u>	<b>Adjustments for non cash movements</b>	<u>70,796</u>
(14,889)	Proceeds from the sale of non-current assets	(35,971)
(37,406)	Proceeds from short term and long term investments	(32,220)
<u>(52,295)</u>	Capital grants credited to surplus or deficit on the provision of services	<u>(68,191)</u>
	<b>Adjustments for investment and financing activities</b>	

**5.22 Cash flow statement – investing activities**

2015-16 £000		2016-17 £000
(86,142)	Purchase of property, plant and equipment, investment property and intangible assets	(74,746)
(8,960)	Purchase of short-term and long-term investments	(5,401)
17,996	Capital grants received in year	31,803
14,889	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	14,701
65,000	Proceeds from short-term and long-term investments	17,373
(4,066)	Other long term loans granted	(4,300)
0	Other long term loans repaid	0
<u>(1,283)</u>	<b>Net cash flows from Investing Activities</b>	<u>(20,570)</u>

**5.23 Cash flow statement – financing activities**

2015-16 £000		2016-17 £000
(1,888)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(1,006)
180	Repayments of short- and long-term borrowing	(730)
(1,129)	Billing authority collection fund adjustments	6,210
<u>(2,837)</u>	<b>Net cash flows from financing activities</b>	<u>4,474</u>

**5.24 Cash and cash equivalents**

31-Mar-16 £000		31-Mar-17 £000
51	Cash held by the Authority	56
(1,933)	Bank current accounts	(2,325)
31,596	Short-term deposits with Banks and Building Societies	37,385
<u>29,714</u>	<b>Total Cash and Cash Equivalents</b>	<u>35,116</u>

**5.25 Expenditure and income analysed by nature**

The analysis of income and expenditure by service segment on the face of the Comprehensive Income and Expenditure Statement matches the Council's Directorate structure. Alternatively, total income and total expenditure can be analysed by nature.

2015-16		2016-17
£000	Expenditure/Income	Notes
	<b>Expenditure</b>	<b>£000</b>
176,500	Employee benefits expenditure	<b>182,050</b>
146,015	Housing benefits	<b>147,946</b>
190,758	Other service expenses	<b>200,781</b>
24,409	Support service recharges	<b>25,311</b>
(10,345)	Depreciation and impairment	<b>41,044</b>
38,523	Other expenditure	5.7 - 5.8 <b>37,264</b>
<b>565,860</b>	<b>Total expenditure</b>	<b>634,396</b>
	<b>Income</b>	
(97,406)	Fees, charges and other service income	<b>(106,585)</b>
(312,090)	Revenue grants included within cost of services	5.32.1 <b>(315,721)</b>
(230,909)	Other income	5.7 - 5.9 <b>(230,983)</b>
<b>(640,405)</b>	<b>Total income</b>	<b>(653,289)</b>
<b>(74,545)</b>	<b>Surplus on Provision of Services</b>	<b>(18,893)</b>

## 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.

2015-16		2016-17
£000		£000
(8,265)	Penalty Charge Notices	<b>(9,479)</b>
(1,107)	On street meters	<b>(1,139)</b>
(370)	Residents Permits	<b>(470)</b>
<b>(9,742)</b>	<b>Total income</b>	<b>(11,088)</b>
2,005	Enforcement contract/costs	<b>2,261</b>
1,013	Other expenditure	<b>1,269</b>
<b>3,018</b>	<b>Total expenditure</b>	<b>3,530</b>
<b>(6,724)</b>	<b>Total (surplus) for the year ending 31 March 2016</b>	<b>(7,558)</b>
	<u>Utilisation of Surplus</u>	
6,724	Concessionary fares	<b>7,558</b>
<b>6,724</b>		<b>7,558</b>

## 5.27 Pooled Budgets

The Council is the lead body for the Public Health Service with Barnet Council. The Council's net surplus is carried forward within earmarked reserves (note 5.6) to fund future Public Health Service expenditure.

2015-16		2016-17
£000		£000
	Funding provided to the pooled budget	
(10,059)	· Harrow Public Health Grant	<b>(11,373)</b>
(13,285)	· Barnet Public Health Grant	<b>(11,377)</b>
<b>(23,344)</b>		<b>(22,750)</b>
	Expenditure met from the pooled budget:	
10,069	· Harrow public health expenditure	10,903
13,211	· Barnet public health expenditure	10,148
<b>23,280</b>		<b>21,051</b>
	(Surplus)/deficit for the year	
10	· Harrow Council	<b>(470)</b>
(74)	· Barnet Council	<b>(1,229)</b>
<b>(64)</b>		<b>(1,699)</b>

The Council is the lead body for the Better Care Fund (BCF) with the NHS Harrow Clinical Commissioning Group (CCG). The purpose of the BCF is to provide care and support for vulnerable people:

2015-16 £000		2016-17 £000
	Funding provided to the pooled budget	
(6,601)	· Harrow Contribution	(7,739)
(7,772)	· NHS Harrow CCG Contribution	(8,519)
<u>(14,373)</u>		<u>(16,258)</u>
	Revenue Expenditure met from the pooled budget:	
5,411	· Harrow Council	6,558
7,772	· NHS Harrow CCG	8,519
<u>13,183</u>		<u>15,077</u>
	Capital Expenditure met from the pooled budget:	
1,190	· Harrow Council - Disabled Facilities	1,181
<u>1,190</u>		<u>1,181</u>
<u>0</u>	Surplus for the year	<u>0</u>

## 5.28 Members' Allowances

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

2015-16 £000		2016-17 £000
846	Allowances	850
<u>846</u>	Total	<u>850</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
	2016-17	2016-17	2015-16	2015-16	2016-17	2016-17	2015-16	2015-16
£50,000 - £54,999	38	3	41	2	54	1	41	0
£55,000 - £59,999	34	0	36	1	35	0	29	0
£60,000 - £64,999	19	1	16	3	9	0	13	0
£65,000 - £69,999	12	0	6	0	11	0	14	0
£70,000 - £74,999	14	1	12	0	6	0	9	0
£75,000 - £79,999	0	0	3	1	9	0	9	0
£80,000 - £84,999	3	0	3	1	9	0	7	0
£85,000 - £89,999	5	2	4	0	4	0	5	0
£90,000 - £94,999	4	1	4	0	3	0	3	0
£95,000 - £99,999	3	0	3	0	3	0	3	0
£100,000 - £104,999	1	1	1	0	2	0	0	0
£105,000 - £109,999	2	0	0	0	0	0	0	0
£110,000 - £114,999	1	0	1	0	0	0	0	0
£120,000 - £124,999	0	0	0	0	0	0	0	0
	136	9	130	8	145	1	133	0

## 5.29.2 Senior officer remuneration

Remuneration Disclosures for employees defined by Regulation as Senior Employees whose salary is £150,000 or more per year

Position Held	Salary,(including Fees and Allowances)		Benefits in Kind		Total Remuneration excluding employers pension		Employers Pension Contribution		Exit Payments		Total Remuneration including employers pension		
	Notes		Notes		Notes		Notes		Notes		Notes		
	£	£	£	£	£	£	£	£	£	£	£	£	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	
Michael Lockwood (Chief Executive)	1	169,677	171,894	0	0	169,677	171,894	0	0	0	0	169,677	171,894
		<b>169,677</b>	<b>171,894</b>	<b>0</b>	<b>0</b>	<b>169,677</b>	<b>171,894</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>169,677</b>	<b>171,894</b>

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

Position Held	Salary,(including Fees and Allowances)		Benefits in Kind		Total Remuneration excluding employers pension contributions		Employers Pension Contribution		Exit Payments		Total Remuneration including employers pension contributions		
	Notes		Notes		Notes		Notes		Notes		Notes		
	£	£	£	£	£	£	£	£	£	£	£	£	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	
Corporate Director - Community, Health & Well Being	2	0	21,184	0	95	0	21,279	0	4,438	0	0	0	25,717
Corporate Director - People Services	3	139,635	56,837	0	0	139,635	56,837	0	0	0	0	139,635	56,837
Corporate Director - Environment and Enterprise	4	0	69,126	0	0	0	69,126	0	14,482	0	115,387	0	198,995
Corporate Director - Resources and Commercial		139,635	138,252	0	103	139,635	138,355	30,329	28,964	0	0	169,964	167,319
Corporate Director - Community	5	133,585	30,632	0	0	133,585	30,632	29,015	6,417	0	0	162,600	37,049
Divisional Director - Regeneration and Planning	6	104,503	97,320	0	0	104,503	97,320	22,698	20,389	0	0	127,201	117,709
Director of Legal and Democratic Services	7	151,115	146,888	0	103	151,115	146,991	31,725	29,725	0	0	182,840	176,716
Director - Finance and Assurance	8	0	17,060	0	0	0	17,060	0	3,574	0	0	0	20,634
Director of Finance	8	104,760	99,094	0	0	104,760	99,094	22,754	20,760	0	0	127,514	119,854
Director - Public Health	9	150,825	136,504	0	0	150,825	136,504	21,568	19,520	0	0	172,393	156,024
Director - Adult Social Services		117,250	120,414	0	103	117,250	120,517	25,467	25,227	0	0	142,717	145,744
		<b>1,041,308</b>	<b>933,311</b>	<b>0</b>	<b>404</b>	<b>1,041,308</b>	<b>933,715</b>	<b>183,556</b>	<b>173,496</b>	<b>0</b>	<b>115,387</b>	<b>1,224,864</b>	<b>1,222,598</b>

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- Note 1 Michael Lockwood is not a member of the pension scheme. His 2015-16 salary includes a payment of £6,444 for annual leave not taken.
- Note 2 The Corporate Director - Community, Health and Wellbeing left the Council on 26th May 2015.
- Note 3 The position of Corporate Director - People was filled on an interim basis until 3rd November 2015. The cost in 2015-16, including agency fees, was £145,848. From 3rd November 2015 the Corporate Director took up the role on a permanent basis. The salary disclosed for 2015-16 relates to the period after 3rd November 2015. The Corporate Director is not a member of the pension scheme.
- Note 4 The Corporate Director - Environment and Enterprise left the Council on 30th September 2015.
- Note 5 The Corporate Director - Community commenced on 4th January 2016.
- Note 6 The Divisional Director - Regeneration and Planning was appointed to the post on 1st November 2015.
- Note 7 The Director's salary includes a payment of £14,347 for undertaking duties as the Council's Returning Officer and a payment of £5,052 for annual leave not taken.
- Note 8 The Director - Finance and Assurance resigned on 25th May 2015. The new Director was appointed to the post on 1st June 2015 with the title Director of Finance.
- Note 9 The salary of the Director of Public Health is partly funded from the pooled Public Health Service budget with Barnet Council. See note 5.27. In addition Health Education England, Public Health England and the NHS North West London Collaborative of Clinical Commissioning Groups make contributions to fund the Director's salary. The Director's salary includes a payment of £11,337 for a Clinical Excellence Award.

**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:

2015-16 £000		2016-17 £000
	Fees Payable to external auditors in respect of:	
151	External audit services carried out by the appointed auditor for the year	<b>151</b>
34	Certification of grant claims and returns for the year	<b>27</b>
0	Other Audit Services	<b>8</b>
185	Total	<b>186</b>

**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 2016-17 are as follows:

	Central Expenditure £000	Individual Schools Expenditure £000	Total £000
Final DSG allocation 2016-17			<b>192,810</b>
Less: Academy recoupment			<b>(62,053)</b>
Final DSG after recoupment 2016-17			<b>130,757</b>
Plus: Brought forward from 2015-16			<b>5,459</b>
Less: Carry forward to 2017-18 agreed in advance			<b>(3,390)</b>
<b>Agreed budgeted distribution in 2015-16</b>	<b>44,724</b>	<b>88,102</b>	<b>132,826</b>
In-year adjustments	334	0	<b>334</b>
Final budget distribution for 2016-17	45,058	88,102	<b>133,160</b>
Less: Actual central expenditure	45,279		<b>45,279</b>
Less: Actual ISB deployed to schools		88,102	<b>88,102</b>
<b>Carry forward to 2017-18</b>	<b>(221)</b>	<b>0</b>	<b>(221)</b>
Total surplus carry forward to 2017-18			<b>(3,169)</b>

## 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:

2015-16 £000	Grant	Awarding Body	2016-17 £000
(131,628)	Dedicated Schools Grant	Department for Education	(133,381)
(5,461)	Pupil Premium	Department for Education	(5,122)
(3,130)	Universal Infant Free School Meals	Department for Education	(3,034)
(472)	Children's Social Care Innovation Grant	Department for Education	0
(1,543)	Private finance initiative	Education Funding Agency	(1,543)
(489)	Troubled Families Grant	Department of Communities and Local Gov.	(750)
(1,201)	Private finance initiative	Department of Health	(1,201)
(10,059)	Public Health	Department of Health	(11,373)
(122,929)	Rent Allowance	Department of Work and Pensions	(122,697)
(1,125)	Housing Benefit Administration Grant	Department of Work and Pensions	(982)
(726)	Discretionary Housing Benefit	Department of Work and Pensions	(769)
(24,587)	HRA Rent Rebate	Department of Work and Pensions	(26,134)
(893)	Unaccompanied Asylum Seekers Grant	Home Office - UK Border Agency	(817)
(470)	Community Learning Trust	Skills Funding Agency	(771)
(2,004)	EFA 6th Form Funding	Young People's Learning Agency	(2,064)
(502)	Transport for London schemes	Transport for London	(547)
(4,871)	Other		(4,536)
<b>(312,090)</b>			<b>(315,721)</b>

### 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:

2015-16 £000	Grant	Awarding Body	2016-17 £000
(417)	Devolved Formula Capital	Department for Education	(111)
(13,617)	LA Capital Maintenance and Basic Need Grant	Department for Education	(24,047)
(650)	Disabled Facilities Grant	Department for Communities and Local Government	(650)
(210)	Heritage Lottery Fund	Heritage Lottery Fund	(1,120)
0	Local Regeneration Fund	Greater London Authority	(638)
(2,616)	Local Implementation Plan	Transport for London	(2,471)
(18,376)	Targeted Basic Needs	Department for Education	(747)
(270)	Section 106 income		(1,175)
(247)	Section 20 Income		(145)
(1,003)	Other		(1,116)
<u>(37,406)</u>	<b>Total Capital Grants included in Comprehensive Income and Expenditure Account</b>		<u>(32,220)</u>

**5.32.3 Capital grants receipts in advance**

2015-16 £000	Grant - Capital	Awarding Body	2016-17 £000
(747)	Targeted Basic Needs Grant	Department for Education	0
(540)	Social Care Grant	Department of Health	(540)
	Disabled Facilities Grant	Department for Communities and Local Government	(531)
0	Education Funding Agency	Early Years Capital Fund	(707)
(1,580)	Section 106 Capital Receipts		(1,059)
(1,073)	Other Capital Grants		(686)
<u>(3,940)</u>			<u>(3,523)</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 2016-17, the Council made the following payments for grants and services to these charities:

Organisation	Amount £000
Age UK Harrow	195
Harrow Heritage Trust	2
Relate London North West	19

### 5.33.2 London Borough of Harrow Pension Fund

The Council is the Administering Authority for the Pension Fund.

2015-16 £000		2016-17 £000
19,179	Employers Pension Contributions to the Fund	20,481
(853)	Administration expenses paid by the Fund	(826)
1,752	Cash Due to the Fund	1,062

### 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.

2015-16 £000		2016-17 £000
404,378	Opening Capital Financing Requirement	417,741
	<i>Capital Investment</i>	
87,239	Property, Plant and Equipment	78,817
0	Investment property	5,400
3,943	Loan to WLWA	2,848
2,119	Revenue Expenditure Funded from Capital under Statute	2,647
	<i>Sources of finance</i>	
(3,282)	Capital receipts	(8,613)
(52,097)	Government grants and other contributions	(22,609)
	Sums set aside from revenue:	
(340)	· Direct revenue contributions	(254)
(15,326)	· Minimum Revenue Provision	(15,501)
(8,893)	· Major Repairs Reserve	(7,287)
417,741	<i>Closing Capital Financing Requirement</i>	453,189
	<i>Explanation of movements in year</i>	
28,689	Increase in unsupported borrowing	50,949
(15,326)	Minimum Revenue provision	(15,501)
13,363	<i>Increase in Capital Financing Requirement</i>	35,448

### 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 £0.51m (£1.04m in 2015-16).

The Council is committed to making 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 remaining liability is £0.53m (£1.09m in 2015-16).

### 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. Refer also 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-16		31-Mar-17
£000		£000
459	Not later than one year	528
1,320	Later than one year and not later than five years	1,284
2,480	Later than five years	2,480
<u>4,259</u>		<u>4,292</u>
<u>462</u>	Min. lease payments charged to revenue in 16-17	<u>541</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 prior to 2016-17 under the provisions of the Academies Act 2010.

Although the legal form of the transfer arrangement is a lease, and the Council retains the freehold, 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 £24.85m has been recognised in the CIES in respect of the additional transfer of Whitefriars School in 2016-17.

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 £1.5m in 2016-17 (£1.7m in 2015-16).

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

31-Mar-16		31-Mar-17
£000	Land and Buildings	£000
1,469	Not later than one year	1,687
5,437	Later than one year and not later than five years	5,599
13,057	Later than five years	16,648
<u>19,963</u>		<u>23,934</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 therefore been treated as an operating lease. The unitary payments are treated as being expended during the year and the asset remains off the Council's balance sheet.

Outstanding PFI lease liabilities are as follows:

<b>Special schools</b>		
2015-16		2016-17
£000		£000
(11,688)	Balance outstanding at start of year	(11,383)
1,379	Lease repayments during the year	1,346
(1,074)	Finance charge	(1,045)
<u>(11,383)</u>	Balance outstanding at year end	<u>(11,082)</u>
<b>NRCs</b>		
2015-16		2016-17
£000		£000
(5,730)	Balance outstanding at start of year	(5,576)
629	Lease repayments during the year	619
(475)	Finance charge	(463)
<u>(5,576)</u>	Balance outstanding at year end	<u>(5,420)</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 £000	Interest £000	Principal Repayment £000	Contingent Rent £000	Total £000
<b>Schools</b>					
Payable in 2017-18	1,297	1,018	305	49	2,669
Payable within 2 to 5 years	5,208	3,746	1,715	367	11,036
Payable within 6 to 10 years	8,548	3,715	2,490	-72	14,681
Payable within 11 to 15 years	8,326	2,268	4,518	677	15,789
Payable within 16 + years	2,450	261	2,054	493	5,258
Total	<b>25,829</b>	<b>11,008</b>	<b>11,082</b>	<b>1,514</b>	<b>49,433</b>

### 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 £000	Interest £000	Principal Repayment £000	Contingent Rent £000	Total £000
<b>NRC</b>					
Payable in 2017-18	271	450	147	157	1,025
Payable within 2 to 5 years	1,048	1,656	809	845	4,358
Payable within 6 to 10 years	1,512	1,627	1,425	1,526	6,090
Payable within 11 to 15 years	1,879	987	1,955	2,069	6,890
Payable within 16 + years	1,101	138	1,084	1,040	3,363
Total	<b>5,811</b>	<b>4,858</b>	<b>5,420</b>	<b>5,637</b>	<b>21,726</b>

### 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:

<b>Sancroft</b>	<b>Payment for Services £000</b>	<b>Minimum Lease Payments £000</b>	<b>Total £000</b>
Payable in 2017-18	1,301	466	1,767
Payable within 2 to 5 years	5,498	1,967	7,465
Payable within 6 to 9 years	3,812	1,365	5,177
Total	<b>10,611</b>	<b>3,798</b>	<b>14,409</b>

### 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	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17 £000	2015-16 £000
£0 - £20,000	28	26	27	12	55	38	465	351
£20,001 - £40,000	12	2	1	7	13	9	371	237
£40,001 - £60,000	4	6	1	1	5	7	240	344
£60,001 - £80,000	0	1	0	0	0	1	0	74
£80,001 - £100,000	0	2	0	1	0	3	0	281
£150,001 - £200,000	1	0	0	0	1	0	211	0
Total	<b>45</b>	<b>37</b>	<b>29</b>	<b>21</b>	<b>74</b>	<b>58</b>	<b>1287</b>	<b>1287</b>

'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

2015-16 £000		2016-17 £000
1,051	Exit payments not provided for in 2016-17	<b>1,040</b>
236	Employment provision (within note 5.17)	<b>247</b>
<u>1,287</u>	<b>Included in cost of services</b>	<u><b>1,287</b></u>

### 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 £263m have been recognised in the Movement in Reserves Statement up to and including 2016-17 (£246m in 2015-16).

Expected employer contributions for 2017-18 are £18.2m, excluding any contributions in respect of unfunded benefits.

2015-16 £000		2016-17 £000
	Cost of Services:	
24,031	• current service cost	21,828
65	• past service costs	346
(804)	• settlements and curtailments	0
	Financing and Investment Income and Expenditure	
32,043	• interest cost	32,503
(19,137)	• interest income on scheme assets	(20,621)
36,198	Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	34,056
	Other Post Employment Benefit Charged to the CIES	
	Remeasurements in net liability due to	
0	• changes in demographic assumptions	(9,770)
(83,681)	• changes in financial assumptions	173,703
19,020	• return on plan assets	-127,120
(14,481)	• changes in other experience	(19,695)
(79,142)		17,118
(42,944)	Total Post Employment Benefit Charged to the CIES	51,174
<b>19,067</b>	Actual amount charged to the General Fund balance in the year	<b>20,701</b>

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

The weighted average duration of the defined benefit obligation for scheme members is 16.7 years.

2015-16 £000		2016-17 £000
1,002,812	Opening balance at 1 April	933,174
24,031	Current service cost	21,828
32,043	Interest cost	32,503
5,151	Contributions by scheme participants	5,441
	Remeasurement (gains)/losses arising from changes in:	
0	Demographic Assumptions	(9,770)
(83,681)	Financial Assumptions	173,703
(14,481)	Other Experience	(19,695)
(31,697)	Benefits paid	(35,420)
(1,069)	Effect of settlements	0
65	Past service costs	346
933,174	Closing balance at 31 March	<b>1,102,110</b>

### 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 £147.74m (2015-16: £0.12m).

2015-16 £000		2016-17 £000
601,816	Opening balance at 1 April	594,189
19,136	Interest income on plan assets	20,621
(19,020)	Remeasurement gain/(loss)	127,120
(265)	Effect of settlements	0
19,067	Employer contributions	20,701
5,151	Contributions by scheme participants	5,441
(31,696)	Benefits paid	(35,420)
594,189	Closing balance at 31 March	732,652

### 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.

	2016-17 £000	2015-16 £000	2014-15 £000	2013-14 £000	2012-13 £000
Present value of liabilities	(1,102,110)	(933,174)	(1,002,812)	(866,059)	(806,824)
Fair value of assets	732,652	594,189	601,816	527,965	483,693
Net deficit in the scheme	(369,458)	(338,985)	(400,996)	(338,094)	(323,131)

### 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 31st March 2013.

The principal assumptions used by the actuary have been:

2015-16		2016-17
	<b>Long-term expected rate of return on assets in the scheme:</b>	
0.0%	Equity investments	28.9%
	Mortality assumptions:	
	<b>Longevity at 65 for current pensioners:</b>	
22.1	Men	22.2
24.4	Women	24.4
	<b>Longevity at 65 for future pensioners:</b>	
24.5	Men	24.0
26.9	Women	26.4
	<b>Financial assumptions:</b>	
3.7%	Rate of increase in salaries	2.7%
2.2%	Rate of increase in pensions (CPI)	2.4%
3.5%	Rate for discounting scheme liabilities	2.5%
	<b>Take-up of option to convert annual pension into retirement lump sum:</b>	
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-16		31-Mar-17
13.0%	Debt Securities - Corporate Bonds	12.0%
3.0%	Private Equity	3.0%
8.0%	Real Estate: UK Property	8.0%
	Investment Funds and Unit Trusts:	
65.0%	Equities	69.0%
9.0%	Other	7.0%
2.0%	Cash and Equivalents	1.0%
100%		100%

### 5.38.8 History of experience gains and losses

	2016-17	2015-16	2014-15	2013-14	2012-13
	%	%	%	%	%
Differences between the expected and actual return on assets	17.35	-3.2	10.45	6.93	7.49
Experience gains and (losses) on liabilities	1.79	1.55	0.67	-0.72	0.03

### 5.38.9 Sensitivity of the defined benefit obligation to changes in actuarial assumptions

	Increase in present value of scheme liabilities	
	%	£000
0.5% decrease in the real discount rate	9	96,178
0.5% increase in rate of increase in salaries	1	11,332
0.5% increase in the rate of increase in pensions	8	83,644
1 year increase in member life expectancy	3 - 5	33,063 - 55,106

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. As a result of this they are accounted for on the same basis as a defined contribution scheme.

In 2016-17 the Council made £6.98m (£6.58m in 2015-16) of employer contributions to the TPA and £130k (£128k in 2015-16) to the NHSBSA. The current contribution rates are at 16.48% (14.1% for the first half of 2015-16 and 16.48% for the second half of 2015-16) for teacher's pensions and 14.3% (14.3% in 2015-16) 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 2016-17 these amounted to £0.65m (£0.69m in 2015-16) for teacher's pensions representing 1.52% of pensionable pay. No payments were made for NHS pensions in either 2016-17 or 2015-16.

### 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, AA- long term rating, F1+ short term rating and a support level rating of 2. 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 a 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-17	Historical experience of default	Historical experience adjusted for market conditions at 31-Mar-17	Estimated maximum exposure to default and uncollectability 31-Mar-17
	£000	%	%	£000
UK Banks	52,105	0.00	0.00	0
Overseas Banks	11,280	0.00	0.00	0
UK Money Market Funds	1,744	0.00	0.00	0
Customers	11,963	2.82%	22.28%	3,429
Total	<u>77,092</u>			<u>3,429</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-16		Amount at 31-Mar-17
£000		£000
7,423	Less than three months	11,188
319	Three to six months	333
36	Six months to one year	338
0	More than one year	104
<u>7,778</u>	<b>Total Debtors</b>	<u>11,963</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 Council 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 aims 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-16 £000		31-Mar-17 £000
	Source of Loan:	
(218,461)	Public Works Loan Board	-218,461
(115,800)	Market Loans	-105,800
(173)	Other financial institutions	-142
<u>(334,434)</u>	<b>Total</b>	<u>(324,403)</u>
	Analysis of loans by maturity:	
(10,030)	1-2 years (1.4.2018 - 31.3.2019)	(10,031)
(22,094)	2-5 years (1.4.2019 - 31.3.2023)	(12,107)
(5,049)	5-10 years (1.4.2023 - 31.3.2028)	(5,004)
(297,261)	More than 10 years (1.4.2028 onwards)	(297,261)
<u>(334,434)</u>	<b>Total</b>	<u>(324,403)</u>

The above analysis within more than ten years category includes principal of £70.8m of LOBO – Lender Option Borrower Option loans where the lender may ask for the rate payable to be changed. The Council 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 prudential borrowing in 2017-18.

## 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 £90m (£123m in 2015-16). With the base rate currently fixed at 0.25%, 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 £0.9m. Two thirds of this would benefit the General Fund and the other one third would benefit the HRA.

#### **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 2016-17 was £226k (£253k in 2015-16).

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 2016-17 was £10,534k (£9,173k in 2015-16).

#### **5.42 Events After the Balance Sheet Date**

On 29<sup>th</sup> March 2017, the United Kingdom triggered article 50 of the Treaty of Lisbon signalling its intention to leave the European Union. This is a non-adjusting event. It is unclear at this time what uncertainties leaving the European Union will bring Harrow as a Local Authority and what direct impact it may have on its residents in the future.

The Council is currently assessing whether one of its schools is materially impaired. Investigative works are currently ongoing and a clearer position will be known when the final version of these accounts is due to be published.



## 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 0.55% of lettable properties were vacant (0.31% in 2015-16). The average de-pooled rents were £113.80 per week (£114.99 in 2015-16). There was an average rent reduction of 1.03% over the previous year. The average reduction, after taking into account service charges, was 0.98%.

### 6.2.2 Non-dwelling Rents

This includes garages. At the year-end 57.6% of garages were vacant (56.2% in 2015-16).

### 6.2.3 Depreciation

	Land £000	Dwellings £000	Assets under constructi on £000	Shops £000	Garages £000	Community Halls £000	Non operational assets £000	Total 2015-16 £000
Net book value as at 1 April 2016	119,596	254,638	2,241	3,685	5,652	5,737	100	391,649
Revaluations and additions	97,466	(10,122)	4,807	735	312	1,026	(2)	94,222
Value at 31 March 2017	<b>217,062</b>	<b>244,516</b>	<b>7,048</b>	<b>4,420</b>	<b>5,964</b>	<b>6,763</b>	<b>98</b>	<b>485,871</b>
Disposals	(1,279)	(1,302)	0	0	(245)	0	0	(2,826)
Gross book value as at 31 March 2017	215,783	243,214	7,048	4,420	5,719	6,763	98	483,045
Depreciation for year	0	(7,291)	0	(30)	(159)	(78)	0	(7,558)
Net book value as at 31 March 2017	<b>215,783</b>	<b>235,923</b>	<b>7,048</b>	<b>4,390</b>	<b>5,560</b>	<b>6,685</b>	<b>98</b>	<b>475,487</b>

The valuation of HRA fixed assets has been prepared on the basis of Existing Use Value and calculated in accordance with the RICS Valuation – Professional Standards dated 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 1st April 2016 would have been £1,498m (£1,273m at 1st April 2015), therefore recognising the economic cost to the Government of providing Council housing at less than open market value of £1,096m (2015-16 £954m).

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

Charges for impairment of HRA assets were £0 (2015-16 £0.17m). 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. The Council has chosen to take advantage of transitional measures which permit the excess of depreciation over the Notional Major Repairs Allowance to be transferred back to revenue from the Major Repairs Reserve.

	Balance 31-Mar-16 £000	Transfer to Reserve £000	Capital Expenditure £000	Balance 31-Mar-17 £000
Analysis of the Movement	(5,520)	(6,595)	7,287	(4,828)

### 6.2.5 Capital Expenditure and Funding Statement

2015-16 £000		2016-17 £000
	<b>HRA Capital Expenditure</b>	
9,037	Dwellings & garages	<b>6,705</b>
4,517	New build	<b>4,899</b>
<u>13,554</u>	<b>Total</b>	<u><b>11,604</b></u>
	<b>Financed by:</b>	
8,893	Major Repairs Reserve	<b>7,287</b>
3,282	Capital receipts - Right to Buy, Affordable Housing & other	<b>3,013</b>
1,379	Contributions & Grants	<b>1,304</b>
<u>13,554</u>	<b>Total</b>	<u><b>11,604</b></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.

Further details are provided in note 5.19.1.

### 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

2015-16 Total	Housing Stock	Houses	Flats	Bungalows	2016-17 Total
102	4 or more bedrooms	102	1	0	103
1,354	3 bedrooms	1,251	92	1	1,344
1,429	2 bedrooms	543	856	26	1,425
1,971	1 bedroom	0	1,830	134	1,964
<u>4,856</u>	LBH managed stock as at 1 April	<u>1,896</u>	<u>2,779</u>	<u>161</u>	<u>4,836</u>
858	Garages				823
	<b>Summary of change in stock</b>				
4,878	Stock as at 1 April				4,856
	<b>Less</b>				
(35)	Sales				(31)
2	Transfers				0
11	Acquisitions				11
<u>4,856</u>	<b>Total HRA stock at 31 March</b>				<u>4,836</u>
	<b>Measures of performance &amp; information for disclosure notes to HRA</b>				
£57.60	Average weekly costs per dwelling of management and maintenance				£64.43
£1.017m	Rent arrears (current and former tenants)				£0.787M
97.09%	Rent collection rate (BVPI 66a)				97.28%
2.12%	Current tenant arrears as percentage of rent roll (whether dwellings occupied or not)				1.67%
0.31%	Rent loss through voids				0.55%
£0.057m	Write offs in year				£0.122m
£0.693m	Provision for bad debts				£0.619m

## 6.2.9 Statement of Movement on the HRA Balance

2015-16 £000		2016-17 £000
	<b>Adjustment between accounting basis and funding basis under regulations</b>	
(96)	Difference between amortisation of premiums & discounts determined in accordance with the Code and those determined in accordance with statute	(191)
	<b>Difference between any other item of income &amp; expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements</b>	
<u>4,863</u>	Gain on sale of HRA fixed assets	<u>5,110</u>
<u>4,767</u>		<u>4,919</u>
	<b>Transfer to / (from) earmarked reserves</b>	
	<b>HRA share of contributions to/from Pensions reserve :</b>	
(1,049)	Net charges made for retirement benefits in accordance with IAS19	(890)
661	Employer's contributions payable in the year	701
	<b>Sums directed by the Secretary of State to be credited to the HRA that are not expenditure in accordance with the Code</b>	
	<b>Transfer to / (from) the Capital Adjustment Account</b>	
42,966	Impairment	2,403
(383)	Revenue expenditure funded from capital resources under statute	0
144	Capital expenditure funded by Grants	1,235
16	Voluntary set aside	14
(13)	Finance Lease Depreciation	(12)
(7,784)	Depreciation transfer	(7,559)
6,371	Transfer to the Major Repairs Reserve	6,595
	<b>Transfers to/from Capital Reserves</b>	
(812)	Pooling payments to DCLG financed through capital reserves	(1,282)
373	Other	346
<u>40,490</u>		<u>1,551</u>
<u>45,257</u>		<u>6,470</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.

### 7.1 Statement of Income and Expenditure

2015-16		2016-17		Total
£000		Business Rates & Crossrail £000	Council Tax £000	
<b>Income</b>				
(128,365)	Income from Council Tax	0	(132,991)	(132,991)
(51,712)	Income Collectable from Business Ratepayers	(55,040)	0	(55,040)
(1,203)	Income Collectable from Business Ratepayers - BRS	(1,123)	0	(1,123)
<b>(181,280)</b>	<b>Total Income</b>	<b>(56,163)</b>	<b>(132,991)</b>	<b>(189,154)</b>
<b>Expenditure</b>				
<b>Apportionment of Previous year surplus</b>				
(668)	Central Government	(1,008)	0	(1,008)
1,900	Harrow Council	(605)	4,281	3,676
301	Greater London Authority	(403)	1,023	620
<b>Precepts, demands and Shares</b>				
112,427	Local Demand (Harrow )	13,189	105,256	118,445
34,025	Greater London Authority	9,910	22,632	32,542
23,218	Central Government	21,981	0	21,981
<b>Impairment of Debts/appeals</b>				
0				0
4,075	Write offs of uncollectable amounts	5,236	1,010	6,246
472	Increase in bad debt provisions	(926)	(71)	(997)
(2,800)	Increase / (decrease) in provision for appeals	4,800	0	4,800
259	Costs of Collection	254	0	254
<b>173,209</b>	<b>Total Expenditure</b>	<b>52,428</b>	<b>134,131</b>	<b>186,559</b>
(8,070)	Movement on Fund balance: (Surplus) / Deficit for the year	(3,735)	1,140	(2,595)
464	(Surplus) / Deficit brought forward	(1,053)	(6,553)	(7,606)
<b>(7,606)</b>	<b>(Surplus) / Deficit carried forward</b>	<b>(4,788)</b>	<b>(5,413)</b>	<b>(10,201)</b>

## 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 council tax support. The Council Tax, as shown, reflects both Harrow Council and GLA services:

2015-16			2016-17				
Band D Ratio	Property Numbers	Council Tax £	Band D Ratio	Property Numbers	Council Tax £		
<b>Valuation Bands</b>							
6/9	232	1,019.57	A =	Not exceeding £40,000	6/9	246	1,039.74
7/9	1,437	1,189.50	B =	£40,001 - £52,000	7/9	1,529	1,213.03
8/9	12,288	1,359.43	C =	£52,001 - £68,000	8/9	13,029	1,386.32
1	23,014	1,529.36	D =	£68,001 - £88,000	1	23,658	1,559.61
11/9	22,930	1,869.22	E =	£88,001 - £120,000	11/9	23,246	1,906.19
13/9	10,165	2,209.08	F =	£120,001 - £160,000	13/9	10,275	2,252.77
15/9	9,440	2,548.93	G =	£160,001 - £320,000	15/9	9,534	2,599.35
2	2,205	3,058.72	H =	£320,001 +	2	2,266	3,119.22
	81,711		<b>Total</b>			83,783	
	(1,916)		Adjustment for non-collection			(1,783)	
	79,795		<b>Council tax base</b>			82,000	

### 7.1.2 Business Rates

Business Rates are levied on non-domestic properties with the charge based on the rateable value assessed for each property. The Council acts as both an agent, collecting business rates on behalf of central government and the GLA, and 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 £125.7m (£125.5m in 2015-16). The new 2017 rating list gives a non-domestic rateable value for the year-end of £143.3m reflecting the 14% increase in the rateable value due to the national re-valuation. The national non-domestic rate multiplier for 2016-17 was 0.497 (0.493 in 2015-16).

### 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 Introduction

Members and staff working for Harrow Council strive to achieve the Council's vision, priorities, values and outcomes as outlined in the Harrow Ambition Plan. Arrangements are in place to ensure that the intended positive outcomes for residents are achieved. To ensure good governance these arrangements are agreed and documented and together form the authority's governance structure.

### 8.2 Responsibility

Elected Members are collectively responsible for the governance of the council. The full council's responsibilities include:

- agreeing the council's constitution, comprising the key governance documents including the executive arrangements and making major changes to reflect best practice
- agreeing the policy framework including key strategies and agreeing the budget
- appointing the chief officers
- appointing committees responsible for overview and scrutiny functions, audit and regulatory matters and also for appointing Members to them.

Under the *Local Government Act 2000* Harrow Council has adopted a leader and cabinet model and has established an overview and scrutiny function for Members outside the cabinet through which they can question and challenge policy and the performance of the executive and promote public debate.

The authority's governance structure is comprised of a number of key documents that aim to ensure that resources are directed in accordance with agreed policy and according to priorities as set out in the Harrow Ambition Plan, that there is sound and inclusive decision making and that there is clear accountability for the use of resources in order to achieve desired outcomes for Harrow service users and local communities. *Governance structure document to be imbedded.*

### 8.3 Effectiveness of Key Elements of the Governance Framework

Each year the Council undertakes a review of its governance arrangements to ensure the delivery of good governance in accordance with the requirements of the Accounts and Audit Regulations 2015 and in accordance with *Delivering Good Governance in Local Government: Framework 2016* published by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (Solace).

This is achieved via a self-assessment process co-ordinated and independently reviewed by the Council's Internal Audit Service. Once complete the assessment of the effectiveness of the following key elements will be included in the final statement along with the role of those responsible for the development and maintenance of the governance environment.

**8.3.1 Behaviour of Members and staff**

Codes of conduct that define standards of behaviour for Members and staff have been developed and are included in the Council’s Constitution. Mechanisms are also in place to deal with Member and staff transgressions from these codes. Policies are also in place for dealing with whistleblowing and conflicts of interest. *Annual review of governance to confirm the effectiveness of communication during 2016/17.*

**8.3.2 Compliance with laws and regulations**

Responsibility to comply with relevant laws and regulations and internal policies and procedures rests with the Council’s managers some of whom have specific statutory obligations e.g. the Head of Paid Service, Director of Children’s Services, Director of Adult Social Services, the Chief Finance Officer (Section 151 Officer), the Monitoring Officer and the Director of Public Health which are outlined in Article 12 of the Council’s constitution. The Statutory Monitoring Officer functions to report on likely contravention of any enactment or rule of law and the Chief Finance Officer is responsible for identifying any proposal, decision or course of action that will involve incurring unlawful expenditure.

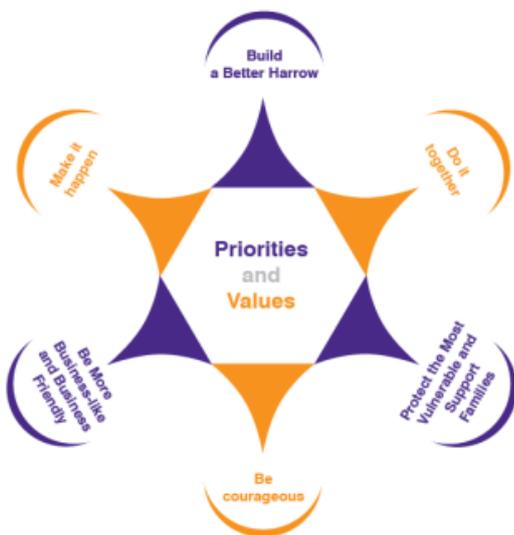
**8.3.3 Acting in the public interest**

*Annual review of governance to confirm that the Council can demonstrate a commitment to openness and acting in the public interest.*

**8.3.4 Communication and consultation**

An annual Communications Plan is in place and a consultation toolkit is in use. *Annual review of governance to confirm effectiveness.*

**8.3.5 The Council’s vision**



The Council’s vision, and intended outcomes for residents have been developed and are contained within the Harrow Ambition Plan 2020 which was refreshed during 2016-17.

*Annual review of governance to confirm how this has been communicated.*

This diagram, included in the plan, illustrates the ‘golden thread’ between the Council’s vision and the Council’s plans.



*Annual review of governance to confirm vision is being used for planning.*

**8.3.6 Putting the vision into practice**

The original Ambition Plan contains courses of action to be taken by the Council to implement the vision and the refreshed plan 2017 provides an update on the progress of these actions.

**8.3.7 Decision-making**

The Council’s decision-making framework, including delegation arrangements, is outlined in the Constitution. Report templates are in use to ensure appropriate information is provided to decision makers including options considered, why a change is needed, implications of recommendations as well as risk management, legal, finance, and equalities implications. Decision reports are cleared by, or on behalf of, the Council’s Monitoring Officer (legal) and the Chief Financial Officer before they are presented to the decision makers (Council, Cabinet, Committees).

**8.3.8 Measuring performance**

The Council’s Cabinet receives quarterly reports on strategic performance, revenue and capital expenditure and treasury management. Each Directorate also has an Improvement Board in place to which performance reports are made on a quarterly basis. Issues arising from the Improvement Boards are reported to the Corporate Strategic Board at quarterly performance mornings and to Cabinet.

During 2016-17 the Council benefited from a Peer Review, a panel of councillors and senior council officers from other local authorities who assessed the Council’s strengths and plans for improvement, that found that the ‘*London Borough of Harrow is a good council that has been energised by the new values recently agreed for the authority*’. An Ofsted inspection of our Children’s Services was also undertaken that concluded ‘*Children in Harrow receive services that are well matched to their needs, reduce risk and improve their outcomes*’.

*Annual review of governance to confirm the effectiveness of the reports/process in ensuring that services and projects are delivered in accordance with defined outcomes, that they represent the best use of resources and vfm.*

### **8.3.9 Roles and responsibilities**

The roles and responsibilities of Members and the most senior managers and statutory officers have been defined and documented in the constitution. The roles and responsibilities of other managers and staff are defined and documented in Role Profiles attached to each post.

*Annual review of governance to confirm that clear protocols for effective communication in respect of the authority and partnership arrangements were in place for 2016-17.*

### **8.3.10 Financial management**

The Council's financial management arrangements during 2016-17 conformed with *the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015)*.

### **8.3.11 Monitoring officer function**

The Statutory Monitoring Officer functions to report on likely contravention of any enactment or rule of law. The duties of the Monitoring Officer are outlined in Article 12 of the Council's constitution and are undertaken by the Council's Director of Legal and Governance Services. Effective arrangements were in place during 2016-17 to discharge these duties.

### **8.3.12 Head of paid service function**

The requirements of the Head of Paid Service function are also outlined in Article 12 of the Council's constitution and effective arrangements were in place for the discharge of these duties by the Chief Executive during 2016-17.

### **8.3.13 Development needs**

New Members receive a Members Induction pack and a Member Development Programme is in place as well as a Corporate Development Programme for officers.

*Annual review of governance to confirm that training provided to cover strategic roles.*

### **8.3.14 Managing risks**

The framework for identifying and managing risks was updated during 2016-17 and consists of a series of risk registers that feed into an overarching Corporate Register that is reviewed and update quarterly and presented to the Corporate Strategic Board and the Governance, Audit, Risk Management & Standards Committee for review and challenge. The owner of each risk is clearly shown in the risk register.

### **8.3.15 Counter fraud and anti-corruption arrangements**

The Council's Corporate Anti-Fraud Team undertook a self-assessment against the *Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)* during 2015-16 that identified three main work streams to improve the Council's arrangements: the

development of a fraud risk register; increasing awareness of fraud and corruption and to review and refresh the Council's Corporate Anti-Fraud and Corruption Strategy. During 2016-17 the strategy has been refreshed and agreed and work was begun on increasing awareness and the development of a fraud risk register.

### **8.3.16 Scrutiny**

The scrutiny function comprises an Overview and Scrutiny Committee, a Performance and Finance Sub-Committee, a Health Sub-Committee and lead Members for key areas. A clear structure has been developed to enable constructive challenge of the Council's performance to take place; however a Peer Review of the Council undertaken in 2016-17 concluded that 'there is opportunity to review the role of overview and scrutiny to enable the council to benefit from constructive challenge and policy development from non-executive councillors'. As a result the Centre for Public Scrutiny has been commissioned to undertake a review of the Council's scrutiny arrangements.

*Annual review of governance to provide an update on the review being undertaken.*

### **8.3.17 Internal Audit**

Assurance arrangements during 2016-17 conformed with the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit (2010)*.

### **8.3.18 Audit Committee**

The duties of the audit committee are undertaken by the Governance, Audit, Risk Management & Standards Committee and are in-line with the core functions of an audit committee as identified in *Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)*.

### **8.3.19 External Audit**

During 2016-17 the Authority provided timely support, information and responses to the Council's external auditors, KPMG, and properly considered their audit findings and recommendations as demonstrated in the committee papers and reports presented to the Governance, Audit, Risk Management & Standards Committee.

### **8.3.20 Joint working**

*A specific exercise is underway as part of the annual review of governance to confirm that good governance is incorporated in the Council's shared service arrangements.*

## **8.4 Level of Assurance**

*Once the annual review of governance is complete an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework will be included in the final AGS and this will include the Head of Internal Audit's Opinion on the system of internal control.*

### **8.5 Significant governance issues**

No significant governance issues have been identified at this stage.

### **8.6 Previous governance issues**

No significant governance issues were identified in last year's annual governance statement.

### **8.7 Conclusion**

*A commitment to monitoring implementation as part of the next annual review to be included if appropriate.*

### **8.8 Declaration**

*Final AGS to be signed by the lead member and chief executive on behalf of the Authority.*

## 9 Pension Fund Financial Statements

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2016-17

I certify that the Financial Statements set out in Section 9 present fairly the financial position of the Pension Fund as at 31st March 2017 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.

**Dawn Calvert CPFA**

**Director of Finance**

**9<sup>th</sup> June 2017**

## 9 Harrow Pension Fund Account for the year ended 31 March 2017

2015/16		Notes	2016/17
£'000			£'000
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(28,333)	Contributions	7	(29,938)
(5,839)	Transfers in from other pension funds	8	(2,659)
(261)	Other income		0
<b>(34,433)</b>			<b>(32,597)</b>
31,265	Benefits	9	31,789
3,239	Payments to and on account of leavers	10	1,832
0	Other Expenditure		18
<b>34,504</b>			<b>33,639</b>
<b>71</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>1,042</b>
4,630	Management expenses	11	5,228
	<b>Return on investments</b>		
(10,425)	Investment income	12	(10,250)
19,568	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	(141,595)
<b>9,143</b>	<b>Net return on investments</b>		<b>(151,845)</b>
13,844	Net (increase)/decrease in the net assets available for benefits during the year		(145,575)
(674,845)	Opening net assets of the scheme		(661,001)
<b>(661,001)</b>	<b>Closing net assets of the scheme</b>		<b>(806,576)</b>

## Net Assets Statement as at 31 March 2017

31 March 2016	Notes	31 March 2017
£'000		£'000
<b>Investment assets</b>		
654,554	Investments 14	774,817
878	Derivative contracts 14	2,015
44	Cash with investment managers 14	52
<b>655,476</b>		<b>776,884</b>
11,485	Cash deposits 14	30,914
<b>666,961</b>		<b>807,798</b>
<b>Investment liabilities</b>		
<b>(7,266)</b>	Derivative contracts 14	<b>(2,256)</b>
<b>659,695</b>		<b>805,542</b>
2,069	Current assets 21	1,374
<b>(763)</b>	Current liabilities 22	<b>(340)</b>
<b>661,001</b>	<b>Net assets of fund available to fund benefits at the period end</b>	<b>806,576</b>

The accounts summarise the transactions of the Fund and deal with the net assets. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial present value of promised retirement benefits is disclosed at note 20.

**Dawn Calvert – CPFA**

Director of Finance

9<sup>th</sup> June 2017

## Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2017

### NOTE 1: DESCRIPTION OF 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.

#### a) General

The Scheme is governed by the Public Service Pensions Act 2013.

The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme designed to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

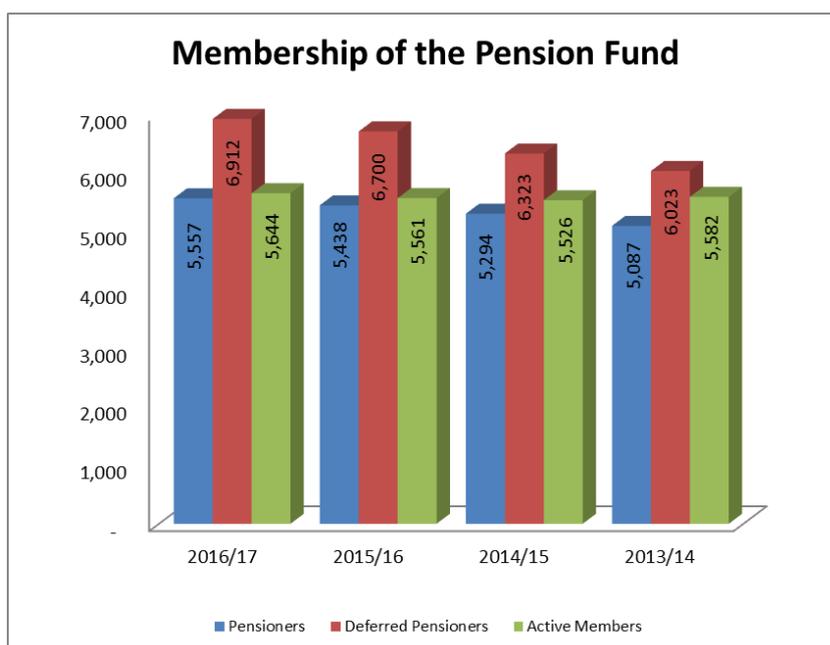
The Fund is overseen by the Harrow Pension Fund Committee, which is a committee of the Council.

#### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Fund include the following:

- **Scheduled bodies:** These are the local authority and similar bodies whose staff are automatically entitled to be members of the Fund.
- **Admitted bodies:** These are other organisations that participate in the Fund under an admission agreement. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing.
- There are 32 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5,179	5,749	4,109	15,037	83.01
Harrow College	Scheduled Body	148	274	147	569	3.14
St Dominic's College	Scheduled Body	35	30	57	122	0.67
Stanmore College	Scheduled Body	72	150	69	291	1.60
Alexandra School	Scheduled Body	1	8	22	31	0.17
Avanti House Free School	Scheduled Body	0	5	45	50	0.28
Avanti School Trust	Scheduled Body	0	0	5	5	0.03
Aylward Primary School	Scheduled Body	0	11	76	87	0.48
Bentley Wood School	Scheduled Body	7	65	65	137	0.76
Canons High School	Scheduled Body	7	48	99	154	0.85
Harrow High School	Scheduled Body	7	48	60	115	0.63
Hatch End School	Scheduled Body	15	132	76	223	1.23
Heathland and Whitefriars School	Scheduled Body	4	25	181	210	1.16
Krishna Avanti Primary School	Scheduled Body	0	10	18	28	0.15
Nower Hill High School	Scheduled Body	11	116	128	255	1.41
Park High School	Scheduled Body	4	55	96	155	0.86
Pinner High School	Scheduled Body	0	0	23	23	0.13
Rooks Heath College	Scheduled Body	9	53	114	176	0.97
St Bernadette's School	Scheduled Body	0	0	30	30	0.17
St Jerome School	Scheduled Body	0	0	8	8	0.04
Salvatorian College	Scheduled Body	6	47	40	93	0.51
The Jubilee Academy	Scheduled Body	0	10	17	27	0.15
NLCS	Community Admission Body	30	39	70	139	0.77
Birkin	Transferee Admission Body	0	2	7	9	0.05
Carillion Services	Transferee Admission Body	19	27	45	91	0.50
Chartwells	Transferee Admission Body	1	4	14	19	0.10
Engie (Cofely)	Transferee Admission Body	0	1	2	3	0.02
Govindas	Transferee Admission Body	0	0	5	5	0.03
Granary Kids	Transferee Admission Body	1	2	0	3	0.02
Linbrook Services	Transferee Admission Body	0	1	4	5	0.03
Sopria Steria	Transferee Admission Body	1	0	9	10	0.06
Taylor Shaw	Transferee Admission Body	0	0	3	3	0.02
	<b>Total</b>	<b>5,557</b>	<b>6,912</b>	<b>5,644</b>	<b>18,113</b>	<b>100</b>

### c) Funding

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.

Employee contribution rates are set by regulations and are dependent upon each member’s full time equivalent salary. Employee contributions attract tax relief at the time they are deducted from pay.

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2016 and showed that the Fund was 74% funded. The deficit is to be recovered by additional employer contributions over the course of 20 years.

Benefits are funded by contributions and investment earnings. 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. Currently almost all, employer contribution rates fall within the range 20.1% to 31.4% of pensionable pay with the largest employers paying between 21.4% and 22.5%.

### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
<b>Lump Sum</b>	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

From 1 April 2014, the Scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in each year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, refer to the ‘Brief Guide to the Local Government Pension Scheme’ attached as Appendix 3.

## NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2016-17 financial year and its position as at 31 March 2017. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2016-17' issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based on International Financial Reporting Standards as amended for the UK public sector.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund account – Revenue Recognition

#### a) Contributions 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 Fund 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. Amounts not due until future years, if significant, are classed as long term financial assets.

#### b) 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 2013 (see notes 8 and 10).

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 (see note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### c) 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. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

- ii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- iii) Changes in the net market value of investments are recognised as income and comprise all realised and unrealised gains/losses during the year.

## **Fund account – Expense items**

### **a) 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.

### **b) 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.

### **c) Management expenses**

The Code does not require any breakdown of pension fund administrative expenses. However in the interest of greater transparency, the Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

#### Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pension's Administration Team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

#### Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs relating to the oversight and governance of the Fund's investments are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

#### Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the values of these investments change

Where an investment manager's fee invoice has not been received by the balance sheet date an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund account in 2016-17.

## Net Assets Statement

### a) 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 an asset are recognised in the Fund account.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (See note 16). For the purposes of disclosing levels of fair value hierarchy, the fund had adopted the classification guidelines recommended in '*Practical Guidance on Investment Disclosures (PRAG/Investment association, 2016)*'

### Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. (see note 15)

### c) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers and custodians.

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.

### d) 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.

### e) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual basis by the Fund 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 by way of a note to the Net Assets Statement (Note 20).

### f) Additional Voluntary Contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance, Clerical Medical and Equitable Life Assurance Society as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically intended for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4 (1)(b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2016 but are disclosed as a note only (Note 23)

### **Accounting Standards Issued but not yet fully adopted**

The following accounting policy changes are not yet reflected in the 2016-17 Code of Practice. They are not therefore fully implemented in the Statement of Accounts:

- Amendment to the reporting of pension fund scheme transaction costs;
- Amendment to the reporting of investment concentration

Neither of these changes are expected to have a material impact on the Pension Fund Accounts.

## **NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Pension Fund liability**

The net Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in notes 19 and 20.

These actuarial revaluations are used to set the future contributions rates and underpin the Fund's most significant management policies.

### **Unquoted private equity investments**

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

## **NOTE 5: 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.

The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits (Note 20)</b>	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: <ul style="list-style-type: none"> <li>• a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £110m</li> <li>• a 2% increase in assumed earnings inflation would increase the value of liabilities by approximately £19m</li> <li>• a 0.5% increase in Pension benefits would increase the liability by approximately £89m</li> </ul>
<b>Private equity (Note 16C)</b>	Private equity investments are valued at fair value in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i> .These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £19.3m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.

## NOTE 6: EVENTS AFTER THE REPORTING DATE

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

The Fund is not aware of any such events.

**NOTE 7: CONTRIBUTIONS RECEIVABLE****By category**

2015/16		2016/17
£'000		£'000
<b>(6,599)</b>	<b>Employees' contributions</b>	<b>(6,960)</b>
	<b>Employers' contributions:</b>	
(16,763)	Normal contributions	(18,041)
(4,549)	Deficit recovery contributions	(4,614)
(422)	Pension strain contributions	(323)
<b>(21,734)</b>	<b>Total employers' contributions</b>	<b>(22,978)</b>
<b>(28,333)</b>		<b>(29,938)</b>

**By authority**

2015/16		2016/17
£'000		£'000
(21,504)	Administering Authority	(22,957)
(5,667)	Scheduled bodies	(5,975)
(519)	Community admission body	(588)
(643)	Transferee admission bodies	(418)
<b>(28,333)</b>		<b>(29,938)</b>

**NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS**

2015/16		2016/17
£'000		£'000
(3,304)	Group transfers	0
(2,535)	Individual transfers	(2,659)
<b>(5,839)</b>		<b>(2,659)</b>

**NOTE 9: BENEFITS PAYABLE****By category**

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
26,454	Pensions	27,044
4,074	Commutation and lump sum retirement benefits	4,074
737	Lump sum death benefits	671
<b>31,265</b>		<b>31,789</b>

**By authority**

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
29,070	Administering Authority	29,592
1,508	Scheduled bodies	1,721
290	Community admission body	180
397	Transferee admission bodies	296
<b>31,265</b>		<b>31,789</b>

**NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
60	Refunds to members leaving service	80
3,179	Individual transfers	1,752
<b>3,239</b>		<b>1,832</b>

**NOTE 11: MANAGEMENT EXPENSES**

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
642	Administrative costs	646
3,452	Investment management expenses	3,996
536	Oversight and governance costs	586
<b>4,630</b>		<b>5,228</b>

**NOTE 11A: INVESTMENT MANAGEMENT EXPENSES**

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
3,427	Management fees	3,798
0	Performance related fees	0
25	Custody fees	72
0	Transaction costs	126
<b>3,452</b>		<b>3,996</b>

**NOTE 12: INVESTMENT INCOME**

2015/16		2016/17
£'000		£'000
(6,030)	Private equity investments	(5,177)
(1,708)	Pooled property investments	(1,971)
(2,687)	Pooled investments - units trusts and other managed funds	(3,102)
<b>(10,425)</b>		<b>(10,250)</b>

**NOTE 13: EXTERNAL AUDIT COSTS**

2015/16		2016/17
£'000		£'000
(21)	Payable in respect of external audit	(21)
<b>(21)</b>		<b>(21)</b>

**NOTE 14: INVESTMENTS**

Market value 31 March 2016		Market value 31 March 2017
£'000		£'000
	<b>Investment assets</b>	
437,087	Pooled equities investments	531,614
86,978	Pooled bonds investments	100,883
56,287	Pooled alternative investments	58,420
53,481	Pooled property investments	64,409
150	Equity in London CIV	150
20,571	Private equity	19,341
878	Derivative contracts: forward currency	2,015
44	Cash with investment managers	52
<b>655,476</b>		<b>776,884</b>
11,485	Cash deposits	30,914
<b>666,961</b>	<b>Total investment assets</b>	<b>807,798</b>
	<b>Investment liabilities</b>	
(7,266)	Derivative contracts: forward currency	(2,256)
<b>(7,266)</b>	<b>Total investment liabilities</b>	<b>(2,256)</b>
<b>659,695</b>	<b>Net investment assets</b>	<b>805,542</b>

**NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES**

London Borough of Harrow Statement of Accounts 2016 – 2017

## Pension Fund

	Market value 31 March 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2017
	£'000	£'000	£'000	£'000	£'000
<b>Investment assets</b>					
Pooled equities investments	437,087	0	(46,492)	141,019	531,614
Pooled bonds investments	86,978	4,208	(1,134)	10,831	100,883
Pooled alternative investments	56,287	0	(414)	2,547	58,420
Pooled property investments	53,481	10,000	(378)	1,306	64,409
Equity in London CIV	150	0	0	0	150
Private equity	20,571	0	(350)	(880)	19,341
Derivative contracts: forward currency	(6,388)	19,375		(13,228)	(241)
	<b>648,166</b>	<b>33,583</b>	<b>(48,768)</b>	<b>141,595</b>	<b>774,576</b>
Cash with investment managers	44				52
Cash deposits	11,485				30,914
	<b>11,529</b>				<b>30,966</b>
<b>Net investment assets</b>	<b>659,695</b>				<b>805,542</b>

	Market value 31 March 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
<b>Investment assets</b>					
Pooled equities investments	449,979	0	(1,742)	(11,150)	437,087
Pooled bonds investments	86,377	4,162	(653)	(2,908)	86,978
Pooled alternative investments	59,535	0	(365)	(2,883)	56,287
Pooled property investments	50,562	0	(474)	3,393	53,481
Equity in London CIV	0	150	0	0	150
Private equity	22,954	0	(564)	(1,819)	20,571
Derivative contracts: forward currency	(2,649)	3,867	(3,405)	(4,201)	(6,388)
Cash re transition	268	0	(268)	0	0
	<b>667,026</b>	<b>8,179</b>	<b>(7,471)</b>	<b>(19,568)</b>	<b>648,166</b>
Cash with investment managers	869				44
Cash deposits	5,793				11,485
	<b>6,662</b>				<b>11,529</b>
<b>Net investment assets</b>	<b>673,688</b>				<b>659,695</b>

## NOTE 14B: ANALYSIS OF INVESTMENTS

31 March 2016		31 March 2017	
£'000		£'000	
<b>Pooled Funds</b>			
<b>UK</b>			
69,401	Fixed Interest Securities	Corporate	80,804
17,577	Index Linked Securities	Public Sector	20,079
53,481	Managed Funds - Property	Unit Trusts	64,409
<b>140,459</b>			<b>165,292</b>
<b>Global</b>			
219,424	Managed Funds - Equities	Unitised Insurance Policy	267,790
217,663	Managed Funds - Equities	Other	263,824
<b>437,087</b>			<b>531,614</b>
29,216	Managed Funds - Alternatives	Unit Trusts	29,324
27,071	Managed Funds - Alternatives	Other	29,096
<b>56,287</b>			<b>58,420</b>
20,571	Managed Funds - Private Equity	Other	19,341
<b>Other Funds</b>			
878	Derivatives		2,015
150	Equity in London CIV		150
44	Cash with investment managers		52
11,485	Cash Deposits		30,914
<b>666,961</b>	<b>Total Investment Assets</b>		<b>807,798</b>
<b>Investment Liabilities</b>			
(7,266)	Derivatives		(2,256)
<b>(7,266)</b>	<b>Total Investment Liabilities</b>		<b>(2,256)</b>
<b>659,695</b>	<b>Net Investment Assets</b>		<b>805,542</b>

**NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER**

Market value 31 March 2016	Percentage of Fund	Manager	Investment assets	Market value 31 March 2017	Percentage of Fund
£'000	%			£'000	%
53,481	8	Aviva	Pooled property	64,409	8
44	0	BlackRock	Cash with investment managers	52	0
69,401	11	BlackRock	Fixed interest securities	80,804	10
17,577	3	BlackRock	Index-linked securities	20,079	3
11,485	2	Cash Deposits		30,901	4
71,463	11	GMO	Emerging markets equities-active	94,156	12
27,071	4	Insight	Diversified growth fund	29,096	3
0	0	JP Morgan	Cash with investment managers	13	0
150	0	London CIV	UK equities-passive	150	0
75,499	11	Longview	Developed world equities-active	86,213	11
70,701	11	Oldfields	Developed world equities-active	83,455	10
20,571	3	Pantheon	Private equity	19,341	2
(6,388)	(1)	Record	Forward currency contracts	(241)	0
29,216	4	Standard Life	Diversified growth fund	29,324	4
219,424	33	State Street	Global equities-passive	267,790	33
<b>659,695</b>	<b>100</b>			<b>805,542</b>	<b>100</b>

**The following investments represent more than 5% of the net assets of the Fund**

Market value 31 March 2016	% of total fund	Investment assets	Market value 31 March 2017	% of total fund
£'000			£'000	
219,424	33	SSGA MPF All World Equity Index Sub-Fund	267,790	33
71,463	11	GMO Emerging Domestic Opportunities Equity Fund	94,156	12
75,499	11	Longview Partners - Global Pooled Equities FD K Class	86,213	11
70,701	11	Overstone Global Equity CCF (USD Class A1 Units)	83,455	10
69,401	11	BlackRock Institutional Bond Fund - Corp Bond 10 yrs A Class	80,804	10
53,481	8	Aviva Investors UK Real Estate Fund of Funds	64,409	8
<b>559,969</b>	<b>85</b>	<b>Total over 5% holdings</b>	<b>676,827</b>	<b>84</b>

**NOTE 14D: STOCK LENDING**

Within the Investment Strategy Statement stock lending is permitted within pooled funds. At present, use of this facility is restricted to the State Street Global Advisors' mandate.

The State Street lending programme covers equity and fixed income assets around the world and is designed to generate incremental returns for investors with appropriate risk controls.

The programme benefits from a counterparty default indemnity from State Street Bank & Trust Company pursuant to its Securities Lending Authorisation Agreement.

**NOTE 15: ANALYSIS OF DERIVATIVES****Objectives and policies for holding derivatives**

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place managed by Record Currency Management Limited. The Fund hedges 50% of the exposure in various developed world currencies within the equities portfolio.

**Open forward currency contracts**

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	liability value
		000		000	£'000	£'000
Up to one month	AUD	5,462	GBP	(3,370)		(36)
Up to one month	CAD	9,506	GBP	(5,740)		(38)
Up to one month	CHF	5,204	GBP	(4,199)		(38)
Up to one month	EUR	8,353	GBP	(7,235)		(88)
Up to one month	GBP	3,305	AUD	(5,646)		(140)
Up to one month	GBP	2,218	JPY	(317,300)		(61)
Up to one month	GBP	1,171	SEK	(13,093)		(3)
Up to one month	GBP	594	SGD	(1,059)		(12)
Up to one month	GBP	23,741	USD	(31,023)		(1,071)
Up to one month	HKD	43,584	GBP	(4,509)		(24)
Up to one month	JPY	1,877,000	GBP	(13,716)		(240)
Up to one month	NOK	2,648	GBP	(250)		(3)
Up to one month	NZD	190	GBP	(107)		(1)
Up to one month	SEK	13,093	GBP	(1,184)		(11)
Up to one month	SGD	950	GBP	(548)		(5)
Up to one month	USD	36,307	GBP	(29,252)		(212)
One to six months	GBP	11,985	JPY	(1,704,100)		(268)

					Pension Fund	
One to six months	USD	1,595	GBP	(1,278)		(5)
Up to one month	AUD	184	GBP	(112)	0	
Up to one month	GBP	5,734	CAD	(9,506)	32	
Up to one month	GBP	4,161	CHF	(5,204)	1	
Up to one month	GBP	7,242	EUR	(8,353)	95	
Up to one month	GBP	4,574	HKD	(43,584)	89	
Up to one month	GBP	11,880	JPY	(1,559,700)	681	
Up to one month	GBP	248	NOK	(2,648)	2	
Up to one month	GBP	110	NZD	(190)	4	
Up to one month	GBP	4,296	USD	(5,284)	70	
Up to one month	SGD	109	GBP	(61)	1	
One to six months	GBP	3,356	AUD	(5,462)	36	
One to six months	GBP	5,735	CAD	(9,506)	38	
One to six months	GBP	3,697	CHF	(4,562)	38	
One to six months	GBP	6,873	EUR	(8,013)	2	
One to six months	GBP	4,508	HKD	(43,584)	23	
One to six months	GBP	250	NOK	(2,648)	3	
One to six months	GBP	107	NZD	(190)	1	
One to six months	GBP	1,187	SEK	(13,093)	11	
One to six months	GBP	548	SGD	(950)	4	
One to six months	GBP	29,476	USD	(36,307)	499	
Over six months	GBP	6,957	EUR	(8,013)	70	
Over six months	GBP	12,389	JPY	(1,704,100)	113	
Over six months	GBP	27,837	USD	(34,712)	202	
<b>Open forward currency contracts at 31 March 2017</b>					<b>2,015</b>	<b>(2,256)</b>
<b>Net forward currency contracts at 31 March 2017</b>						<b>(241)</b>
<b><u>Prior year comparative</u></b>						
<b>Open forward currency contracts at 31 March 2016</b>					<b>878</b>	<b>(7,266)</b>
<b>Net forward currency contracts at 31 March 2016</b>						<b>(6,388)</b>

**NOTE 16: FAIR VALUE – BASIS OF VALUATION**

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the most appropriate price available at the reporting date

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments including pooled funds for global equities, corporate and UK index linked bonds and diversified growth funds	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Market quoted investments including pooled funds for global equities and diversified growth funds	Level 1	Published market price or other value ruling on the final day of the accounting period	Not required	Not required
Pooled investments - property funds	Level 1	Closing bid price where bid and offer prices are published	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end.	Exchange rate risk	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation (2012)</i>	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

**NOTE 16A: FAIR VALUE HIERARCHY**

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

**Level 1**

Assets and liabilities 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.

**Level 2**

Assets and liabilities 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.

**Level 3**

Assets and liabilities at level 3 are those where at least one input that could have significant effect on the instrument's valuation is not based on observable market data.

### Sensitivity of assets valued at Level 3

The Fund has determined that the sensitivity of the level 3 investments should be at the level determined by independent advisers for equity investments generally. Set out below is the consequent potential impact on the closing value of investments held at 31 March 2017

	Assessed valuation range (+/-)	Valuation at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	10%	19,341	21,275	17,407

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	755,476	2,015	19,341	<b>776,832</b>
Financial liabilities at fair value through profit and loss	0	(2,256)	0	<b>(2,256)</b>
<b>Net Investment asset</b>	<b>755,476</b>	<b>(241)</b>	<b>19,341</b>	<b>774,576</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	633,983	878	20,571	<b>655,432</b>
Financial liabilities at fair value through profit and loss	0	(7,266)	0	<b>(7,266)</b>
<b>Net Investment asset</b>	<b>633,983</b>	<b>(6,388)</b>	<b>20,571</b>	<b>648,166</b>

**NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2**

There have been no transfers during 2016/17

**NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3**

Period 2016/17								
	Market Value 1 April 2016	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market Value 31 March 2017
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	20,571	0	0	0	(350)	(880)	0	<b>19,341</b>

**NOTE 17: FINANCIAL INSTRUMENTS****NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS**

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2016			31 March 2017		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>					
437,087	0	0	531,614	0	0
86,978	0	0	100,883	0	0
56,287	0	0	58,420	0	0
53,481	0	0	64,409	0	0
150	0	0	150	0	0
20,571	0	0	19,341	0	0
878	0	0	2,015	0	0
0	13,281	0	0	32,028	0
0	317	0	0	312	0
<b>655,432</b>	<b>13,598</b>	<b>0</b>	<b>776,832</b>	<b>32,340</b>	<b>0</b>
<b>Financial liabilities</b>					
(7,266)	0	0	(2,256)	0	0
0	0	(763)	0	0	(340)
<b>(7,266)</b>	<b>0</b>	<b>(763)</b>	<b>(2,256)</b>	<b>0</b>	<b>(340)</b>
<b>648,166</b>	<b>13,598</b>	<b>(763)</b>	<b>774,576</b>	<b>32,340</b>	<b>(340)</b>
<b>661,001</b>			<b>806,576</b>		
<b>Grand Total</b>					

**NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS**

31 March 2016		31 March 2017
£'000		£'000
	<b>Financial assets</b>	
(15,367)	Fair value through profit and loss	154,823
0	Loans and receivables	0
	<b>Financial liabilities</b>	
(4,201)	Fair value through profit and loss	(13,228)
0	Financial Liabilities at amortised cost	0
<b>(19,568)</b>	<b>Total</b>	<b>141,595</b>

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

**NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS****Risk and risk management**

The Fund's primary long-term risk is that its 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 its 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. The Committee reviews the Fund's risk register on an annual basis.

**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 equities 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.

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 advisers undertake appropriate monitoring of market conditions and benchmark analysis.

*Price risk*

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund's investment managers mitigate this price risk through diversification.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers, the Council has determined that the following movements in price risk are reasonably possible.

Assets type	Potential market movements (+/-)
Total equities	10.00%
Fixed interest & index linked securities	9.50%
Alternative investments	6.30%
Pooled property investments	2.80%
Cash and equivalents	0.00%

Had the market price of the Fund investments increased/decreased in line with the above the change in the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2017	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Investment portfolio assets:</b>				
Total equities	551,105	10.00	606,216	495,995
Fixed interest & index linked securities	100,883	9.50	110,467	91,299
Alternative investments	58,420	6.30	62,100	54,740
Pooled property investments	64,409	2.80	66,212	62,606
Derivative contracts: net forward currency	(241)	0.00	(241)	(241)
<b>Total</b>	<b>774,576</b>		<b>844,754</b>	<b>704,399</b>

Asset type	Value as at 31 March 2016	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Investment portfolio assets:</b>				
Total equities	457,808	10.07	503,909	411,707
Fixed interest & index linked securities	86,978	9.07	94,867	79,089
Alternative investments	56,287	7.36	60,430	52,144
Pooled property investments	53,481	2.37	54,748	52,214
Derivative contracts: net forward currency	(6,388)	0.00	(6,388)	(6,388)
<b>Total</b>	<b>648,166</b>		<b>707,566</b>	<b>588,766</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 as at 31 March 2017 and 31 March 2016 and the impact of a 1% movement in interest rates are as follows:

Assets exposed to interest rate risk	Carrying amount as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	30,966	0	30,966	30,966
Fixed interest securities	80,804	808	81,612	79,996
<b>Total change in assets available</b>	<b>111,770</b>	<b>808</b>	<b>112,578</b>	<b>110,962</b>

Assets exposed to interest rate risk	Carrying amount as at 31 March 2016	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	11,529	0	11,529	11,529
Fixed interest securities	69,401	694	70,095	68,707
<b>Total change in assets available</b>	<b>80,930</b>	<b>694</b>	<b>81,624</b>	<b>80,236</b>

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.

*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 Sterling. 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 advisers the Council considers the likely volatility associated with foreign exchange rate movements to be 5.56%

A 5.56% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

Currency Exposure - asset type	Asset Value as at 31 March 2017	Change to net assets	
	£'000	+5.56%	-5.56%
		£'000	£'000
Overseas Equities	480,403	507,113	453,693

Currency Exposure - asset type	Asset Value as at 31 March 2016	Change to net assets	
	£'000	+3.77%	-3.77%
		£'000	£'000
Overseas Equities	390,763	405,495	376,031

### 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 Treasury Management investment 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 years.

The Fund's cash holding at 31 March 2017 was £31.0m (31 March 2016: £11.5m). This was held with the following institutions.

Summary	Balances at 31 March 2017	Balances at 31 March 2016
	£'000	£'000
<b>Bank accounts</b>		
Royal Bank of Scotland	30,901	10,048
JP Morgan	13	1,437
BlackRock	52	44
	<b>30,966</b>	<b>11,529</b>

### 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 Council has immediate access to its Pension Fund cash holdings.

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 2017 the value of illiquid assets was £83.7m, which represented 10% of the total Fund assets (31 March 2016: £74.1m, which represented 11% of the total Fund assets).

All financial liabilities at 31 March 2017 are due within one year.

### Refinancing risk

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

## NOTE 19: FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation takes place as at 31 March 2019.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2016 actuarial valuation, the Fund was assessed as 74% funded (70% at the March 2013 valuation). This corresponded to a deficit of £228m (2013 valuation: £234m).

Contribution increases are being phased in over the 3 years' period ending 31 March 2020.

Individual employers' rates vary depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows:

### Financial assumptions

Other financial assumptions	2016	2013
	%	%
Price inflation (CPI)	2.2	2.5
Salary increases	2.4	3.8
Pension increases	2.2	2.5
Gilt based discount rate	2.2	3.0
Funded basis discount rate	3.8	4.6

## Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% per annum.

Future life expectancy based on the Actuary's Fund-specific mortality review is as follows:

	Male	Female
Current pensioners	22.2 years	24.4 years
Future pensioners (assumed to be aged 45)	24.0 years	26.4 years

## Commutation assumption

It is assumed that 50% of future retirees will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

## NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS 19.

31 March 2016		31 March 2017
£m		£m
(933)	Present value of promised retirement benefits	(1,102)
594	Fair value of scheme assets	733
<b>(339)</b>	<b>Net Liability</b>	<b>(369)</b>

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

### IAS19 Assumptions used

	2016/17	2015/16
	% pa	% pa
Inflation/pensions increase rate assumption	2.4	2.2
Salary increase rate	2.7	3.7
Discount rate	2.5	3.5

### NOTE 21: CURRENT ASSETS

31 March 2016		31 March 2017
£'000		£'000
	<b>Debtors:</b>	
297	Contributions due - employers	142
20	Sundry debtors	170
1,752	Cash owed to Fund	1,062
<b>2,069</b>		<b>1,374</b>

### Analysis of debtors

31 March 2016		31 March 2017
£'000		£'000
0	Central Government bodies	12
1,752	Other local authorities	1,062
4	NHS bodies	4
297	Scheduled/Admitted bodies	142
16	Other entities and individuals	154
<b>2,069</b>		<b>1,374</b>

**NOTE 22: CURRENT LIABILITIES**

31 March 2016		31 March 2017
£'000		£'000
(167)	Sundry creditors	(202)
(430)	Transfer values payable (leavers)	0
(166)	Benefits payable	(138)
<b>(763)</b>		<b>(340)</b>

**Analysis of creditors**

31 March 2016		31 March 2017
£'000		£'000
(15)	Central government bodies	(7)
(431)	Other local authorities	0
(317)	Other entities and individuals	(333)
<b>(763)</b>		<b>(340)</b>

**NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS**

AVC contributions of £0.43m were paid directly to the providers during the year (2015/16: £0.31m)

Market value 31 March 2016		Market value 31 March 2017
£'000		£'000
1,233	Prudential Assurance	1,382
741	Clerical Medical	667
237	Equitable Life Assurance Society	239
<b>2,211</b>		<b>2,288</b>

**NOTE 24: AGENCY SERVICES**

There were no payments of this type

**NOTE 25: RELATED PARTY TRANSACTIONS****Harrow Council**

The Fund is required under IAS24 to disclose details of material transactions with related parties. The Council is a related party to the Pension Fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out above.

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

31 March 2016		31 March 2017	
£'000		£'000	
(16,351)	Employer's Pension Contributions to the Fund	(17,514)	
853	Administration expenses paid to the Council	826	
1,752	Cash held by the Council	1,062	

**Governance**

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

**NOTE 25A: KEY MANAGEMENT PERSONNEL**

The key management personnel of the fund is the Councils' Director of Finance (S151 Officer). During 2015-16 the Director of Human resources also fell into this category. Total remuneration payable from the Pension Fund to these key management personnel is set out below:

31 March 2016		31 March 2017	
£'000		£'000	
43	Short-term benefits	35	
0	Termination benefits	21	

**NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS**

Outstanding capital commitments at 31 March 2017 totalled £3.0m (31 March 2016: £2.9m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures in the private equity part of the portfolio.

**NOTE 27: CONTINGENT ASSETS**

Two admitted body employers in the Fund hold insurance bonds or guarantees to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.



## Pension Fund Accounts Reporting Requirement

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Harrow Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

### Present value of promised retirement benefits

Year ended	31 March 2017	31 March 2016
Active members (£m)	440	496
Deferred members (£m)	250	169
Pensioners (£m)	497	351
<b>Total (£m)</b>	<b>1,187</b>	<b>1,016</b>

The promised retirement benefits at 31 March 2017 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the London Borough of Harrow only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £171m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £13m.

**Financial assumptions**

Year ended (% p.a.)	31 March 2017	31 March 2016
Pension Increase Rate	2.4%	2.2%
Salary Increase Rate	2.7%	3.7%
Discount Rate	2.6%	3.5%

**Longevity assumptions**

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.2 years	24.4 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.0 years	26.4 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

**Commutation assumptions**

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

**Sensitivity Analysis**

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	89
0.5% p.a. increase in the Salary Increase Rate	2%	19
0.5% p.a. decrease in the Real Discount Rate	9%	110

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

**Professional notes**

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-



Gemma Sefton FFA

25 April 2017

For and on behalf of Hymans Robertson LLP

May 2017

## 10 Appendices

### 10.1 Glossary of Terms

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

**Accounting Standards:** By law Local Authorities are required to follow "proper accounting practices" which are set out both in Acts of Parliament and in professional Codes including the Code of Practice on Local Authority Accounting in the United Kingdom.

**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:** a method by which a financial asset or liability is measured in the balance sheet after deducting any repayments and after adding or subtracting cumulative amortisation calculated using the effective interest rate method. The amortisation adjusts the carrying value of the instrument from its initial value to its value at maturity over the life of the contract.

**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:** accumulated funds available to the Authority, some of which may be earmarked for specific purposes.

**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, such as parks and open spaces, 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) present obligation that arises from 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 reliability.

**Corporate and Democratic Core:** comprises all activities that a local Council engage in specifically because they are an elected, multipurpose organisation. 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. It includes costs relating to the corporate management and democratic representation.

**Council Tax:** a locally determined taxation charge based on domestic property values set by both the billing and precept authorities at a level determined by the council tax base for the area.

**Creditors:** amounts owed by the Council for goods and services received where payment has not been made at the end of the financial year.

**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 financial year. 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 end of the financial year.

**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 non-current 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 or a liability settled between knowledgeable willing parties in an arm's length transaction.

**Finance Leases:** a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

**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's are not allowed to make up any deficit on the HRA from the General Fund.

**Impairment:** a reduction in the carrying value of a fixed asset below its previously assessed carrying value due to obsolescence, damage or adverse change in the statutory environment.

**Infrastructure Assets:** a classification of non-current 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 the 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. NNDR is now shared between the Government, the Council and the Greater London Authority in the following proportions 50:30:20. When an Authority's baseline is greater than its funding baseline, it pays tariff payments to the Government. If the

Council's NNDR baseline is less than it's funding baseline it receives top-up payments from the Government.

**Net Realisable Value:** the amount at which an asset could be sold after the deduction of any direct selling costs.

**Non-Distributable Cost:** these include overheads for which no user 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.

**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, employees and from investment income.

**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 correction of 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 a public body where the private sector is responsible for the design, construction, finance and operation of an asset or service for a specified time after which it is transferred back into the public sector.

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

**Related Party:** the relationship between a senior officer, elected Member, 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. The council tax base is taken into account when it calculates it's council tax, and when central government calculates entitlement to Formula Grant.

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

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

## 10.2 Abbreviations

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