

# Statement of Accounts

2017 - 2018

DRAFT



London Borough of Harrow  
Statement of Accounts  
2017 - 2018




1. Narrative Report.....	1
2. Statement of Responsibilities.....	12
3. Audit Opinion & Certificate.....	14
4. Presentation of Financial Statement.....	15
5. Notes to the Financial Statements.....	20
6. Housing Revenue Account.....	72
7. Collection Fund.....	76
8. Annual Governance Statement.....	78
9. Pension Fund Financial Statements.....	86
10. Appendices.....	120



## 1. Narrative Report

### Message from the Director of Finance

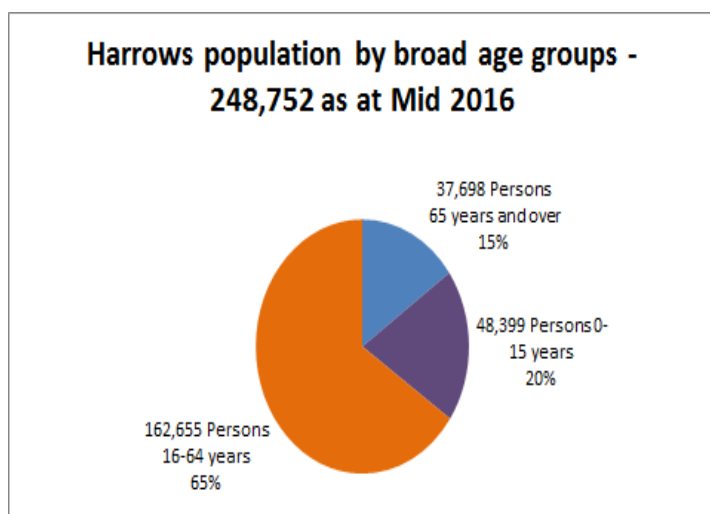
	<p>As the Council's statutory Chief Finance Officer, I have pleasure in writing the Narrative Report to Harrow Council's Statement of Accounts for 2017-18.</p> <p>The Narrative Report provides an analysis of Council performance during the year, an explanation of the financial results included in the Statement of Accounts and an overview of the future outlook beyond 2017-18.</p>
---	--

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 248,752 as at 30th June 2016. 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 delivered by the Corporate Strategic Board (CSB).

Harrow, in common with the majority of local 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 Council. 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 (CSB) comprises the Council's Senior Management Team. The Senior Management is made up of the Council's Corporate Directors and Statutory Officers. There have been a number of changes in the Senior Management Team in 2017-18 although the structure has not changed.

Chief Executive – Head of Paid Service  
 Corporate Director Community  
 Corporate Director People – Director of Children's Services  
 Corporate Director Resources  
 Director of Finance (Section 151 Officer)  
 Director of Legal & Governance – Monitoring Officer  
 Director of Adult Social Services  
 Director of Public Health

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> <li>• Planning Services</li> <li>• Economic Development and Research</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>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>• Strategic Commissioning</li> <li>• Human Resources</li> <li>• Procurement</li> <li>• Legal and Governance</li> </ul>

## 1.2 Summary of the 2017-18 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. In 2017-18 the Council set itself a challenging target with the inclusion of £10.2m of savings in the Budget. The final outturn for the year is a balanced outturn position after contributing £3.2m into reserves, which will be used to help fund the 2019-20 budget and to fund capacity needed to deliver the Medium Term Financial Strategy, and £469k of unspent funds which are carried forward for use by Directorates in 2018-19.

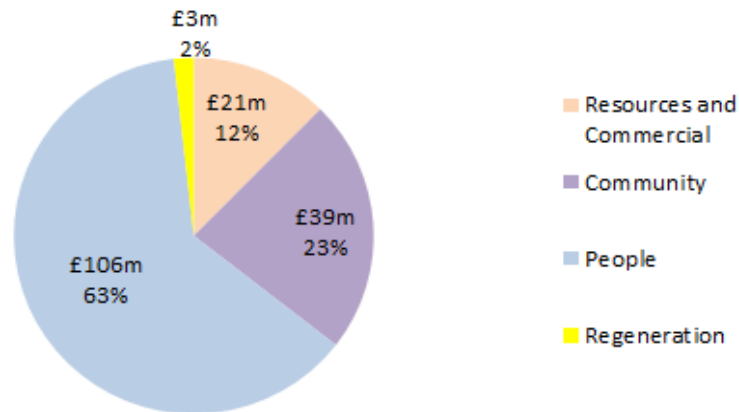
The Council has maintained its General Fund Balances at just over £10m in 2017-18. This supports the Council's capacity to manage risks arising in future years from continuing demographic pressures, the economy, welfare reforms and further Government funding cuts.

Earmarked Reserves have increased from £28.4m to £31.7m in 2017-18 as set out in note 5.6.

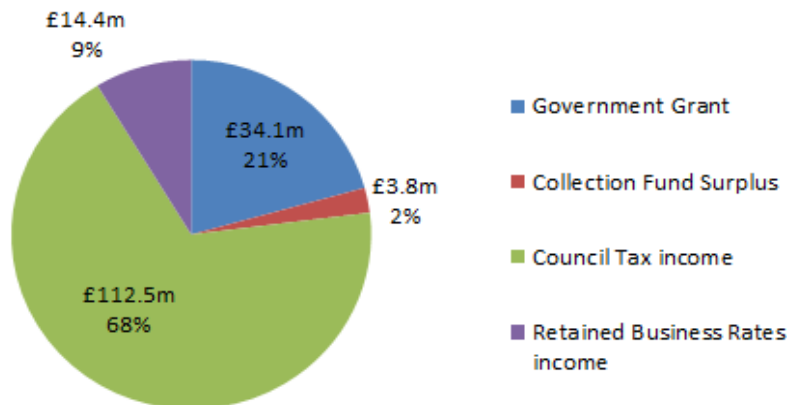
The final outturn position for the year compared to the revised budget is set out below:

	2017-18		Variation
	Budget £000	Actuals £000	£000
<b>Directorate costs</b>			
Resources and Commercial	21,923	21,290	(633)
Community	37,913	39,513	1,600
People	103,608	105,680	2,072
Regeneration	1,696	2,935	1,239
<b>Total - Directorate</b>	<b>165,140</b>	<b>169,418</b>	<b>4,278</b>
<b>Other operating income</b>			
Contingencies, Corporate Items and Non-service grants	779	(7,970)	(8,749)
Capital Financing and Interest	1,924	1,427	(497)
<b>Net Expenditure</b>	<b>167,843</b>	<b>162,875</b>	<b>(4,968)</b>
<b>Use of Capital Receipts Flexibility</b>	<b>(3,039)</b>	<b>(1,738)</b>	<b>1,301</b>
<b>Net Expenditure</b>	<b>164,804</b>	<b>161,137</b>	<b>(3,667)</b>
<b>Transfer to Reserves:</b>			
<b>Unspent sums Carried Forward to 2018/19</b>	0	469	469
<b>Contribution to Reserves</b>	0	3,198	3,198
<b>Net Expenditure</b>	<b>164,804</b>	<b>164,804</b>	<b>0</b>
<b>Funded by :</b>			
Government Grant	(34,068)	(34,068)	0
Collection Fund Surplus	(3,760)	(3,760)	0
Council Tax income	(112,530)	(112,530)	0
Business Rates income	(14,446)	(14,446)	0
<b>Total</b>	<b>(164,804)</b>	<b>(164,804)</b>	<b>0</b>
<b>Surplus for the year</b>		0	
<b>General Fund balance at 31 March 2018</b>		<b>10,008</b>	

### £169m Spend by Directorate 2017/18



### Revenue Funding Source 2017/18



### Capital Programme 2017-18

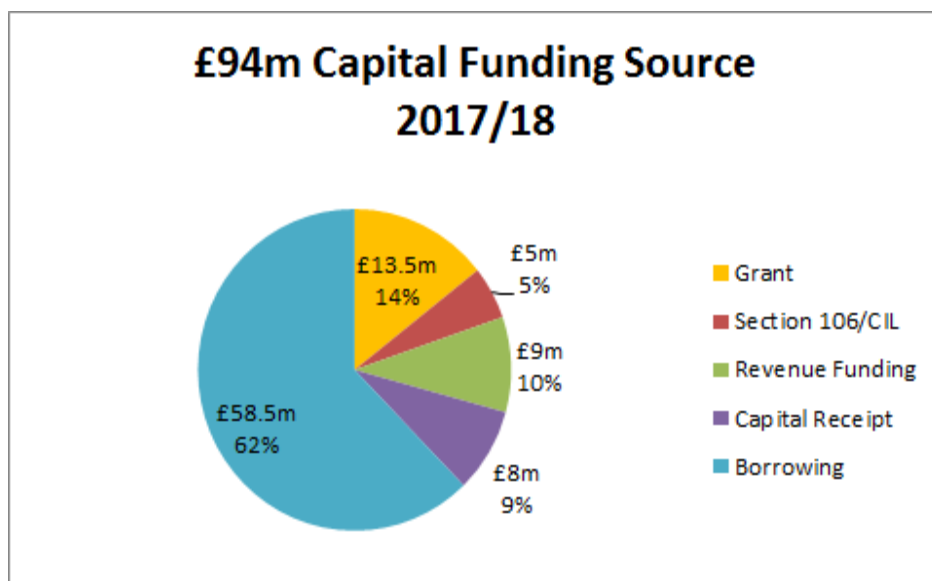
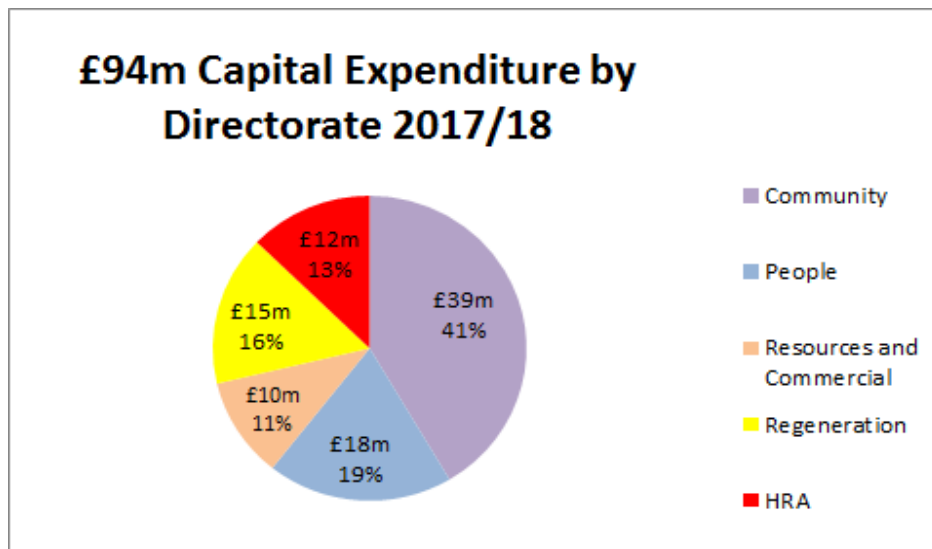
During 2017-18 the Council invested £94m on developing or acquiring capital assets. This was funded from £58.5m internal cash balances\* and £35.5m from external grants, section 106/CIL contributions, revenue contributions and capital receipts. (\*Borrowing was deferred in 2017-18 as cash balances were sufficient to fund capital expenditure).

Major projects included in the programme were:

- Continued investment in new technology to improve Council Services;
- Acquisition of an Investment Property;
- Continuation of the Schools expansion programme;
- Remedial works to Pinner Wood School;
- Purchase of a adults care home – Sancroft care home
- Highways improvement programme and Street Lighting Improvements;
- Start of a 3 year programme to redevelop the central depot
- Improvements to parks;

- Restoration works at Headstone Manor;
- Acquisition of Homes for Temporary Accommodation;
- Improvements to the Council's housing stock
- Provision of new Council Homes;
- Design and Feasibility Studies for the Regeneration Programme.

The following charts show how the £94m was spent by Directorate and also the how the Capital Programme was funded.



**Housing Revenue Account (HRA)**

The Council provides rented accommodation of 4,813 units. In 2017-18, average Council rents were £112.70 per week. The Housing Revenue Account (HRA) outturn confirmed a surplus of £580k in 2017-18 reflected by an increase in HRA general reserves from £6.9m to £7.5m which is after the establishment of an HRA Transformation reserve of £500k to support change management in the HRA in response to Government imposed rent reductions and restrictions on borrowing.

## Collection Fund

The in-year Council tax collection rate for 2017-18 was 97.72% which compared favourably with the target of 97.25%. Business rate collection was 96.81% which was just below the target of 97%. Collection of Business rates income is challenging due to the large number of small businesses in the borough. The overall position for the Collection Fund is a net surplus of £14.2m against an estimated surplus of £13.4m. This net variance of £0.8m was mainly as a result of higher than expected council tax yield from significantly higher levels of new properties having come on stream and the Council Tax Support scheme having cost 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 minimize borrowing costs. The investment portfolio achieved an average return of 0.23% in the year, slightly under the three months London Interbank Bid Rate (LIBID) average for the year of 0.28%

No new borrowing was taken out in the year as cash balances were sufficient to fund cash flow, meaning borrowing to fund the Capital Programme has been deferred in 2017-18. A £10m repayment on loan maturity reduced borrowing at year end to £314m and the average interest rate was 4.15%. The strategy to fund capital expenditure was to use internal cash balances in-year, in recognition of the unfavorable 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 to £816.1m, almost entirely due to the increase of £9.5m in the market value of investments. There was an employer bulk transfer of £30.1m from the London Borough of Harrow Pension Fund to the London Borough of Hillingdon Pension Fund as part of the merger of Harrow College with Uxbridge College. The Fund's investments return for the year was 5.3%.

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 £355m at 31<sup>st</sup> March 2018. This is £14m less than the net liabilities of £369m twelve months earlier (see note 5.38.5).

The Council Contribution rate is dependent on the actuarial valuation of the Pension Fund carried out every three years. The aim of the Funding Strategy Statement 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 2016, the fund was assessed as being 74% funded, corresponding to a shortfall of £228m. The Council's contribution rate for the financial year 2017-18 was 16% plus £5.3m as the contribution for the year towards the recovery of the shortfall.



## Harrow's 2017-18 Achievements

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

### Build a Better Harrow

- Masterplanning work for the Poets Corner, Byron Quarter and new Civic Centre schemes has continued to progress, alongside cost analysis of the designs. The new Civic Centre Planning Application was submitted in December and land assembly is nearing completion. A £3.75m GLA grant was been received in respect of a Housing Zone contract for Poets Corner phase 1. Further work has taken place on potential joint ventures to deliver Poets Corner (Phase 2) and Byron Quarter.
- Cabinet has authorised the marketing of the Greenhill Way site for redevelopment.
- The planning application for Waxwell Lane was submitted in December; and procurement of a new contractor for Haslam House is in progress, to enable construction to take place in 2018.
- Six new 3 and 4 bedroom council houses have been completed in Stanmore and let, with a further 13 houses and four flats under construction.
- The Stanmore Rec Café and Nursery were being completed and will be let to Avanti House School.
- The official launch of Headstone Manor and Museum was held on 1<sup>st</sup> December 2017, following a four year programme of repair and restoration supported by £3.6 million of Heritage Lottery Funding as well as Council capital.
- The Grange Farm Regeneration planning application was submitted on 1<sup>st</sup> December 2017 and a £10m Housing Infrastructure Fund (HIF) grant was confirmed for the scheme.
- Leisure Centre operator Everyone Active was named Swimming Facility Operator of the year by Sport England for the seventh year running. The award recognised the impressive increase in the number of people swimming and the work to put inclusivity at the forefront of the activities delivered. Initiatives at Harrow Leisure Centre have included involvement in the 'This Girl Can Swim' campaign and 'Swim 4 Confidence' sessions.
- Pinner Wood School rectification works have been completed and the school returned to its site for the New Year in January 2018.
- Harrow schools continued to perform above the statistical neighbour and England averages in 2017. The high performance of Harrow schools was recognised in national research.
- Three primary/junior schools sustained an inspection outcome of Good for overall effectiveness and all key aspects of their work in Autumn 2017.

### Be More Business-like and Business Friendly

- At quarter 4, some 88% of customer interactions with the Council are now self-serve and calls that were answered by self-service stand at 49%. There were over 112,000 My Harrow Accounts open, generating more than 48,000 logins per month. MyHarrow Account and Web Users satisfied were 92% in each case, against a target of 90%.
- Under the Infinity Programme, the IBM design team completed the design stage for the Minimum Viable Product (MVP) in consultation with officers, service users and providers. The Council agreed a phased implementation approach with a pilot of 10 service users which started April 2018.

- The successful implementation of controlled access to the Household Reuse and Recycling Centre resulted in 5,000 fewer vehicles and 8% less waste going through the centre in December 2017 compared with December 2016. The restrictions have been welcomed by residents of Harrow.
- The Borough's Libraries were successfully transferred back to direct Council management following the collapse of the contractor, Carillion, with libraries remaining open throughout the process.
- Harrow's positive work in engaging with businesses to address low skills was highlighted by the Learning and Work Institute in the evaluation of the Skills Escalator pilot (October 2017).
- Harrow was cited as an example of best practice in the Future of London's report on "Making the Case for Place", with special reference to how we use social value clauses in the procurement of goods and services to deliver benefits for Harrow's residents and businesses, and how we support the council's suppliers to recruit local residents and apprentices.
- The Adult Community Learning Service received a judgement of Good at its Ofsted inspection, with a number of positives in the inspectors' report.

## Protect the Most Vulnerable and Support Families

- The transformation of Adult Social Care in Harrow has made significant progress since its inception in October 2017. Comprehensive changes, incorporating staff consultations, are taking place across five key workstreams - Developing community assets; Enhancing digital access and online information; Streamlining the adult social care pathway; Developing the use of enhanced telecare and adaptive technology; and Transforming models of care.
- Sancroft Residential Care Home and Day Service was successfully transferred to the Council's new company Sancroft Community Care Ltd in February 2018. Residents and families have been very happy with the seamless transfer.
- The newly extended Bedford House care home successfully received all residents transferred from Roxborough Park before Christmas 2017.
- Harrow Churches Housing Association (HCHA) has been selected as the Council's developer partner for the redevelopment of the Watkins House site following a competitive tender process. The development plans will help to address the shortfall of supported housing units in the borough by providing 52 new extra care homes along with 3 wheelchair standard units and 17 homes for shared ownership.
- Eight schools in Harrow have now achieved gold awards under the Healthy Schools London Awards, with support from the Health Education Partnership.

### 1.3 Outlook for the Future

#### Medium Term Financial Strategy 2018-19 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 front line 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 2018 for the Financial Years 2018-19 to 2020-21.

Over the period 2018-19 to 2020-21, savings of £11.8m have been included in the Medium Term Financial Strategy (MTFS). These savings were required in order to set a balanced budget for 2018-19 and also contribute towards reducing budget gaps in future years. After taking these savings into account, there are still budget gaps of £17.6m in 2019-20 and £16.1m in 2020-21. The budget gaps are largely driven by reduced Revenue Support Grant funding from the Government, 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 £168.9m along with a 3.49% increase in Council Tax was approved by the Council in February 2018. The 3.49% increase reflected a 2.99% increase in respect of the traditional council tax increase and 0.5% for the Adult Social Care precept (ASC). A 3.49% council tax increase provides approximately £3.5m of additional council tax income. 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. Of the £3.5m additional council tax income raised in 2018-19, approximately £0.5m is being used to fund adult social care pressures.

The General Fund Balance as at 31<sup>st</sup> March 2018 remains above £10m (£10.008m) and the Earmarked Reserves are £31.7m at 31<sup>st</sup> March 2018, which compares with £28.4m at the 1<sup>st</sup> April 2017. 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 remains uncertain and there is no likelihood of any change in the Government's policy regarding funding levels to Local Government, which have reduced year on year.

Harrow's core Revenue Support grant funding is being phased out by 2020-21. All Councils in London including Harrow are part of a London pilot for 2018-19 where Council's keep 100% of Business Rates but will receive less funding in other grants. The intention is that the retained Business Rates scheme will be put in place permanently from 2020-21.

The changing landscape of Local Government funding 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 in the form of Revenue Support Grant, Government reforms, increased demand for front line services and inflationary pressures;
- An increase in population as evidenced by the latest population estimates which shows the population to be 1,622 higher than last year and around 8,300 higher than the 2011 mid-year population estimates;
- 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, which along with the potential impact of the levy to fund Housing Association Right-to-Buy and limitations on borrowing are likely to lead to reduced stock numbers and a weakened financial position.

The 3 year budget (2018-19 to 2020-21) 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 2017-18;
- 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 31<sup>st</sup> March 2018, 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 2017-18, 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 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**  
**31<sup>st</sup> July 2018**

## 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 31<sup>st</sup> March 2018 and its income and expenditure for the year ended 31<sup>st</sup> March 2018.



**Dawn Calvert CPFA**  
**Director of Finance**  
**31<sup>st</sup> July 2018**

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

These accounts were considered and approved by the Governance, Audit, Risk Management and Standards Committee (GARMSC) at the meeting held on 17th July 2018.

Signed on behalf of London Borough of Harrow Council

Councillor David Perry  
Chairman (GARMSC)  
17th July 2017

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

#### **Independent auditor's report to the Members of London Borough of Harrow**

TO BE INCLUDED ON COMPLETION OF AUDIT

**Andrew Sayers**

**For and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square, Canary Wharf, London, E14 5GL

July 2018



## 4 Presentation of Financial Statements

### 4.1 Expenditure and Funding Analysis (EFA)

2016-17			2017-18		
£000	£000	£000	£000	£000	£000
Net Expenditure Chargeable to General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in Comprehensive Income and Expenditure Statement
	Note 5.5.1			Note 5.5.1	
63,609	261	63,870	66,426	296	66,722
43,337	14,216	57,553	39,254	10,052	49,306
43,920	(5,720)	38,200	39,513	566	40,079
22,520	1,349	23,869	21,290	1,799	23,089
(8,399)	7,609	(790)	(1,679)	3,115	1,436
(157)	(7,719)	(7,876)	(580)	(4,857)	(5,437)
164,830	9,996	174,826	164,224	10,971	175,195
(164,987)	(28,732)	(193,719)	(164,804)	(18,446)	(183,250)
(157)	(18,736)	(18,893)	(580)	(7,475)	(8,055)
(16,745)			(16,902)		
(157)			(580)		
(16,902)			(17,482)		

\* For a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement

\*\* Previous year's balances have been restated to remove earmarked reserves

\*\*\* General Fund Housing is no longer being shown separately from Community as it was in 2016-17. This is because the balance of General Fund Housing is not significant enough to warrant separate disclosure.

## 4.2 Comprehensive Income and Expenditure Statement

2016-17			2017-18			
Gross Expenditure Restated £000	Gross Income Restated £000	Net Expenditure /(Income) Restated £000		Gross Expenditure £000	Gross Income £000	Net Expenditure /(Income) £000
94,191	(30,321)	63,870		100,609	(33,887)	66,722
213,613	(156,060)	57,553		208,614	(159,308)	49,306
72,855	(34,655)	38,200		73,909	(33,830)	40,079
193,502	(169,633)	23,869		193,545	(170,456)	23,089
12,517	(13,307)	(790)		16,591	(15,155)	1,436
24,595	(32,471)	(7,876)		27,022	(32,459)	(5,437)
<b>611,273</b>	<b>(436,447)</b>	<b>174,826</b>		<b>620,290</b>	<b>(445,095)</b>	<b>175,195</b>
			<b>Cost Of Services</b>			
9,453	(466)	8,987		14,023	0	14,023
27,811	(4,330)	23,481		24,700	(4,695)	20,005
0	(226,187)	(226,187)		0	(217,278)	(217,278)
		<b>(18,893)</b>	<b>(Surplus) on Provision of Services</b>			<b>(8,055)</b>
		<b>(74,416)</b>	(Surplus) on revaluation of property, plant & equipment assets	5.20.1		<b>(21,990)</b>
		<b>17,118</b>	Remeasurements of net pension liability	5.20.4		<b>(36,394)</b>
		<b>(57,298)</b>	<b>Other Comprehensive (Income) and Expenditure</b>			<b>(58,384)</b>
		<b>(76,191)</b>	<b>Total Comprehensive (Income) and Expenditure</b>			<b>(66,439)</b>

\* £15,401k of 2016-17 Other Operating Income and Expenditure has been moved to Resources and Commercial to reflect the more appropriate disclosure of these balances made in 2017-18. In addition, the balance was reduced by £1,259k to remove internal recharges.

\*\* General Fund Housing is no longer being shown separately from Community as it was in 2016-17. This is because the balance of General Fund Housing is not significant enough to warrant separate disclosure.

## 4.3 Movement in Reserves Statement (MiRS)

	General Fund Balance £000	Housing Revenue Account £000	Earmarked Reserves £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 2016 brought forward</b>	(10,008)	(6,737)	(37,729)	(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	0	(18,893)	(57,298)	(76,191)
Adjustments between accounting basis & funding basis under regulations (Note 5.5.2)	10,191	6,125	0	(2,496)	692	(9,611)	4,901	(4,901)	0
<b>Net (Increase)/Decrease</b>	(2,074)	(503)	0	(2,496)	692	(9,611)	(13,992)	(62,199)	(76,191)
Other movements	2,074	346	(2,418)	0	0	0	2	2	4
<b>(Increase)/Decrease in 2016-17</b>	0	(157)	(2,418)	(2,496)	692	(9,611)	(13,990)	(62,197)	(76,187)
<b>Balance at 31 March 2017 carried forward (Note 4.4) *</b>	<b>(10,008)</b>	<b>(6,894)</b>	<b>(40,147)</b>	<b>(22,649)</b>	<b>(4,828)</b>	<b>(19,568)</b>	<b>(104,094)</b>	<b>(363,047)</b>	<b>(467,141)</b>
<b>Balance at 31 March 2017 brought forward (Note 4.4)</b>	(10,008)	(6,894)	(40,147)	(22,649)	(4,828)	(19,568)	(104,094)	(363,047)	(467,141)
<b><u>Movement in reserves during 2017-18</u></b>									
<b>Total Comprehensive Expenditure and (Income)</b> (Note 4.2)	(6,139)	(1,916)	0	0	0	0	(8,055)	(58,384)	(66,439)
Adjustments between accounting basis & funding basis under regulations (Note 5.5.2)	3,054	1,261	0	4,030	586	(7,970)	961	(961)	0
<b>Net (Increase)/Decrease</b>	(3,085)	(655)	0	4,030	586	(7,970)	(7,094)	(59,345)	(66,439)
Other movements	3,085	75	(3,165)	0	0	0	0	2	0
<b>(Increase)/Decrease in 2017-18</b>	0	(580)	(3,165)	4,030	586	(7,970)	(7,099)	(59,343)	(66,442)
<b>Balance at 31 March 2018 carried forward (Note 4.4)</b>	<b>(10,008)</b>	<b>(7,474)</b>	<b>(43,312)</b>	<b>(18,619)</b>	<b>(4,242)</b>	<b>(27,538)</b>	<b>(111,193)</b>	<b>(422,390)</b>	<b>(533,583)</b>

\* Previous year's balances have been restated to separate out Earmarked Reserves from the General Fund Balance

## 4.4 Balance Sheet

31-Mar-17 £000		Notes	31-Mar-18 £000
1,131,132	Property Plant and Equipment	5.10	1,208,485
21,763	Investment Property	5.12	27,448
38,114	Long Term Debtors	5.14	39,094
<u>1,191,009</u>	<b>Long Term Assets</b>		<u>1,275,027</u>
27,830	Short Term Investments	5.13	7,750
30,728	Short Term Debtors	5.15	43,783
35,115	Cash and Cash Equivalents	5.24	5,140
<u>93,673</u>	<b>Current Assets</b>		<u>56,673</u>
(13,822)	Short Term Borrowing	5.13	(14,198)
(80,050)	Short Term Creditors	5.16	(82,836)
(4,274)	Provisions	5.17	(4,157)
<u>(98,146)</u>	<b>Current Liabilities</b>		<u>(101,191)</u>
(5,837)	Provisions	5.17	(6,124)
(324,403)	Long Term Borrowing	5.13	(314,416)
(385,632)	Other Long Term Liabilities	5.18	(370,792)
(3,523)	Capital Grants Receipts in Advance	5.32.3	(5,594)
<u>(719,395)</u>	<b>Long Term Liabilities</b>		<u>(696,926)</u>
<u>467,141</u>	<b>Net Assets</b>		<u>533,583</u>
(104,094)	Usable Reserves	5.19	(111,193)
(363,047)	Unusable Reserves	5.20	(422,390)
<u>(467,141)</u>	<b>Total Reserves</b>		<u>(533,583)</u>

**4.5 Cash Flow Statement**

2016-17 £000		Notes	2017-18 £000
18,893	Net (deficit)/surplus on the provision of services	4.2	<b>8,055</b>
70,795	Adjustments to net deficit on the provision of services for non cash movements	5.21	<b>38,114</b>
<b>(68,191)</b>	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	5.21	<b>(29,164)</b>
<u>21,497</u>	Net cash flow from Operating Activities		<b>17,005</b>
<b>(20,570)</b>	Investing Activities	5.22	<b>(38,713)</b>
<u>4,474</u>	Financing Activities	5.23	<b>(8,268)</b>
<u>5,401</u>	Net increase/(decrease) in cash and cash equivalents		<b>(29,976)</b>
<u>29,714</u>	Cash and cash equivalents at the beginning of the reporting period	5.24	<b>35,116</b>
<u><u>35,115</u></u>	Cash and cash equivalents at the end of the reporting period	5.24	<b>5,140</b>

## 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 2017-18 financial year and its position as at 31<sup>st</sup> March 2018. 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 2017-18 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 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 MRP contribution in the General Fund, 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 contribute MRP. Instead, depreciation charged to the HRA is transferred to the Major Repairs Reserve to be used to fund future HRA capital expenditure.

### 5.1.6 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 (33%), the Council (30%) and to the Greater London Authority (37%).

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.

### **5.1.7 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 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 Events After the Reporting Period**

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.

#### **5.1.9 Financial Instruments**

##### **Financial Liabilities**

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

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.

### 5.1.10 Intangible Assets

The Council does not hold material intangible assets.

### 5.1.11 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.

### 5.1.12 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.

### 5.1.13 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.

### 5.1.14 Leases

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

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

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

#### 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.

#### **5.1.15 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.

#### **5.1.16 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.

### 5.1.17 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;

- 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 or the HRA.

### **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 £2,750 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 are 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.



### 5.1.18 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.

### 5.1.19 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.

### **5.1.20 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.

### **5.1.21 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.

### **5.1.22 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.

### **5.1.23 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 included in the Council's accounts. Community schools that achieve academy status are derecognised in the balance sheet.

### **5.1.24 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.

## **5.2 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 dependent 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	Provisions are estimated on the basis of current knowledge of the amount that will eventually be paid. It is possible that the amounts eventually paid may be more than expected.	If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's general fund.
Outstanding Debts	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.	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.
Business Rates	The Council must meet its relevant share of backdated business rate appeals. A provision has been made within the accounts, utilising Valuation Office data and the analysis of successful appeals to date as at the end of the reporting period.	If the refunds payable are higher than the provision, the difference will reduce the balance on the Collection Fund and reduce the Council's share of business rates income in future years.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The assumptions used are reviewed 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.

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

The following accounting policy changes are not yet reflected in the 2017-18 Code of Practice. They are not therefore reflected in the Statement of Accounts:

- IFRS 9 Financial Instruments (replaces IAS 39);
- IFRS 15 Revenue from Contracts with Customers;
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows (disclosure Initiative).

None of these changes are expected to have a material impact on the accounts.

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

### 5.5.1 Note to the Expenditure and Funding Analysis

	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	(881)	1,862	(685)	296
People - Children and Families	2,648	7,811	(407)	10,052
Community	5,462	3,361	(8,257)	566
Resources and Commercial	(1,297)	951	2,145	1,799
Regeneration and Corporate items	8,890	(1,850)	(3,925)	3,115
Housing Revenue Account	(1,989)	709	(3,577)	(4,857)
<b>Cost Of Services</b>	<b>12,833</b>	<b>12,844</b>	<b>(14,706)</b>	<b>10,971</b>
Other income and expenditure	(35,650)	9,382	7,822	(18,446)
Difference between General Fund and HRA (Surplus)/Deficit and Comprehensive Income and Expenditure Statement Provision of Services (Surplus)/Deficit on Provision of Services	<b>(22,817)</b>	<b>22,226</b>	<b>(6,884)</b>	<b>(7,475)</b>

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	(715)	506	470	261
People - Children and Families	5,809	2,027	6,380	14,216
Community	808	865	(7,393)	(5,720)
Resources and Commercial	1,169	262	(82)	1,349
Regeneration and Corporate Items	13,529	469	(6,389)	7,609
Housing Revenue Account	(6,505)	189	(1,403)	(7,719)
<b>Cost Of Services</b>	<b>14,095</b>	<b>4,318</b>	<b>(8,417)</b>	<b>9,996</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>16,200</b>	<b>(3,498)</b>	<b>(18,736)</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

2017-18	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	(21,518)	(709)	0	0	0	22,227
Depreciation	(22,888)	(7,681)	0	0	0	30,569
Impairment	(5,983)	(230)	0	0	0	6,213
Premiums and Discounts on Debt Restructure	397	(19)	0	0	0	(378)
Movements in market value of Investment Properties	504	0	0	0	0	(504)
Council Tax and NDR transfer to/from the Collection Fund Adjustment Account	919	0	0	0	0	(919)
Holiday pay transfer to/from the Accumulating Compensating Absences Adjustment Account	734	0	0	0	0	(734)
Unwinding of discount on deferred capital receipts	921	0	0	0	0	(921)
Revenue expenditure funded from capital	(3,524)	(554)	0	0	0	4,078
Non Current assets written out on disposal	(7,334)	(3,519)	0	0	0	10,853
<b>Total Adjustments to Revenue Resources</b>	<b>(57,772)</b>	<b>(12,712)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>70,484</b>
<b>Adjustments between Revenue and Capital Resources:</b>						
Minimum Revenue Provision	17,440	2	0	0	0	(17,442)
Capital expenditure funded from revenue balances	5,287	0	0	0	0	(5,287)
Capital grants and contributions	39,723	561	0	0	(16,739)	(23,545)
Transfer of sale proceeds credited to the CIES	146	7,083	(7,229)	0	0	0
Administrative cost of non-current asset disposals	(32)	(91)	123	0	0	0
Payment to the Housing Capital Receipts Pool	0	(1,261)	1,261	0	0	0
Use of capital receipts to fund revenue expenditure	(1,738)	0	1,738	0	0	0
Transfer of HRA resources to the Major Repairs Reserve	0	7,679	0	(7,679)	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>60,826</b>	<b>13,973</b>	<b>(4,107)</b>	<b>(7,679)</b>	<b>(16,739)</b>	<b>(46,274)</b>
<b>Adjustments to Capital Resources:</b>						
Use of the Major Repairs Reserve to fund capital expenditure	0	0	0	8,265	0	(8,265)
Use of the Capital Receipts Reserve to fund capital expenditure	0	0	8,137	0	0	(8,137)
Use of Capital Grants Unapplied Account to fund capital expenditure	0	0	0	0	8,769	(8,769)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>8,137</b>	<b>8,265</b>	<b>8,769</b>	<b>(25,171)</b>
<b>Total Adjustments</b>	<b>3,054</b>	<b>1,261</b>	<b>4,030</b>	<b>586</b>	<b>(7,970)</b>	<b>(961)</b>

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>



## 5.6 Earmarked Reserves

	Balance at 31-Mar-16	Transfers Out 2016-17	Transfers In 2016-17	Balance at 31-Mar-17	Transfers Out 2017-18	Transfers In 2017-18	Balance at 31-Mar-18
	£000	£000	£000	£000	£000	£000	£000
<b>Earmarked Reserves:</b>							
Priority Initiatives *	(3,189)	655	0	(2,534)	1,508	(800)	(1,826)
Budget Planning Reserve	0	0	(2,000)	(2,000)	0	(4,184)	(6,184)
Capacity Building Reserve	0	0	0	0	0	(1,198)	(1,198)
PFI Schools	(2,790)	278	0	(2,512)	141	0	(2,371)
PFI Neighbourhood Resource Centre	(1,290)	0	(124)	(1,414)	0	(89)	(1,503)
HSIP	(1,153)	1,141	0	(12)	12	0	0
IT Implementation	(1,854)	1,176	0	(678)	533	0	(145)
Projects in progress	(1,793)	1,793	(2,336)	(2,336)	2,336	(454)	(454)
Revenue Grant Reserve	(1,305)	903	(507)	(909)	509	(2,731)	(3,131)
Public Health	(898)	0	(225)	(1,123)	0	(1,079)	(2,202)
Business Risk	(2,109)	0	0	(2,109)	2,109	0	0
MTFS Implementation cost	(875)	1,286	(3,268)	(2,857)	416	0	(2,441)
CIL - Harrow	(728)	0	(5,405)	(6,133)	4,800	(4,553)	(5,886)
Welfare Reform	(1,000)	1,000	0	0	0	0	0
Other earmarked reserves	(3,919)	415	(323)	(3,827)	1,005	(1,569)	(4,391)
<b>Total Earmarked Reserves</b>	<b>(22,903)</b>	<b>8,647</b>	<b>(14,188)</b>	<b>(28,444)</b>	<b>13,369</b>	<b>(16,657)</b>	<b>(31,732)</b>
Locally Managed School Balances	(14,826)	3,123	0	(11,703)	123	0	(11,580)
<b>Total</b>	<b>(37,729)</b>	<b>11,770</b>	<b>(14,188)</b>	<b>(40,147)</b>	<b>13,492</b>	<b>(16,657)</b>	<b>(43,312)</b>

\* The Transformation and Priority Initiatives Fund has been renamed Priority Initiatives.

**Priority Initiatives:** Resources set aside for initiatives to deliver ongoing revenue savings.

**Budget Planning and Capacity Building Reserves:** Resources set aside as additional contingency to support the budget.

**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.

**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.

**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 Income and Expenditure**

2016-17 £000		2017-18 £000
	<b>Levies</b>	
245	London Boroughs Grants Committee	219
301	London Pension Fund Authority	299
7,258	West London Waste Authority (WLWA)	7,960
234	Lee Valley Regional Park Authority	219
186	Environment Agency	189
<u>8,224</u>	Sub Total Levies	<u>8,886</u>
1,229	Payments to the Government Housing Capital Receipts Pool	1,261
<u>(466)</u>	Losses/(gains) on the disposal of non current assets	<u>3,876</u>
<u>8,987</u>	<b>Total</b>	<u>14,023</u>

**5.8 Financing and investment income and expenditure**

2016-17 £000		2017-18 £000
15,929	Interest payable and similar charges	15,318
11,882	Net interest on the net defined benefit liability	9,382
<u>(1,555)</u>	Interest receivable and similar income	<u>(1,384)</u>
<u>(2,775)</u>	Income in relation to investment properties & changes in their fair value	<u>(3,311)</u>
<u>23,481</u>	<b>Total</b>	<u>20,005</u>

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

2016-17 £000		2017-18 £000
<u>(108,707)</u>	Council tax income	<u>(115,291)</u>
<u>(13,704)</u>	Business Rates Retention	<u>(16,363)</u>
<u>(21,935)</u>	Revenue Support Grant	<u>(13,019)</u>
<u>(21,114)</u>	Business Rates Top-Up Grant	<u>(21,049)</u>
<u>(2,305)</u>	Education Services Grant	<u>(641)</u>
<u>(5,250)</u>	New Home Bonus Grant	<u>(4,068)</u>
<u>(724)</u>	Section 31 Grants	<u>(2,496)</u>
0	Flexible Homeless Support Grant	<u>(1,675)</u>
0	Adult Social Care Grant	<u>(974)</u>
<u>(769)</u>	Other General Grants	<u>(1,419)</u>
<u>(19,459)</u>	Donated assets*	<u>(18,349)</u>
<u>(32,220)</u>	Capital grants and contributions (Note 5.32.2)	<u>(21,934)</u>
<u>(226,187)</u>	<b>Total</b>	<u>(217,278)</u>

\* Primary schools funded by the Education Funding Agency

## 5.10 Property, Plant and Equipment

2017-18	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 2017	447,310	466,475	44,027	192,910	1	85,804	14,250	1,250,777	35,354
Reversal of accumulated depreciation on revaluation	(6,887)	(1,100)	0	0	0	0	0	(7,987)	0
Additions	2,316	28,745	2,408	15,839	456	32,088	2,799	84,651	22
Donated assets	0	18,330	19	0	0	0	0	18,349	0
Revaluation increases recognised in the Revaluation	2,496	20,772	0	0	0	0	(1,278)	21,990	1,629
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(4,902)	0	0	(1,311)	0	0	(6,213)	357
Derecognition - Disposals	(3,304)	(8,702)	0	0	0	0	0	(12,006)	0
Derecognition - Other*	0	0	(8,298)	(4,126)	0	0	0	(12,424)	0
Reclassifications/ Transfer	1,154	6,934	2,942	382	855	(14,322)	1,832	(223)	42
<b>At 31 March 2018</b>	<b>443,085</b>	<b>526,552</b>	<b>41,098</b>	<b>205,005</b>	<b>1</b>	<b>103,570</b>	<b>17,603</b>	<b>1,336,914</b>	<b>37,404</b>
<b>Accumulated Depreciation</b>									
At 1 April 2017	(6,887)	(6,169)	(30,616)	(75,973)	0	0	0	(119,645)	(800)
Reversal of accumulated depreciation on revaluation	6,887	1,100	0	0	0	0	0	7,987	0
Depreciation charges for 2017-18	(7,433)	(8,378)	(5,099)	(9,650)	0	0	(8)	(30,568)	(471)
Derecognition - Depreciation on Disposal	435	938	0	0	0	0	0	1,373	0
Derecognition - Other*	0	0	8,298	4,126	0	0	0	12,424	0
Reclassification of assets	0	205	0	0	0	0	(205)	0	0
<b>At 31 March 2018</b>	<b>(6,998)</b>	<b>(12,304)</b>	<b>(27,417)</b>	<b>(81,497)</b>	<b>0</b>	<b>0</b>	<b>(213)</b>	<b>(128,429)</b>	<b>(1,271)</b>
<b>Net Book Value</b>									
<b>At 31 March 2018</b>	<b>436,087</b>	<b>514,248</b>	<b>13,681</b>	<b>123,508</b>	<b>1</b>	<b>103,570</b>	<b>17,390</b>	<b>1,208,485</b>	<b>36,133</b>
<b>At 31 March 2017</b>	<b>440,423</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>1,131,132</b>	<b>34,554</b>

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

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	59,963	9,825	0	0	0	0	4,630	74,418	(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>447,310</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>1,250,777</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>440,423</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>1,131,132</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.

### 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 £9.1m (£28.4m as at 31st March 2017). This expenditure will be incurred in 2018-19 and future years. The major capital commitments are as follows:

- Affordable Housing Schemes - Construction on Harrow infill sites £2.3m (£4.9m as at 31<sup>st</sup> March 2017);
- Schools Expansion Scheme Phase Three has now been completed and there are no commitments outstanding (£8.2m as at 31st March 2017);
- Regeneration Schemes – other major regeneration schemes at design stage £2.6m (nil as at 31<sup>st</sup> March 2017) ;
- Regeneration scheme – Gayton Road development £1.0m (£9.9m as at 31<sup>st</sup> March 2017).

### 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. Valuations were carried out internally at 1<sup>st</sup> April 2017 with the exception of surplus and investment properties which were valued at 31<sup>st</sup> March 2018. Some investment properties were valued externally by Crossthwaites, Fleurets, CBRE or Gerald Eve. 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 1<sup>st</sup> April 2017. The Land Registry Index is used to calculate the movement in property values between 1<sup>st</sup> April 2017 and 31<sup>st</sup> March 2018. 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	13,681	123,508	103,570	0	240,759	0
Valued at fair value:								
As at 31st March 2018	436,087	402,471	0	0	0	17,390	855,948	27,448
As at 31st March 2017	0	45,927	0	0	0	0	45,927	0
As at 31st March 2016	0	17,470	0	0	0	0	17,470	0
As at 31st March 2015	0	8,719	0	0	0	0	8,719	0
As at 31st March 2014	0	39,661	0	0	0	0	39,661	0
Total Cost or Valuation as at 31st March 2017	<b>436,087</b>	<b>514,248</b>	<b>13,681</b>	<b>123,508</b>	<b>103,570</b>	<b>17,390</b>	<b>1,208,484</b>	<b>27,448</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 19<sup>th</sup> 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.

**5.12 Investment Properties**

2016-17 £000		2017-18 £000
16,137	Balance at start of the year	21,763
241	Reclassification of investment properties	223
<u>16,378</u>	Restated balance at 1 April	<u>21,986</u>
5,442	Additions	5,176
(1,680)	Disposals	(218)
1,623	Net gains from fair value adjustments	504
<u>21,763</u>	Balance at end of the year	<u>27,448</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-18 £000	31-Mar-17 £000	31-Mar-18 £000	31-Mar-17 £000
<b>Investments</b>				
Loans and receivables	0	0	7,750	27,830
Cash and cash equivalents	0	0	9,153	37,440
<b>Total investments</b>	<u>0</u>	<u>0</u>	<u>16,903</u>	<u>65,270</u>
<b>Debtors</b>				
Loans and receivables	16,903	16,843	0	0
Financial assets carried at contract amounts	0	0	25,367	22,363
<b>Total Debtors</b>	<u>16,903</u>	<u>16,843</u>	<u>25,367</u>	<u>22,363</u>
<b>Borrowings</b>				
Financial liabilities at amortised cost	(314,416)	(324,403)	(18,211)	(16,146)
<b>Total borrowings</b>	<u>(314,416)</u>	<u>(324,403)</u>	<u>(18,211)</u>	<u>(16,146)</u>
<b>Other Liabilities</b>				
PFI and finance lease liabilities	(15,501)	(16,175)	(674)	(858)
<b>Total other liabilities</b>	<u>(15,501)</u>	<u>(16,175)</u>	<u>(674)</u>	<u>(858)</u>
<b>Creditors</b>				
Financial liabilities carried at contract amount	0	0	(56,131)	(49,115)
<b>Total creditors</b>	<u>0</u>	<u>0</u>	<u>(56,131)</u>	<u>(49,115)</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 £18.4m (£8.4m in 2016- 17). The creditors balance excludes £26.7m (£30.9m in 2016-17). The cash and cash equivalents and current (short term) borrowings figures differ from the balance sheet because the £4m 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
2016-17	2016-17	2016-17		2017-18	2017-18	2017-18
£000	£000	£000		£000	£000	£000
15,876	0	15,876	Interest Expenses	15,318	0	15,318
0	1,051	1,051	Impairment Losses	0	1,086	1,086
15,876	1,051	16,927	<b>Interest payable and similar charges</b>	15,318	1,086	16,404
0	(1,555)	(1,555)	Interest income	0	(1,384)	(1,384)
0	(1,555)	(1,555)	<b>Interest and investment income</b>	0	(1,384)	(1,384)
15,876	(504)	15,372	<b>Net gain/(loss) for the year</b>	15,318	(298)	15,020

## 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
2016-17	2016-17		2017-18	2017-18
£000	£000		£000	£000
27,830	27,916	Investments	7,750	7,750
16,843	34,927	Loans and receivables	16,903	33,115
37,441	37,441	Cash and Cash Equivalents	9,153	9,153
(340,549)	(561,419)	Borrowing	(332,628)	(549,087)

### 5.14 Long term debtors

31-Mar-17		31-Mar-18
£000		£000
16,401	West London Waste Authority	16,391
21,271	Deferred proceeds on sale of assets	22,191
442	Other Loans	512
<b>38,114</b>	<b>Total</b>	<b>39,094</b>



**5.15 Short term debtors**

31-Mar-17		31-Mar-18
£000		£000
3,831	Central government bodies	13,317
11,113	Other local authorities	12,512
1,334	NHS bodies	765
14,450	Other entities and individuals	17,189
<u>30,728</u>	<b>Total</b>	<u>43,783</u>

**5.16 Short term creditors**

31-Mar-17		31-Mar-18
£000		£000
(15,993)	Central government bodies	(17,540)
(7,343)	Other local authorities	(10,618)
(2,776)	NHS bodies	(2,432)
(53,938)	Other entities and individuals	(52,246)
<u>(80,050)</u>	<b>Total</b>	<u>(82,836)</u>

**5.17 Provisions**

	Insurance £000	Business Rate Appeals £000	Other Provisions £000	Total £000
<b>Short Term</b>				
<b>Balance at 1 April 2017</b>	(1,335)	(1,860)	(1,079)	(4,274)
Additional provisions made	(1,132)	(1,616)	(1,536)	(4,284)
Transferred from Long Term	287	0	0	287
Amounts used	959	2,336	700	3,995
Unused amounts reversed	0	0	119	119
<b>Balance at 31 March 2018</b>	<u>(1,221)</u>	<u>(1,140)</u>	<u>(1,796)</u>	<u>(4,157)</u>
<b>Long Term</b>				
<b>Balance at 1 April 2017</b>	(5,837)	0	0	(5,837)
Transferred to Short Term	(287)	0	0	(287)
<b>Balance at 31 March 2018</b>	<u>(6,124)</u>	<u>0</u>	<u>0</u>	<u>(6,124)</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 (Incurred but not reported) amounts are calculated by the Council's actuary. The provision includes £1.46m 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-17 £000		31-Mar-18 £000
(16,049)	PFI Lease Liability ( Note 5.36)	(15,501)
(125)	Finance Lease Liability	0
(369,458)	IAS19 Pension Liability ( Note 5.38.5)	(355,291)
<u>(385,632)</u>	<b>Total</b>	<u>(370,792)</u>

**5.19 Usable reserves**

31-Mar-17 £000		Note	31-Mar-18 £000
(10,008)	General Fund	4.3	(10,008)
(40,147)	Earmarked Reserves	5.6	(43,312)
(6,894)	Housing Revenue Account	6.1	(7,474)
(4,828)	Major Repairs Reserve	6.2.4	(4,242)
(22,649)	Capital Receipts Reserve	5.19.1	(18,619)
(19,568)	Capital Grants and Contributions Unapplied	5.19.2	(27,538)
<u>(104,094)</u>	<b>Total Usable Reserves</b>		<u>(111,193)</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 2016-17 £000	HRA 2016-17 £000	Total 2016-17 £000		General Fund 2017-18 £000	HRA 2017-18 £000	Total 2017-18 £000
(7,795)	(12,358)	(20,153)	Balance unapplied at 1 April	(6,655)	(15,994)	(22,649)
(6,860)	(2,140)	(9,000)	Receipts in year - Others	(146)	(1,138)	(1,284)
0	(5,800)	(5,800)	Receipts in year - Right to Buy	0	(5,945)	(5,945)
23	10	33	Disposal Costs	32	91	123
0	1,281	1,281	Pooling payment to the DCLG	0	1,261	1,261
2,377	0	2,377	Use of capital receipts to fund revenue expenditure	1,738	0	1,738
5,600	1,878	7,478	Applied during the year - others	0	0	0
0	1,135	1,135	Applied during the year - Right to Buy	0	8,137	8,137
<u>(6,655)</u>	<u>(15,994)</u>	<u>(22,649)</u>	<b>Balance unapplied at 31 March</b>	<u>(5,031)</u>	<u>(13,588)</u>	<u>(18,619)</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
2016-17	2016-17	2016-17		2017-18	2017-18	2017-18
£000	£000	£000		£000	£000	£000
(7,245)	(2,712)	(9,957)	Balance unapplied at 1 April	(16,920)	(2,648)	(19,568)
(10,245)	(145)	(10,390)	Receipts in year	(16,178)	(561)	(16,739)
570	209	779	Applied during the year	8,369	400	8,769
<b>(16,920)</b>	<b>(2,648)</b>	<b>(19,568)</b>	<b>Balance unapplied at 31 March</b>	<b>(24,729)</b>	<b>(2,809)</b>	<b>(27,538)</b>

### 5.20 Unusable reserves

31-Mar-17		Notes	31-Mar-18
£000			£000
(146,553)	Revaluation Reserve	5.20.1	(165,771)
(570,997)	Capital Adjustment Account	5.20.2	(594,007)
6,783	Financial Instruments Adjustment Account	5.20.3	6,405
369,458	Pensions Reserve	5.20.4	355,291
(5,896)	Collection Fund Adjustment Account	5.20.5	(6,815)
5,444	Accumulating Compensated Absences Adjustment Account	5.20.6	4,710
(21,286)	Deferred Capital Receipts Reserve	5.20.7	(22,203)
<b>(363,047)</b>	<b>Total Unusable Reserves</b>		<b>(422,390)</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<sup>st</sup> 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.

General Fund	HRA	Total		General Fund	HRA	Total
2016-17	2016-17	2016-17		2017-18	2017-18	2017-18
£000	£000	£000		£000	£000	£000
(70,955)	(4,208)	(75,163)	<b>Balance at 1 April</b>	(80,819)	(65,735)	(146,554)
(30,817)	(64,522)	(95,339)	Upward revaluation of assets	(38,854)	(3,824)	(42,678)
6,983	88	7,071	Downward revaluation of assets not charged to the (Surplus)/Deficit on the Provision of Services:	3,552	572	4,124
11,449	2,403	13,852	Downward revaluation charged to the revaluation reserve	16,564	0	16,564
(83,340)	(66,239)	(149,579)	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	(99,557)	(68,987)	(168,544)
1,074	58	1,132	Difference between fair value depreciation and historical cost depreciation	1,220	220	1,440
1,447	446	1,893	Accumulated gains on assets sold or scrapped	1,331	2	1,333
2,521	504	3,025	Amount written off to the Capital Adjustment Account	2,551	222	2,773
<b>(80,819)</b>	<b>(65,735)</b>	<b>(146,554)</b>	<b>Balance at 31 March</b>	<b>(97,006)</b>	<b>(68,765)</b>	<b>(165,771)</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<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

2016-17				2017-18		
General Fund	HRA	Total		General Fund	HRA	Total
£000	£000	£000		£000	£000	£000
(308,023)	(260,647)	(568,670)	<b>Balance at 1 April</b>	(307,531)	(263,467)	(570,998)
			Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
21,842	7,559	29,401	Asset Depreciation	22,494	7,679	30,173
520	12	532	Leasing Depreciation	394	2	396
10,127	(2,403)	7,724	Asset Impairment/ (Reversal of Impairment)	5,983	230	6,213
32,888	2,830	35,718	Non Current assets w ritten out on Disposal	7,338	3,515	10,853
2,647	0	2,647	Revenue expenditure funded from capital under statute	3,524	554	4,078
(19,459)	0	(19,459)	Donated Assets	(18,349)	0	(18,349)
(1,447)	(446)	(1,893)	Revaluation reserve on disposal to the CI&E Statement	(1,331)	(2)	(1,333)
47,118	7,552	54,670		20,053	11,978	32,031
(1,074)	(58)	(1,132)	Depreciation w ritten out of the Revaluation reserve	(1,220)	(220)	(1,440)
46,044	7,494	53,538	Net w ritten out amount of the cost of non current assets consumed in the year	18,833	11,758	30,591
(5,600)	(3,013)	(8,613)	Capital financing applied in the year:			
0	(7,287)	(7,287)	Use of the Capital Receipts Reserve	0	(8,137)	(8,137)
(21,833)	0	(21,833)	Use of the Major Repairs Reserve	0	(8,265)	(8,265)
(779)	0	(779)	Capital grants contributions credited to the CI&E Statement	(4,796)	(400)	(5,196)
(15,487)	(14)	(15,501)	Application of grants from the Capital Grants Unapplied Account	(8,769)	0	(8,769)
(254)	0	(254)	Minimum Revenue Provision	(17,440)	(2)	(17,442)
2,091	(2,820)	(729)	Revenue Contribution to Capital Outlay	(5,287)	0	(5,287)
(1,598)	0	(1,598)	Movements in the market value of Investment Properties debited/credited to the CI&E Statement	(17,459)	(5,046)	(22,505)
(307,531)	(263,467)	(570,998)	<b>Balance at 31 March</b>	(325,494)	(268,513)	(594,007)

### 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.

2016-17 £000		2017-18 £000
6,034	<b>Balance at 1 April</b>	6,783
	Premiums and Discounts incurred in previous financial years to be charged against the Balance in accordance with statutory requirements	
558	General Fund	(397)
191	HRA	19
<u>6,783</u>	<b>Balance at 31 March</b>	<u>6,405</u>

### 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.

2016-17 £000		2017-18 £000
338,985	<b>Balance at 1 April</b>	369,458
17,118	Remeasurement of the net defined benefit liability	(36,394)
	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	Employer's pensions contributions and direct payments to pensioners payable in the year	43,974
(20,701)		(21,747)
<u>369,458</u>	<b>Balance at 31 March</b>	<u>355,291</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.

2016-17 £000		2017-18 £000
(5,606)	<b>Balance at 1 April</b>	(5,896)
	Amount by which council tax and NNDR income credited to CIES is different from income calculated for the year in accordance with Statute	
(290)		(919)
<u>(5,896)</u>	<b>Balance at 31 March</b>	<u>(6,815)</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.

2016-17 £000		2017-18 £000
3,589	<b>Balance at 1 April</b>	5,444
(3,589)	Settlement or cancellation of accrual made at the end of the preceding year	(5,444)
5,444	Amounts accrued at the end of the current year	4,710
<u>5,444</u>	<b>Balance at 31 March</b>	<u>4,710</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
2016-17	2016-17	2016-17		2017-18	2017-18	2017-18
£000	£000	£000		£000	£000	£000
0	(18)	(18)	Balance deferred at 1 April	(21,271)	(15)	(21,286)
(21,271)	0	(21,271)	Regeneration Projects sale proceeds	(921)	0	(921)
0	3	3	Transfer to Capital Receipts Reserve on receipt of proceeds	0	4	4
<u>(21,271)</u>	<u>(15)</u>	<u>(21,286)</u>	<b>Balance deferred at 31 March</b>	<u>(22,192)</u>	<u>(11)</u>	<u>(22,203)</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' is the fair value of the assets the Council will receive, adjusted to account for the time value of money.

**5.21 Cash flow statement – operating activities**

2016-17 £000		2017-18 £000
	<b>The cash flows for operating activities include the following items:</b>	
15,929	Interest payable & similar charges	15,317
(1,555)	Interest and Investment income	(1,384)
(2,775)	Other investment income	(3,311)
	<b>The surplus or deficit on the provision of services has been adjusted for the following noncash movements:</b>	
13,355	Adjustment for pension funding	22,227
742	Increase/Decrease(-) in Provision	1,548
37,657	Impairment and Depreciation	36,782
1,855	Accumulated Absence	(734)
35,718	Carrying amount of non-current assets disposed	10,857
(19,459)	Carrying amount of donated assets	(18,349)
0	Unwinding of discount	(921)
543	Other non cash items charged to CIES	(134)
(1,598)	Movement in the value of investment properties	(504)
	<b>Items on an accrual basis</b>	
82	(Increase)/Decrease in Debtors	(14,435)
1,901	Increase/(Decrease) in Creditors	1,777
70,796	<b>Adjustments for non cash movements</b>	38,114
(35,971)	Proceeds from the sale of non-current assets	(7,229)
(32,220)	Capital grants credited to surplus or deficit on the provision of services	(21,935)
(68,191)	<b>Adjustments for investment and financing activities</b>	(29,164)

**5.22 Cash flow statement – investing activities**

2016-17 £000		2017-18 £000
(74,746)	Purchase of property, plant and equipment and investment property	(84,700)
(5,401)	Purchase of short-term and long-term investments	(5,176)
31,803	Capital grants received in year	24,006
14,701	Proceeds from the sale of property, plant and equipment and investment property	7,229
17,373	Proceeds from short-term and long-term investments	19,997
(4,300)	Other long term loans granted	(69)
(20,570)	<b>Net cash flows from Investing Activities</b>	(38,713)

**5.23 Cash flow statement – financing activities**

2016-17 £000		2017-18 £000
(1,006)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(869)
(730)	Repayments of short- and long-term borrowing	(9,383)
6,210	Billing authority collection fund adjustments	1,984
4,474	<b>Net cash flows from financing activities</b>	(8,268)

**5.24 Cash and cash equivalents**

31-Mar-17		31-Mar-18
£000		£000
55	Cash held by the Authority	63
(2,325)	Bank current accounts	(4,013)
37,385	Short-term deposits with Banks and Building Societies	9,090
<u>35,115</u>	<b>Total Cash and Cash Equivalents</b>	<u>5,140</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.

2016-17		2017-18
£000	Expenditure/Income	Notes
£000	Expenditure	£000
205,492	Employee benefits expenditure	208,022
147,946	Housing benefits	149,619
200,781	Other service expenses	198,577
21,376	Support service recharges (excl. employee costs) *	26,385
36,938	Depreciation and impairment *	37,686
37,264	Other expenditure	5.7 - 5.8 38,723
<u>649,797</u>	<b>Total expenditure</b>	<u>659,012</u>
	<b>Income</b>	
(121,986)	Fees, charges and other service income	(128,782)
(315,721)	Revenue grants included within cost of services	5.32.1 (316,312)
(230,983)	Other income	5.7 - 5.9 (221,973)
<u>(668,690)</u>	<b>Total income</b>	<u>(667,067)</u>
<u>(18,893)</u>	<b>Surplus on Provision of Services</b>	<u>(8,055)</u>

\* The comparative figures for Support service recharges and Depreciation and impairment have been increased/decreased respectively by £4.1m to correct an error in last year's calculation.

**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.

2016-17		2017-18
£000		£000
(9,479)	Penalty Charge Notices	(8,425)
(1,139)	On street meters	(1,169)
(470)	Residents Permits	(517)
<u>(11,088)</u>	Total income	<u>(10,111)</u>
2,261	Enforcement contract/costs	2,309
1,269	Other expenditure	1,242
<u>3,530</u>	Total expenditure	<u>3,551</u>
<u>(7,558)</u>	Total (surplus) for the year ending 31 March 2016	<u>(6,560)</u>
	<u>Utilisation of Surplus</u>	
7,558	Concessionary fares	6,560
<u>7,558</u>		<u>6,560</u>



## 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.

2016-17 £000		2017-18 £000
	Funding provided to the pooled budget	
(11,373)	· Harrow Public Health Grant	(11,093)
<u>(11,377)</u>	· Barnet Public Health Grant	<u>(10,594)</u>
<u>(22,750)</u>		<u>(21,687)</u>
	Expenditure met from the pooled budget:	
10,903	· Harrow public health expenditure	10,237
<u>10,148</u>	· Barnet public health expenditure	<u>9,032</u>
<u>21,051</u>		<u>19,269</u>
	(Surplus)/deficit for the year	
(470)	· Harrow Council	(856)
<u>(1,229)</u>	· Barnet Council	<u>(1,562)</u>
<u>(1,699)</u>		<u>(2,418)</u>

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:

2016-17 £000		2017-18 £000
	Funding provided to the pooled budget	
(7,739)	· Harrow Contribution	(11,158)
<u>(8,519)</u>	· NHS Harrow CCG Contribution	<u>(9,877)</u>
<u>(16,258)</u>		<u>(21,035)</u>
	Revenue Expenditure met from the pooled budget:	
6,558	· Harrow Council	9,734
<u>8,519</u>	· NHS Harrow CCG	<u>9,877</u>
<u>15,077</u>		<u>19,611</u>
	Capital Expenditure met from the pooled budget:	
1,181	· Harrow Council - Disabled Facilities	1,424
<u>1,181</u>		<u>1,424</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.

2016-17 £000		2017-18 £000
850	Allowances	845
<u>850</u>	Total	<u>845</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	
	2017-18	2017-18	2016-17	2016-17	2017-18	2017-18	2016-17	2016-17
£50,000 - £54,999	60	1	38	3	59	1	54	1
£55,000 - £59,999	37	0	34	0	28	2	35	0
£60,000 - £64,999	19	2	19	1	22	0	9	0
£65,000 - £69,999	11	0	12	0	4	0	11	0
£70,000 - £74,999	16	2	14	1	11	2	6	0
£75,000 - £79,999	5	1	0	0	7	0	9	0
£80,000 - £84,999	2	0	3	0	6	0	9	0
£85,000 - £89,999	3	0	5	2	5	0	4	0
£90,000 - £94,999	4	0	4	1	2	0	3	0
£95,000 - £99,999	2	0	3	0	1	0	3	0
£100,000 - £104,999	2	0	1	1	3	0	2	0
£105,000 - £109,999	1	0	2	0	0	0	0	0
£110,000 - £114,999	1	0	1	0	0	0	0	0
	<b>163</b>	<b>6</b>	136	9	<b>148</b>	<b>5</b>	145	1

**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	Notes	Salary,(including Fees and Allowances)		Employers Pension Contribution		Total Remuneration including employers pension contributions	
		£	£	£	£	£	£
		2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Michael Lockwood (Chief Executive)	1	154,044	169,677	0	0	154,044	169,677
		<b>154,044</b>	<b>169,677</b>	<b>0</b>	<b>0</b>	<b>154,044</b>	<b>169,677</b>

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

Position Held	Notes	Salary,(including Fees and Allowances)		Employers Pension Contribution		Total Remuneration including employers pension contributions	
		£	£	£	£	£	£
		2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Corporate Director - People	2	138,640	139,635	0	0	138,640	139,635
Acting Corporate Director - People	3	120,380	0	27,196	0	147,576	0
Acting Chief Executive	4	143,341	139,635	32,968	30,329	176,309	169,964
Corporate Director - Community	5	94,349	133,585	8,635	29,015	102,984	162,600
Divisional Director - Regeneration and Planning		108,954	104,503	25,059	22,698	134,013	127,201
Director of Legal and Governance	6	148,039	151,115	32,876	31,725	180,915	182,840
Director of Finance		109,579	104,760	25,203	22,754	134,782	127,514
Director of Public Health	7	145,289	150,825	20,892	21,568	166,181	172,393
Director of Adult Social Care	8	68,640	117,250	15,787	25,467	84,427	142,717
Acting Director of Adult Social Care	9	117,291	0	26,977	0	144,268	0
Divisional Director - Strategic Commissioning	10	97,486	0	22,422	0	119,908	0
Director of Customer Services & IT	11	71,334	0	16,407	0	87,741	0
		<b>1,363,322</b>	<b>1,041,308</b>	<b>254,422</b>	<b>183,556</b>	<b>1,617,744</b>	<b>1,224,864</b>

- Note 1 Michael Lockwood left the Council on 14<sup>th</sup> January 2018. He was not a member of the pension scheme.
- Note 2 The Corporate Director left the Council on 4<sup>th</sup> March 2018. The Corporate Director was not a member of the pension scheme.
- Note 3 The Acting Corporate Director is an existing employee acting from 12<sup>th</sup> March 2018. The salary disclosed is for the entire year and includes an additional £6,944 for acting up in the new role.
- Note 4 The Corporate Director - Resources and Commercial was appointed Acting Chief Executive from 6<sup>th</sup> January 2018. Of the 2017-18 salary disclosed, £35,670 relates to the role of Acting Chief Executive and the balance to the role of Corporate Director - Resources and Commercial.
- Note 5 The previous Corporate Director left the Council on 9<sup>th</sup> July 2017. The new Corporate Director commenced 6<sup>th</sup> November 2017. The salary disclosed is the addition of the salary of both the previous (£37,544) and new (£56,805) Corporate Director. The new Corporate Director is not a member of the pension scheme.
- Note 6 The Director's salary includes a payment of £9,956 for undertaking duties as the Council's Returning Officer.
- Note 7 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 2016-17 salary includes a payment of £11,337 for a Clinical Excellence Award. The Director left the Council on 31<sup>st</sup> March 2018.
- Note 8 The Director of Adult Social Services left the Council on 16<sup>th</sup> October 2017.
- Note 9 The Acting Director of Adult Social Care is an existing employee acting from 1st November 2017. The salary disclosed is for the entire year and includes an additional £8,575 for acting up in the new role.
- Note 10 The Divisional Director reports directly to the Acting Chief Executive from 6<sup>th</sup> January 2018. The salary disclosed is for the entire year.
- Note 11 The Director reports directly to the Acting Chief Executive from 6<sup>th</sup> January 2018. The Director works part time. The salary disclosed is for the entire year.

### 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:

2016-17 £000		2017-18 £000
	Fees payable to external auditors in respect of:	
151	External audit services carried out by the appointed auditor for the year	151
27	Certification of grant claims and returns for the year	35
8	Other Audit Services	0
<u>186</u>	Total	<u>186</u>

### 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 2017-18 are as follows:

	Central Expenditure £000	Individual Schools Expenditure £000	Total £000
Final DSG allocation 2017-18			<b>201,907</b>
Less: Academy recoupment			<b>-66,534</b>
Final DSG after recoupment 2017-18			<b>135,373</b>
Plus: Brought forward from 2016-17			<b>3,169</b>
Less: Carry forward to 2018-19 agreed in advance			<b>-1,251</b>
Agreed budgeted distribution in 2017-18	50,378	86,913	<b>137,291</b>
In-year adjustments	28	0	<b>28</b>
Final budget distribution for 2017-18	50,406	86,913	<b>137,319</b>
Less: Actual central expenditure	48,709		<b>48,709</b>
Less: Actual ISB deployed to schools		86,892	<b>86,892</b>
<b>Carry forward to 2018-19</b>	<b>1,697</b>	<b>21</b>	<b>1,718</b>
Total surplus carry forward to 2018-19			<b>(2,969)</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:

2016-17 £000 Grant	Awarding Body	2017-18 £000
(133,381)	Department for Education	(134,881)
(5,122)	Department for Education	(4,784)
(3,034)	Department for Education	(3,187)
(1,543)	Education Funding Agency	(1,543)
(1,201)	Ministry of Housing, Communities and Local Gov.	(1,201)
(11,373)	Department of Health	(11,093)
(122,697)	Department of Work and Pensions	(121,622)
(26,134)	Department of Work and Pensions	(24,675)
(982)	Department of Work and Pensions	(907)
(769)	Department of Work and Pensions	(892)
(817)	Home Office - UK Border Agency	(1,434)
(2,064)	Young People's Learning Agency	(1,725)
0	Ministry of Housing, Communities and Local Gov.	(3,628)
(6,604)	Various	(4,740)
<b>(315,721)</b>		<b>(316,312)</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:

2016-17 £000	Grant	Awarding Body	2017-18 £000
(24,047)	LA Capital Maintenance and Basic Need Grant	Department for Education	(12,683)
(650)	Disabled Facilities Grant	Ministry of Housing, Communities and Local Gov.	(1,956)
(1,120)	Heritage Lottery Fund	Heritage Lottery Fund	(3,060)
(2,471)	Local Implementation Plan	Transport for London	(2,187)
(1,175)	Section 106 income		(255)
(145)	Section 20 Income		(561)
(2,612)	Other		(1,232)
<u>(32,220)</u>	<b>Total Capital Grants included in Comprehensive Income and Expenditure Account</b>		<u>(21,934)</u>

### 5.32.3 Capital grants receipts in advance

2016-17 £000	Grant - Capital	Awarding Body	2017-18 £000
0	Borough Intervention Agreement	Greater London Authority	(3,750)
(1,059)	Section 106 Capital Receipts		(820)
(2,464)	Other Capital Grants		(1,024)
<u>(3,523)</u>			<u>(5,594)</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 2017-18, the Council made the following payments for grants and services to these charities:

Organisation	Amount £000
Age UK Harrow	56
Relate London North West	6

### 5.33.2 London Borough of Harrow Pension Fund

The Council is the Administering Authority for the Pension Fund.

2016-17 £000		2017-18 £000
20,481	Employers Pension Contributions to the Fund	21,371
(826)	Administration expenses paid by the Fund	(846)
1,062	Cash Due to the Fund	1,693

### 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.

2016-17 £000		2017-18 £000
417,741	Opening Capital Financing Requirement	453,189
	<i>Capital Investment</i>	
78,817	Property, Plant and Equipment	84,651
5,400	Investment Property	5,176
2,848	Loan to WLWA	225
2,647	Revenue Expenditure Funded from Capital under Statute	4,078
	<i>Sources of finance</i>	
(8,613)	Capital receipts	(8,137)
(22,609)	Government grants and other contributions	(13,965)
	Sums set aside from revenue:	
(254)	· Direct revenue contributions	(5,287)
(15,501)	· Minimum Revenue Provision	(17,442)
(7,287)	· Major Repairs Reserve	(8,265)
<b>453,189</b>	<i>Closing Capital Financing Requirement</i>	<b>494,223</b>
	<i>Explanation of movements in year</i>	
50,949	Increase in unsupported borrowing	58,476
(15,501)	Minimum Revenue provision	(17,442)
<b>35,448</b>	<i>Increase in Capital Financing Requirement</i>	<b>41,034</b>

## 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 £113k (£509k in 2016-17).

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 £125k (£531k in 2016-17).

#### 5.35.1.2 Operating Leases

The Council enters into operating leases, principally in respect of properties. Properties leased include Premier House, Wealdstone, with the local Primary Care Trust, as well as some libraries and car parks. In addition, the Council leases residential properties from the private sector (PSLs) for homelessness needs. Contract end dates vary, with some of the properties being long leases in excess of twenty years. PSLs are generally between 2 to 5 years in length.

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-17		31-Mar-18
£000		£000
2,990	Not later than one year	5,138
2,991	Later than one year and not later than five years	3,449
2,480	Later than five years	2,293
<u>8,461</u>		<u>10,880</u>
<u>5,741</u>	Min. lease payments charged to revenue in 17-18	<u>7,063</u>

Previous year comparatives have been amended to include PSLs.

### 5.35.2 The Council as Lessor

#### 5.35.2.1 Finance Leases

The Council has granted 125 year peppercorn leases in respect of 11 maintained schools which transferred to Academy status prior to 2017-18 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 £7.2m has been recognised in the CIES in respect of the additional transfer of Earlsmead Primary School in 2017-18.

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 £2.1m in 2017-18 (£1.5m in 2016-17).

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

31-Mar-17		31-Mar-18
£000	<b>Land and Buildings</b>	£000
1,687	Not later than one year	<b>2,407</b>
5,599	Later than one year and not later than five years	<b>8,195</b>
16,648	Later than five years	<b>18,081</b>
<u>23,934</u>		<u><b>28,683</b></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. 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.

Outstanding PFI lease liabilities are as follows:

<b>Special schools</b>		
2016-17		2017-18
£000		£000
(11,383)	Balance outstanding at start of year	<b>(11,082)</b>
1,346	Lease repayments during the year	<b>1,322</b>
(1,045)	Finance charge	<b>(1,017)</b>
<u>(11,082)</u>	Balance outstanding at year end	<u><b>(10,777)</b></u>
<b>NRCs</b>		
2016-17		2017-18
£000		£000
(5,576)	Balance outstanding at start of year	<b>(5,420)</b>
619	Lease repayments during the year	<b>597</b>
(463)	Finance charge	<b>(449)</b>
<u>(5,420)</u>	Balance outstanding at year end	<u><b>(5,272)</b></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 2018-19	1,262	990	371	81	2,704
Payable within 2 to 5 years	5,269	3,589	1,908	420	11,186
Payable within 6 to 10 years	8,767	3,486	2,698	(60)	14,891
Payable within 11 to 15 years	8,337	1,853	5,011	826	16,027
Payable within 16 years	897	72	789	198	1,956
<b>Total</b>	<b>24,532</b>	<b>9,990</b>	<b>10,777</b>	<b>1,465</b>	<b>46,764</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.

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 2018-19	254	438	177	181	1,050
Payable within 2 to 5 years	1,053	1,588	891	934	4,466
Payable within 6 to 10 years	1,711	1,509	1,441	1,581	6,242
Payable within 11 to 15 years	1,793	825	2,198	2,247	7,063
Payable within 16 + years	729	48	565	537	1,879
<b>Total</b>	<b>5,540</b>	<b>4,408</b>	<b>5,272</b>	<b>5,480</b>	<b>20,700</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	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18 £000	2016-17 £000
£0 - £20,000	36	28	33	27	69	55	630	465
£20,001 - £40,000	6	12	8	1	14	13	417	371
£40,001 - £60,000	0	4	1	1	1	5	46	240
£60,001 - £80,000	4	0	1	0	5	0	353	0
£80,001 - £100,000	2	0	0	0	2	0	181	0
£120,001 - £140,000	1	1	0	0	1	1	135	211
<b>Total</b>	<b>49</b>	<b>45</b>	<b>43</b>	<b>29</b>	<b>92</b>	<b>74</b>	<b>1762</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

2016-17 £000		2017-18 £000
1,040	Exit payments not provided for in 2017-18	1,597
247	Employment provision (within note 5.17)	165
<u>1,287</u>	<b>Included in cost of services</b>	<u>1,762</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 £227m have been recognised in the Movement in Reserves Statement up to and including 2017-18 (£263m in 2016-17).

Expected employer contributions for 2018-19 are £19m, excluding any contributions in respect of unfunded benefits.

2016-17 £000		2017-18 £000
	Cost of Services:	
21,828	• current service cost	34,076
346	• past service costs	461
0	• settlements and curtailments	55
	Financing and Investment Income and Expenditure	
32,503	• interest cost	27,597
(20,621)	• interest income on scheme assets	(18,215)
<u>34,056</u>	Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	<u>43,974</u>
	Other Post Employment Benefit Charged to the CIES	
	Remeasurements in net liability due to	
(9,770)	• changes in demographic assumptions	0
173,703	• changes in financial assumptions	(19,263)
(127,120)	• return on plan assets	(16,925)
(19,695)	• changes in other experience	(206)
<u>17,118</u>		<u>(36,394)</u>
<u>51,174</u>	Total Post Employment Benefit Charged to the CIES	<u>7,580</u>
<u>20,701</u>	Actual amount charged to the General Fund balance in the year	<u>21,747</u>

**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.

2016-17 £000		2017-18 £000
933,174	Opening balance at 1 April	1,102,110
21,828	Current service cost	34,076
32,503	Interest cost	27,597
5,441	Contributions by scheme participants	5,433
	Remeasurement (gains)/losses arising from changes in:	
(9,770)	Demographic Assumptions	0
173,703	Financial Assumptions	(19,263)
(19,695)	Other Experience	(206)
(35,420)	Benefits paid	(34,116)
0	Effect of settlements	119
346	Past service costs	461
1,102,110	Closing balance at 31 March	<b>1,116,211</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 £35m (2016-17: £148m).

2016-17 £000		2017-18 £000
594,189	Opening balance at 1 April	732,652
20,621	Interest income on plan assets	18,215
127,120	Remeasurement gain/(loss)	16,925
0	Effect of settlements	64
20,701	Employer contributions	21,747
5,441	Contributions by scheme participants	5,433
(35,420)	Benefits paid	(34,116)
732,652	Closing balance at 31 March	<b>760,920</b>

**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.

	2017-18 £000	2016-17 £000	2015-16 £000	2014-15 £000	2013-14 £000
Present value of liabilities	(1,116,211)	(1,102,110)	(933,174)	(1,002,812)	(866,059)
Fair value of assets	760,920	732,652	594,189	601,816	527,965
Net deficit in the scheme	(355,291)	(369,458)	(338,985)	(400,996)	(338,094)

### 5.38.6 Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the Projected Unit Method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Scheme liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31<sup>st</sup> March 2016.

The principal assumptions used by the actuary have been:

2016-17		2017-18
	<b>Long-term expected rate of return on assets in the scheme:</b>	
28.9%	Equity investments	4.8%
	Mortality assumptions:	
	<b>Longevity at 65 for current pensioners:</b>	
22.2	Men	22.2
24.4	Women	24.4
	<b>Longevity at 65 for future pensioners:</b>	
24.0	Men	24.0
26.4	Women	26.4
	<b>Financial assumptions:</b>	
2.7%	Rate of increase in salaries	2.7%
2.4%	Rate of increase in pensions (CPI)	2.4%
2.5%	Rate for discounting scheme liabilities	2.6%
	<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-17		31-Mar-18
12.0%	Debt Securities - Corporate Bonds	12.0%
3.0%	Private Equity	2.0%
8.0%	Real Estate: UK Property	8.0%
	Investment Funds and Unit Trusts:	
69.0%	Equities	54.0%
7.0%	Other	22.0%
1.0%	Cash and Equivalent	2.0%
100%		<b>100%</b>

### 5.38.8 History of experience gains and losses

	2017-18	2016-17	2015-16	2014-15	2013-14
	%	%	%	%	%
Differences between the expected and actual return on assets	2.22	17.35	-3.2	10.45	6.93
Experience gains and (losses) on liabilities	-0.02	1.79	1.55	0.67	-0.72

**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	100,100
0.5% increase in rate of increase in salaries	1	11,237
0.5% increase in the rate of increase in pensions	8	87,752
1 year increase in member life expectancy	3 - 5	33,486 - 55,811

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 2017-18 the Council made £6.91m (£6.98m in 2016-17) of employer contributions to the TPA and £115k (£130k in 2016-17) to the NHSBSA. The current contribution rates are at 16.48% (16.48% in 2016-17) for teacher's pensions and 14.38% (14.30% in 2016-17) for NHS pensions.

**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 Ministry of Housing, Communities and Local Government's Investment Guidance for Local Authorities. In order to minimise the risk to Council resources the Strategy gives priority to security and liquidity, rather than yield.

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-18	Historical experience of default	Historical experience adjusted for market conditions at 31-Mar-18	Estimated maximum exposure to default and uncollectability 31-Mar-18
	£000	%	%	£000
UK Banks	11,559	0.00	0.00	0
Overseas Banks	3,531	0.00	0.00	0
UK Money Market Funds	1,748	0.00	0.00	0
Customers	9,352	5.38%	28.29%	3,690
Total	<u>26,190</u>			<u>3,690</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-17 £000		Amount at 31-Mar-18 £000
11,188	Less than three months	8,153
333	Three to six months	560
338	Six months to one year	494
104	More than one year	145
<u>11,963</u>	<b>Total Debtors</b>	<u>9,352</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-17 £000		31-Mar-18 £000
	Source of Loan:	
(218,461)	Public Works Loan Board	(218,461)
(105,800)	Market Loans	(95,800)
(142)	Other financial institutions	(155)
<u>(324,403)</u>	<b>Total</b>	<u>(314,416)</u>
	Analysis of loans by maturity:	
(10,031)	1-2 years (1.4.2019 - 31.3.2020)	(12,038)
(12,107)	2-5 years (1.4.2020 - 31.3.2024)	(5,095)
(5,004)	5-10 years (1.4.2024 - 31.3.2029)	(5,022)
(297,261)	More than 10 years (1.4.2029 onwards)	(292,261)
<u>(324,403)</u>	<b>Total</b>	<u>(314,416)</u>

The above analysis within more than ten years category includes principal of £50.8m 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.

## 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 £59m (£90m in 2016-17). With the base rate currently fixed at 0.50%, 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 £0.59m.

#### **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 2017-18 was £224k (£226k in 2016-17).

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 2017-18 was £10.2m (£10.5m in 2016-17).

## 6 Housing Revenue Account

### 6.1 Housing Revenue Account (HRA)

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

2016-17			2017-18
£000		Note	£000      £000
	<b>Expenditure</b>		
9,636	Repairs and maintenance		7,932
8,947	Supervision and management		10,329
261	Rents, rates, taxes and other charges		298
7,559	Depreciation of non current assets	6.2.3	7,679
0	Impairment of non-current assets		230
(2,403)	Reversal of past impairment losses	5.10	0
36	Debt management costs		37
137	Movement in the allowance for bad debts		87
24,173	<b>Total Expenditure</b>		26,592
	<b>Income</b>		
(28,511)	Dw elling rents (gross)	6.2.1	(28,109)
(576)	Non-dw elling rents (gross)	6.2.2	(563)
(2,431)	Charges for services and facilities		(2,322)
(953)	Contributions towards expenditure		(1,465)
(32,471)	<b>Total Income</b>		(32,459)
	<b>Net cost of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement</b>		<b>(5,867)</b>
(8,298)			
422	HRA's share of Corporate and Democratic Core		430
(7,876)	<b>Net cost of HRA Services</b>		(5,437)
	<b>HRA share of operating income &amp; expenditure included in the Whole Authority Comprehensive Income &amp; Expenditure Statement</b>		
(5,110)	(Gain) on sale of HRA Fixed Assets		(3,473)
1,229	Pooling payments in respect of Right to Buy disposals		1,261
6,393	Interest payable and similar charges		6,319
(29)	Interest & investment income		(26)
(1,235)	Capital grants & contributions receivable		(560)
(6,628)	<b>(Surplus) Deficit for the year on HRA services</b>		(1,916)

**Statement of Movement on the HRA Balance**

2016-17 £000	Note	2017-18 £000
<b>(6,737)</b>	<b>Balance on HRA at end of the previous year</b>	<b>(6,894)</b>
<b>(6,628)</b>	Surplus for the year on the HRA Income & Expenditure Statement	<b>(1,916)</b>
4,919	Adjustment between accounting basis and funding basis under regulations	<b>3,454</b>
<b>(1,709)</b>	Net increase or decrease before transfers from reserves	<b>1,538</b>
1,552	Transfer to reserves	<b>(2,118)</b>
<b>(157)</b>	<b>Increase in year on the HRA</b>	<b>(580)</b>
<b>(6,894)</b>	<b>Balance on HRA at end of the current year</b>	<b>(7,474)</b>

**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 0.54% of lettable properties were vacant (0.55% in 2016-17). The average de-pooled rents were £112.70 per week (£113.80 in 2016-17). There was an average rent reduction of 1.00% over the previous year. The average reduction, after taking into account service charges, was 0.89%.

**6.2.2 Non-dwelling Rents**

This includes garages. At the year-end 58.2% of garages were vacant (57.6% in 2016-17).

**6.2.3 Depreciation**

	Land £000	Dwellings £000	Assets under construction £000	Shops £000	Garages £000	Community Halls £000	Non operational assets £000	<b>Total 2017-18 £000</b>
Net book value as at 1 April 2017	215,783	224,640	7,048	4,389	5,560	6,685	98	<b>464,203</b>
Revaluations and additions	7,235	<b>(1,269)</b>	534	<b>(171)</b>	154	557	0	<b>7,040</b>
Value at 31 March 2018	<b>223,018</b>	<b>223,371</b>	<b>7,582</b>	<b>4,218</b>	<b>5,714</b>	<b>7,242</b>	<b>98</b>	<b>471,243</b>
Disposals	<b>(1,115)</b>	<b>(1,754)</b>	0	0	<b>(546)</b>	0	<b>(98)</b>	<b>(3,513)</b>
Gross book value as at 31 March 2018	221,903	221,617	7,582	4,218	5,168	7,242	0	<b>467,730</b>
Depreciation for year	0	<b>(7,433)</b>	0	<b>(33)</b>	<b>(138)</b>	<b>(75)</b>	0	<b>(7,679)</b>
Net book value as at 31 March 2018	<b>221,903</b>	<b>214,184</b>	<b>7,582</b>	<b>4,185</b>	<b>5,030</b>	<b>7,167</b>	<b>0</b>	<b>460,051</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 1<sup>st</sup> April 2017 would have been £1,541m (£1,498m at 1<sup>st</sup> April 2016), therefore recognising the economic cost to the Government of providing Council housing at less than open market value of £1,156m (2016-17 £1,096m).

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.

#### 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-17 £000	Transfer to Reserve £000	Capital Expenditure £000	Balance 31-Mar-18 £000
Analysis of the Movement	(4,828)	(7,679)	8,265	(4,242)

#### 6.2.5 Capital Expenditure and Funding Statement

2016-17 £000		2017-18 £000
	<b>HRA Capital Expenditure</b>	
6,705	Dwellings & garages	7,621
4,899	New build	4,256
<u>11,604</u>	<b>Total</b>	<u>11,877</u>
	<b>Financed by:</b>	
7,287	Major Repairs Reserve	8,265
3,013	Capital receipts - Right to Buy, Affordable Housing & other	1,735
1,304	Contributions & Grants	400
0	Borrowing	1,477
<u>11,604</u>	<b>Total</b>	<u>11,877</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

2016-17 Total	Housing Stock	Houses	Flats	Bungalows	2017-18 Total
103	4 or more bedrooms	106	1	0	107
1,344	3 bedrooms	1,246	91	1	1,338
1,425	2 bedrooms	538	848	27	1,413
1,964	1 bedroom	0	1,821	134	1,955
<b>4,836</b>	LBH managed stock as at 1 April	<b>1,890</b>	<b>2,761</b>	<b>162</b>	<b>4,813</b>
823	Garages				745
	<b>Summary of change in stock</b>				
4,856	Stock as at 1 April				4,836
	<b>Less</b>				
(31)	Sales				(27)
0	New builds				6
11	Acquisitions & Conversions				(2)
<b>4,836</b>	<b>Total HRA stock at 31 March</b>				<b>4,813</b>
	<b>Measures of performance &amp; information for disclosure notes to HRA</b>				
£64.43	Average weekly costs per dwelling of management and maintenance				£64.43
£0.787m	Rent arrears (current and former tenants)				£1.036m
97.28%	Rent collection rate (BVPI 66a)				97.21%
1.67%	Current tenant arrears as percentage of rent roll (whether dwellings occupied or not)				1.95%
0.55%	Rent loss through voids				0.54%
£122k	Write offs in year				£37k
£0.619m	Provision for bad debts				£0.718m

## 6.2.9 Statement of Movement on the HRA Balance

2016-17 £000		2017-18 £000
	<b>Adjustment between accounting basis and funding basis under regulations</b>	
(191)	Difference between amortisation of premiums & discounts determined in accordance with the Code and those determined in accordance with statute	(19)
	<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>	
5,110	Gain on sale of HRA fixed assets	3,473
<b>4,919</b>		<b>3,454</b>
	<b>Transfer to / (from) earmarked reserves</b>	
	<b>HRA share of contributions to/from Pensions reserve :</b>	
(890)	Net charges made for retirement benefits in accordance with IAS19	(1,430)
701	Employer's contributions payable in the year	721
	<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>	
2,403	Impairment	(230)
0	Revenue expenditure funded from capital resources under statute	(554)
1,235	Capital grants and contributions	561
14	Voluntary set aside	2
(12)	Finance Lease Depreciation	(2)
(7,559)	Depreciation transfer	(7,679)
6,595	Transfer to the Major Repairs Reserve	7,679
	<b>Transfers to/from Capital Reserves</b>	
(1,282)	Pooling payments to DCLG financed through capital reserves	(1,261)
346	Other	75
<b>1,551</b>		<b>(2,118)</b>
<b>6,470</b>		<b>1,336</b>

## 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

2016-17		Business Rates & Crossrail	2017-18 Council Tax	Total
£000		£000	£000	£000
	<b>Income</b>			
(132,991)	Income from Council Tax	0	(140,219)	(140,219)
(55,040)	Income Collectable from Business Ratepayers	(61,465)	0	(61,465)
(1,123)	Income Collectable from Business Ratepayers - BRS	(1,136)	0	(1,136)
<u>(189,154)</u>	<b>Total Income</b>	<u>(62,601)</u>	<u>(140,219)</u>	<u>(202,820)</u>
	<b>Expenditure</b>			
	<b>Apportionment of Previous year surplus</b>			
(1,008)	Central Government	856	0	856
3,676	Harrow Council	512	3,246	3,758
620	Greater London Authority	342	776	1,118
	<b>Precepts, demands and Shares</b>			
21,981	Central Government	15,890	0	15,890
118,445	Local Demand (Harrow)	14,446	112,530	126,976
32,542	Greater London Authority	18,944	23,382	42,326
	<b>Impairment of Debts/appeals</b>			
0				0
6,246	Write offs of uncollectable amounts	8,325	384	8,709
(997)	Increase in bad debt provisions	752	509	1,261
4,800	Increase / (decrease) in provision for appeals	(2,400)	0	(2,400)
254	Costs of Collection	251	0	251
<u>186,559</u>	<b>Total Expenditure</b>	<u>57,918</u>	<u>140,827</u>	<u>198,745</u>
(2,595)	Movement on Fund balance: (Surplus) / Deficit for the year	(4,683)	608	(4,075)
(7,553)	(Surplus) / Deficit brought forward	(4,852)	(5,296)	(10,148)
<u>(10,148)</u>	<b>(Surplus) / Deficit carried forward</b>	<u>(9,535)</u>	<u>(4,688)</u>	<u>(14,223)</u>

## 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:

2016-17			2017-18				
Band D Ratio	Property Numbers	Council Tax £	Band D Ratio	Property Numbers	Council Tax £		
<b>Valuation Bands</b>							
6/9	246	1,039.74	A =	Not exceeding £40,000	6/9	292	1,085.12
7/9	1,529	1,213.03	B =	£40,001 - £52,000	7/9	1,626	1,265.97
8/9	13,029	1,386.32	C =	£52,001 - £68,000	8/9	13,473	1,446.83
1	23,658	1,559.61	D =	£68,001 - £88,000	1	24,117	1,627.68
11/9	23,246	1,906.19	E =	£88,001 - £120,000	11/9	23,474	1,989.39
13/9	10,275	2,252.77	F =	£120,001 - £160,000	13/9	10,364	2,351.09
15/9	9,534	2,599.35	G =	£160,001 - £320,000	15/9	9,559	2,712.80
2	2,266	3,119.22	H =	£320,001 +	2	2,299	3,255.36
	<u>83,783</u>		<b>Total</b>			<u>85,204</u>	
	(1,783)		Adjustment for non-collection			<u>(1,704)</u>	
	<u>82,000</u>		<b>Council tax base</b>			<u>83,500</u>	

### 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 (37%) and Central Government (33%).

The total non-domestic rateable value for the London Borough of Harrow at the year-end was £142.5m (£143.3m in 2016-17). The national non-domestic rate multiplier for 2017-18 was 47.9p (49.7p in 2016-17) with a lower multiplier for small businesses at 46.6p (48.4p in 2016-17).

### 7.1.3 Business Rate Supplement - Crossrail

The Business Rate Supplement (BRS) is levied by the Greater London Authority to help fund Crossrail. The levy has remained at 2p on non domestic properties since its introduction in April 2010. The rateable value of properties to which it applies is £70,000 or above.

## 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 the desired outcomes for Harrow service users and local communities.

The governance structure, details of the annual review of governance including management assurance and partnership self-assessments that feed into the review and the Annual Governance Statement can be found on the Council's website. (Not yet live.)

### 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).

The 2017/18 annual review of governance comprised a review of governance arrangements in place against the core and sub-principles of good governance contained in the CIPFA Framework, Management Assurance provided by each Directorate on the operation of key elements of governance during 2017/18 and a review of a selection of joint working arrangements, undertaken during 2017/18. This was achieved via a self-assessment process co-ordinated and independently reviewed by the Council's Internal Audit Service. The effectiveness of key elements is covered below:

#### 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 which was revised and updated during 2017/18. Mechanisms are in place to deal with member and staff transgressions from these codes and policies are also in place for dealing with whistleblowing and conflicts of interest.



The Council values were developed through workshops with staff and members and endorsed by Cabinet and Council in February 2016. They were launched and communicated to all staff in March 2016 and have been incorporated into the staff induction programme as well as the performance appraisal process and the staff are measured against these values annually. A staff awards scheme is in place and run annually to:

- Showcase, recognise and further embed the Harrow Ambition Plan and the corporate values
- Celebrate, reward, recognise and communicate individual and team achievements

### **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. No significant contraventions of law or course of action that would involve incurring unlawful expenditure occurred in 2017/18.

From 25th May 2018 a new Data Protection Act (DPA) will come into force to reflect the EU General Data Protection Regulation (GDPR). This is an evolution of the data protection law rather than a revolution as many of the GDPR's concepts and principles are the same as under the DPA however, there are new elements and significant enhancements of individual rights that we must take into account. Since September 2017 a series of staff communication and training has taken place in addition to a Members briefing session to prepare for the new legislation.

The Homelessness Reduction Act is another important piece of legislation that came into force from April 2018 to help tackle the significant problem of homelessness. The Act places new statutory duties on the Council and during 2017/18 the Housing Needs Service delivered an implementation plan to prepare for the Act including a refocusing of activities within Housing Needs and the introduction of new ICT. The Council's Homelessness Strategy was also refreshed and approved by Cabinet in March 2018 to take account of the new duties. New burdens funding allocation was received in 2017/18 from the Government to help support the implementation of the Act.

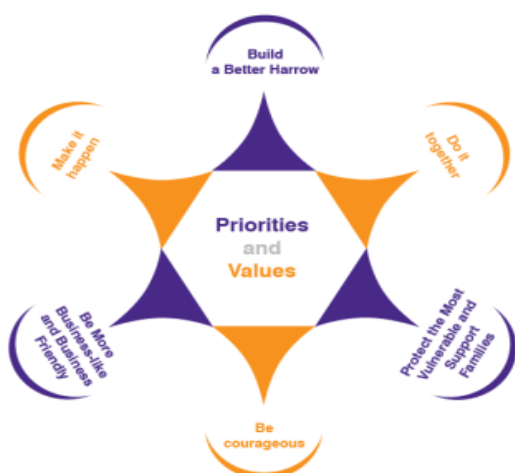
### **8.3.3 Acting in the Public Interest**

The annual review of governance 2017/18 confirmed that the Council can demonstrate a commitment to openness and acting in the public interest. This is achieved via the implementation of a governance structure which includes codes of conduct, a corporate appraisal process, a Standards Committee, registers of interests, gifts and hospitality, a whistleblowing policy, a corporate complaints process, a Corporate Anti-fraud & Corruption Strategy, Financial Regulations and Contract Procedure Rules and a Scrutiny Function. A further review of the constitution is planned for 2018/19 and a refresh of the Financial Regulations and Contract Procedural Rules is currently in progress.

### **8.3.4 Communication and Consultation**

2017/18 annual review of governance to confirm effectiveness of Council's communication and consultation approach. An annual reputation tracker measures a standard agreed set of performance outcomes for the effectiveness of communications as well as other resident perception measures.

### 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 2017/18.

The original plan was communicated widely across the Council and the refreshed version is available on the Council's external website.

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



Divisional service plans in place for 2017/18 include links to the Corporate Priorities contained in the Harrow Ambition Plan (to be confirmed via the 2017/18 Management Assurance exercise for final AGS). The Corporate appraisal process requires all individual objectives to be aligned to the Harrow Ambition plan and its strategic aims.

### 8.3.6 Putting the Vision into Practice

The original Harrow Ambition Plan contains courses of action to be taken by the Council to implement the vision and the refreshed plan 2018 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.

An LGA Peer Review carried out by a panel of councillors and senior council officers from other local authorities in 2016/17 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'. A number of recommendations were made and these were implemented throughout 2017/18 and progress monitored by the Overview & Scrutiny Committee. Good progress has been made on many of the recommendations relating to finance, scrutiny, regeneration and commercialisation, with a range of procedures and processes having been reviewed and amended as a result of the Peer Review findings. The task going forwards will be for the new Chief Executive and Leader (post local elections in May) to ensure that leadership, governance and working relationships between members, and members and officers continue to improve and the changes put into place following the peer review are embedded. An Ofsted inspection of our Children's Services was also undertaken in 2016/17 that concluded 'Children's services in Harrow are good and children in harrow receive services that are well matched to their needs, reduce risk and improve their outcomes'. The report made ten recommendations all of which were implemented during 2017/18.

Service plans linked to Corporate Priorities contained in the Harrow Ambition Plan, key performance indicators and key projects and initiatives reported in the quarterly Strategic Performance reports to CSB and Cabinet throughout 2016/17 and also through quarterly improvement boards and benchmarking and other options are used to ensure that services and projects are delivered in accordance with defined outcomes, that they represent best use of resources and value for money. (Management Assurance exercise to confirm this for 2017/18)

### **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.

The annual review of governance confirmed that clear protocols for effective communication in respect of the authority and partnership arrangement were in place for 2017/18.

### **8.3.10 Financial Management**

The Council's financial management arrangements during 2017/18 conformed with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015). A balanced budget was set for 2017/18 with an underspend at year-end enabling £3.2m to be transferred to reserves to support the 2019/20 budget. In the context of a significantly reduced Revenue Support Grant from Central Government and increasing demand on services, particularly social care, this demonstrates focused financial control in place throughout 2017/18. However the advice of the s151 Officer (Director of Finance) is that whilst the budget for 2018/19 is sufficiently robust there are budget gaps for 2019/20 and 2020/21 which will require robust proposals (currently in development) to address.

### **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 2017/18 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 until January 2018 and from January 2018 by the Interim Chief Executive whose substantive post of Corporate Director of Resources & Commercial has also been covered by internal interim arrangements. The use of managers in substantive posts to cover vacancies on an interim basis helps to provide continuity and budgetary savings however it does reduce capacity which will need to be kept under review.

### **8.3.13 Development Needs**

New members receive a Members Induction pack and regular training sessions are held for members covering their strategic roles. In 2017/18 member training sessions covered safeguarding children, General Data Protection Regulations as well as specific training for members who sit on committees such as planning and licensing. A Corporate Development Programme is also in place for officers.

Following the local government election in May 2018, a welcome evening was arranged for all elected members on 8<sup>th</sup> May, to cover Council values, conduct and member interests plus a Members Marketplace on the 15<sup>th</sup> May to explain key Council services together with a programme of Member training in May/June 2018.

Whilst the uptake of Member training fell during 2017/18 the uptake since the recent local elections has significantly improved.

### **8.3.14 Managing Risks**

The framework for identifying and managing risks was updated during 2016/17 and consists of a series of Directorate risk registers that feed into an overarching Corporate Register that clearly identifies the owner of each risk. The Corporate Risk Register was updated three times during 2017/18 for Q1, Q2 and Q3/4. Each updated was presented to the Corporate Strategic Board for review and challenge and Q1 and Q2 were also presented to the Governance, Audit, Risk Management & Standards Committee. However the April meeting of the GARMS Committee was cancelled due to local elections and as a consequence the Q3/Q4 Corporate Risk Register could not be presented to the Committee. A refresh of the Corporate Risk Register is planned for Q1 2018/19 and the intention is to update the Corporate Risk Register within each quarter throughout 2018/19, rather than as previously after the end of each quarter, making the register more current.

### **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 2017/18, that reviewed progress against the five main principles within the code to improve the Council's arrangements. The result was a compliance level of 75%, an improvement from 54% in 2015/16, indicating that the authority has reached a 'good level' of performance against the code. Further actions have been built into the 2018/19 Corporate Anti-Fraud plan to improve fraud risk resilience and progress against the actions contained within the Fraud Strategy will be reported to the GARMS Committee in July 2018.

### **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 a review of the Council's scrutiny function was commissioned from the Centre for Public Scrutiny. The report was issued in October 2017 and concluded that 'Harrow demonstrates some extremely positive ways of working. The authority can demonstrate outcomes from some excellent recent task and finish working.

The long-standing scrutiny leads system provides an opportunity for dialogue between scrutiny and executive members, and senior officers. By and large, scrutiny is valued and there is a shared commitment to making it work.' Ten recommendations were made to help build on its success and achieve more. An action plan was put in place which brought all of the recommendations together into six specific areas. An officer/member working group was set up in January 2018 to progress the implementation of the action plan (which will need to be refreshed to reflect the changing roles of members involved since the elections) and work will continue with the implementation of the recommendations into 2018/19.

### **8.3.17 Internal Audit**

Assurance arrangements during 2017/18 conformed with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and a peer review of the Internal Audit service undertaken across 2016/17 – 2017/18 confirmed that the service 'generally complies' with the Public Sector Internal Audit Standards i.e. with a few minor exceptions. An action plan to address these minor exceptions has been developed and reported to CSB and will be presented to the GARMS Committee at the next meeting in July 2018.

### **8.3.18 Audit Committee**

The duties of the audit committee are undertaken by the Governance, Audit, Risk Management & Standards Committee and are broadly in-line with the core functions of an audit committee as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2017). A detailed review against the new 2017 guidance is planned for 2018/19.

### **8.3.19 External Audit**

During 2017/18 the authority provided timely support, information and responses to the Council's external auditors, KPMG, and properly considered their audit findings and recommendations. All four of the recommendations made by the external auditors in 2016/17 have been addressed as demonstrated in the committee papers and reports presented to the Governance, Audit, Risk Management & Standards Committee.

### **8.3.20 Joint Working**

Joint working, working in partnership with other local authorities and other bodies, and the use of alternative delivery vehicles has increased over recent years as local government generally and Harrow Council specifically has coped with less resources.

The importance of good governance within these arrangements has been recognised and as part of the annual governance review the governance arrangements for the shared legal service (HBPL), the shared procurement service, the authority owned trading company Smart Lettings and partnership arrangements with IBM for adult social care (Project Infinity) have been reviewed during 2017/18 and assurance obtained that reasonable governance arrangements are in place.

A statement on the Procurement Share Service with Brent, Public Health Shared Service with Barnet and the position on Carillion and Harrow Libraries being brought back in-house will be included in the final AGS.

### **8.3.21 Health & Safety**

Following on from the peer review of Health & Safety Management undertaken during 2016/17 a Corporate Health & Safety Strategy was developed for 2017/18 with the stated purpose to implement the findings of the peer review to ensure that the aims, objectives and outcomes are met. The strategy contains an action plan setting out how, when and by whom this will be achieved. The latest update of the action plan shows good progress in the implementation of a new governance structure for Health & Safety with the implementation of actions to embed sound Health & Safety processes across the Council still ongoing.

The Corporate Health & Safety Board was re-established in December 2017 chaired by the Corporate Director of Community and comprising of Divisional Directors, representatives from UNISON and GMB trades union, and Corporate Human Resources.

The Board has met monthly since December. During 2017/18 the Board's Terms of reference was reviewed and agreed giving it a clear focus on implementing the Council's Health and Safety policy through agreed best practice, as well as developing Health and Safety management systems and procedures.

An annual H&S report is currently being drafted and will be presented to the Corporate Health & Safety Board at the end of May, CSB in June and to the next GARMS Committee meeting in July 2018.

The Corporate Director of Community (Chair of the Health & Safety Board) sent a letter to all staff in March 2017 outlining the importance of Health and Safety, the Council's commitment to it and the importance of everyone's contributions to the health and safety of ourselves, our colleagues and our residents. The letter highlighted the intention to put in place Directorate Health & Safety

Forums and service-specific Safety Circle meetings to engage and involve staff directly at operational level and a shared action plan and implementation timescales.

Additional funding of £80,000 has been agreed for 2018/19 as a one-off to create additional capacity and expertise required to lead the implementation of the Corporate Health & Safety Strategy and action plan across the council.

#### **8.4 Level of Assurance**

The 2017/18 annual governance review has provided assurance that a reasonable level of governance is in place across the Council and that, other than the two significant gaps identified in paragraph 6, arrangements continue to be fit for purpose in accordance with the governance framework. The Head of Internal Audit's overall opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control based on the annual review of governance and the assurance work of Internal Audit throughout 2017/18 will be included in the final AGS.

#### **8.5 Previous Governance Issues**

A significant governance gap was identified in the 2016/17 statement in relation to the Corporate Health & Safety arrangements.

To address this it was agreed with the Divisional Director of Environment & Culture that, in addition to implementing the agreed actions from the 2016/17 peer review, from October 2017:

- the remit/terms of reference of the Corporate H&S Board will be reviewed and consideration given to whether a separate board is required;
- that quarterly reports will be prepared and presented to the 'board', and to GARMS Committee and ;
- an annual report will be prepared for the 'board', GARMS Committee and Cabinet.

As detailed in paragraph 3.21 the implementation of the actions from the peer review is ongoing, the terms of reference for the Corporate Health & Safety Board have been reviewed and the Board re-established and an annual report is currently being drafted. Quarterly reporting will commence in 2018/19.

#### **8.6 Significant Governance Issues**

##### **8.6.1 Health & Safety**

Although action has been taken during 2017/18 to reduce the governance gap identified in 2016/17 by improving the governance structure for Health & Safety further action is required during 2018/19 to embed best practice both corporately and within directorates, as one Council. Consequently, at this time, it is recognised that there remains a significant governance gap in the Council's Health & Safety arrangements.

This will be addressed by the full implementation of the action plan contained within the Health & Safety Strategy document.

**8.6.2 Regeneration Governance**

During 2017/18 CSB identified governance weaknesses relating to the oversight, agreement and monitoring of regeneration projects within in the Council’s regeneration programme. To address these a Building A Better Harrow Board was formed with the main purpose being to provide an overarching strategic view of regeneration in its broadest sense across the Council e.g. including regeneration of Council assets, schools, housing development plan and development of the new Council depot, and a clear understanding of the links between investment, performance and outcomes. The Board is chaired by the Corporate Director of Community and comprises the Chief Executive, Interim Corporate Director People, Director of Adult Social Care, Director of Finance, Monitoring Officer, Divisional Director Planning and Divisional Director People Services, it has an agreed Terms of Reference and meets monthly. A cross council working group consisting of officers with appropriate skills, knowledge and responsibility has been established to further develop and implement the organisational change programme required to fully implement the new governance structure during 2018/19.

In addition to this an external review of the Regeneration Strategy has been commissioned and is currently in progress.

To close this gap the new governance structure will be fully implemented by September 2018 and any recommendations from the external review will be addressed.

**8.7 Conclusion**

Updates on the implementation of the agreed actions to address the significant governance gaps identified in paragraph 6 above will be provided to the Governance, Audit, Risk Management and Standards Committee throughout 2018/19 until fully implemented and will be formally reported upon as part of the next annual review of governance.

**8.8 Declaration**

This annual governance statement is based on a self-assessment of the authority’s governance arrangements supported by evidence provided by management and independent assurance provided by the Head of Internal Audit, Ofsted and external peer reviews and is signed on behalf of the authority by:

.....  
Graham Henson  
Leader

.....  
Tom Whiting  
Interim Chief Executive

Date: .....

Pension Fund Financial Statements

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2017-18

I certify that the Financial Statements set out in Section 9 present fairly the financial position of the Pension Fund as at 31<sup>st</sup> March 2018 and its income and expenditure for the year.

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

**Dawn Calvert CPFA**  
**Director of Finance**  
**31<sup>st</sup> July 2018**



## 9 Harrow Pension Fund Account for the year ended 31<sup>st</sup> March 2018

2016/17		Notes	2017/18
£'000			£'000
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(29,938)	Contributions	7	(30,883)
(2,659)	Transfers in from other pension funds	8	(8,003)
0	Other income		(80)
<b>(32,597)</b>			<b>(38,966)</b>
31,789	Benefits	9	33,274
1,832	Payments to and on account of leavers	10	34,763
18	Other Expenditure		0
<b>33,639</b>			<b>68,037</b>
<b>1,042</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>29,071</b>
5,228	Management expenses	11	5,525
	<b>Return on investments</b>		
(10,250)	Investment income	12	(11,327)
(141,595)	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	(32,824)
<b>(151,845)</b>	<b>Net return on investments</b>		<b>(44,151)</b>
(145,575)	Net (increase)/decrease in the net assets available for benefits during the year		(9,555)
(661,001)	Opening net assets of the scheme		(806,576)
<b>(806,576)</b>	<b>Closing net assets of the scheme</b>		<b>(816,131)</b>

## Net Assets Statement as at 31<sup>st</sup> March 2018

31 March 2017		Notes	31 March 2018
£'000			£'000
	Investment assets		
774,817	Investments	14	803,842
2,015	Derivative contracts	14	7,310
52	Cash with investment managers	14	53
<u>776,884</u>			<u>811,205</u>
30,914	Cash deposits	14	4,643
<u>807,798</u>			<u>815,848</u>
	Investment liabilities		
<u>(2,256)</u>	Derivative contracts	14	<u>(1,445)</u>
805,542			814,403
1,374	Current assets	21	2,003
<u>(340)</u>	Current liabilities	22	<u>(275)</u>
<u>806,576</u>	Net assets of fund available to fund benefits at the period end		<u>816,131</u>

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.

D. Calvert

**Dawn Calvert CPFA**  
Director of Finance  
31<sup>st</sup> July 2018

## Notes to the Harrow Pension Fund Accounts for the year ended 31st March 2018

### 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:

- i. The Local Government Pension Scheme Regulations 2013 (as amended)
- ii. The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- iii. 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.

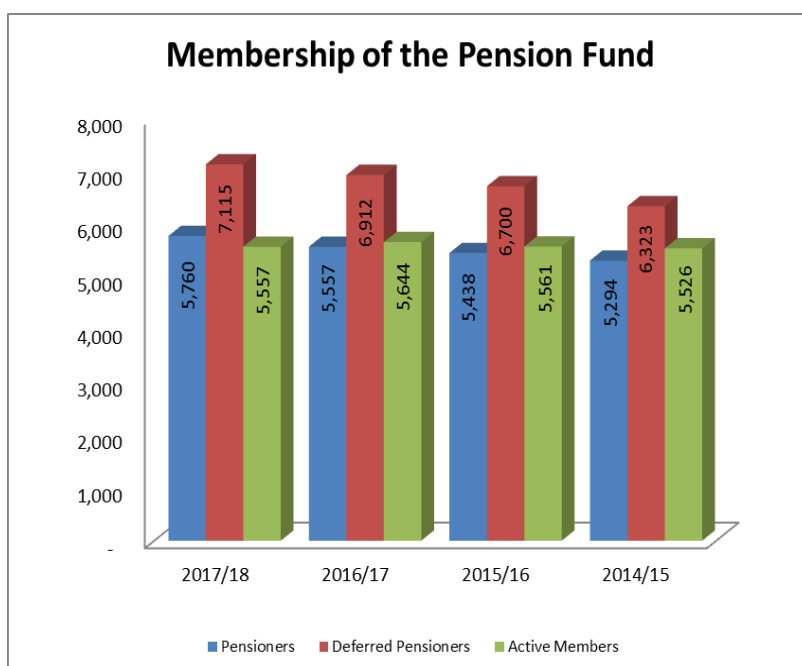
#### b) Membership

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:

- i. **Scheduled bodies:** These are the local authority and similar bodies whose staff are automatically entitled to be members of the Fund.
- ii. **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	5360	5909	3955	15,224	82.58
Harrow College	Scheduled Body	157	272	132	561	3.04
Stanmore College	Scheduled Body	76	146	76	298	1.62
Nower Hill High School	Scheduled Body	13	129	142	284	1.54
Hatch End School	Scheduled Body	15	135	79	229	1.24
Heathland and Whitefriars	Scheduled Body	4	39	184	227	1.23
Rooks Heath College	Scheduled Body	9	54	132	195	1.06
Canons High School	Scheduled Body	9	50	124	183	0.99
Park High School	Scheduled Body	9	66	97	172	0.93
Bentley Wood School	Scheduled Body	7	73	56	136	0.74
St Dominics College	Scheduled Body	36	31	58	125	0.68
Harrow High School	Scheduled Body	9	50	62	121	0.66
Aylward Primary School	Scheduled Body	6	15	79	100	0.54
Salvatorian College	Scheduled Body	9	50	33	92	0.50
Earlsmead Academy	Scheduled Body	0	4	54	58	0.31
Avanti Free School	Scheduled Body	1	9	39	49	0.27
St Bernadettes	Scheduled Body	0	0	42	42	0.23
Alexandra School	Scheduled Body	2	11	24	37	0.20
Krishna Avanti Primary	Scheduled Body	0	11	16	27	0.15
Pinner High Academy	Scheduled Body	0	0	24	24	0.13
St Jerome	Scheduled Body	0	0	16	16	0.09
Avanti School Trust	Scheduled Body	0	1	9	10	0.05
NLCS	Community Admission Body	33	41	64	138	0.75
Jubilee Academy	Admitted Body	0	11	17	28	0.15
Chartwells	Admitted Body	1	4	13	18	0.10
Sopria Steria	Admitted Body	1	0	10	11	0.06
Engie (Cofely)	Admitted Body	1	1	8	10	0.05
Linbrook	Admitted Body	1	0	4	5	0.03
Govindas	Admitted Body	0	0	5	5	0.03
Granary Kids	Admitted Body	1	2	0	3	0.02
Taylor Shaw	Admitted Body	0	0	3	3	0.02
Birkin	Admitted Body	0	1	0	1	0.01
	<b>Total</b>	5,760	7,115	5,557	18,432	100

**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<sup>st</sup> 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:

	<b>Service pre 1<sup>st</sup> April 2008</b>	<b>Service post 31<sup>st</sup> March 2008</b>
<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<sup>st</sup> 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.

**NOTE 2: BASIS OF PREPARATION**

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position as at 31<sup>st</sup> March 2018. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2017/18' 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**

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.

- i. 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.
- 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 2017/18.

## **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)'

### **b) 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 2017-18 Code of Practice. They are not therefore reflected in the Statement of Accounts:

- i. IFRS 9 Financial Instruments (replaces IAS 39);
- ii. IFRS 15 Revenue from Contracts with Customers;
- iii. Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- iv. Amendments to IAS 7 Statement of Cash Flows (disclosure Initiative).

None 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<sup>st</sup> March 2018 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 £101m</li> <li>• a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £10m</li> <li>• a 0.5% increase in Pension benefits would increase the liability by approximately £116m</li> </ul>
<b>Private equity (Note 16C)</b>	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012). 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 £13.8m 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**

2016/17		2017/18
£'000		£'000
<b>(6,960)</b>	<b>Employees' contributions</b>	<b>(6,830)</b>
	<b>Employers' contributions:</b>	
(18,041)	Normal contributions	(17,405)
(4,614)	Deficit recovery contributions	(6,036)
(323)	Pension strain contributions	(612)
<b>(22,978)</b>	<b>Total employers' contributions</b>	<b>(24,053)</b>
<b>(29,938)</b>		<b>(30,883)</b>

**By authority**

2016/17		2017/18
£'000		£'000
(22,957)	Administering Authority	(24,237)
(5,975)	Scheduled bodies	(5,385)
(588)	Community admission body	(819)
(418)	Transferee admission bodies	(442)
<b>(29,938)</b>		<b>(30,883)</b>

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

2016/17		2017/18
£'000		£'000
0	Group transfers	(2,554)
(2,659)	Individual transfers	(5,449)
<b>(2,659)</b>		<b>(8,003)</b>

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

2016/17		2017/18
£'000		£'000
27,044	Pensions	27,816
4,074	Commutation and lump sum retirement benefits	4,631
671	Lump sum death benefits	827
<b>31,789</b>		<b>33,274</b>

**By authority**

2016/17		2017/18
£'000		£'000
29,592	Administering Authority	31,061
1,721	Scheduled bodies	1,656
180	Community admission body	256
296	Transferee admission bodies	301
<b>31,789</b>		<b>33,274</b>

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

2016/17		2017/18
£'000		£'000
80	Refunds to members leaving service	116
0	Group transfers	31,049
1,752	Individual transfers	3,598
<b>1,832</b>		<b>34,763</b>

Group transfer is in relation to Harrow College transferring to London Borough of Hillingdon Pension Fund as part of a merger with Uxbridge College.

**NOTE 11: MANAGEMENT EXPENSES**

2016/17		2017/18
£'000		£'000
646	Administrative costs	646
3,996	Investment management expenses	4,267
586	Oversight and governance costs	612
<b>5,228</b>		<b>5,525</b>

**NOTE 11A: INVESTMENT MANAGEMENT EXPENSES**

2016/17		2017/18
£'000		£'000
3,798	Management fees	3,816
72	Custody fees	34
126	Transaction costs	417
<b>3,996</b>		<b>4,267</b>

**NOTE 12: INVESTMENT INCOME**

2016/17		2017/18
£'000		£'000
(5,177)	Private equity investments	(6,394)
(1,971)	Pooled property investments	(2,038)
(3,102)	Pooled investments - units trusts and other managed funds	(2,895)
<b>(10,250)</b>		<b>(11,327)</b>

**NOTE 13: EXTERNAL AUDIT COSTS**

2016/17		2017/18
£'000		£'000
(21)	Payable in respect of external audit	(21)
<b>(21)</b>		<b>(21)</b>

**NOTE 14: INVESTMENTS**

Market value 31 March 2017		Market value 31 March 2018
£'000		£'000
<b>Investment assets</b>		
531,614	Pooled equities investments	430,168
100,883	Pooled bonds investments	102,445
58,420	Pooled alternative investments	189,579
64,409	Pooled property investments	67,656
150	Equity in London CIV	150
19,341	Private equity	13,844
2,015	Derivative contracts: forward currency	7,310
52	Cash with investment managers	53
<b>776,884</b>		<b>811,205</b>
30,914	Cash deposits	4,643
<b>807,798</b>	<b>Total investment assets</b>	<b>815,848</b>
<b>Investment liabilities</b>		
(2,256)	Derivative contracts: forward currency	(1,445)
<b>(2,256)</b>	<b>Total investment liabilities</b>	<b>(1,445)</b>
<b>805,542</b>	<b>Net investment assets</b>	<b>814,403</b>

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

	Market value 31 March 2017	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 2018
	£'000	£'000	£'000	£'000	£'000
<b>Investment assets</b>					
Pooled equities investments	531,614	89,231	(214,830)	24,153	<b>430,168</b>
Pooled bonds investments	100,883	3,535	(698)	(1,275)	<b>102,445</b>
Pooled alternative investments	58,420	132,000	(869)	28	<b>189,579</b>
Pooled property investments	64,409		(346)	3,593	<b>67,656</b>
Equity in London CIV	150				<b>150</b>
Private equity	19,341		(285)	(5,212)	<b>13,844</b>
Derivative contracts: forward currency	(241)	1,009	(6,440)	11,537	<b>5,865</b>
	<b>774,576</b>	<b>225,775</b>	<b>(223,468)</b>	<b>32,824</b>	<b>809,707</b>
Cash with investment managers	52				<b>53</b>
Cash deposits	<b>30,914</b>				<b>4,643</b>
	<b>30,966</b>				<b>4,696</b>
<b>Net investment assets</b>	<b>805,542</b>				<b>814,403</b>

	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		(46,492)	141,019	<b>531,614</b>
Pooled bonds investments	86,978	4,208	(1,134)	10,831	<b>100,883</b>
Pooled alternative investments	56,287		(414)	2,547	<b>58,420</b>
Pooled property investments	53,481	10,000	(378)	1,306	<b>64,409</b>
Equity in London CIV	150				<b>150</b>
Private equity	20,571		(350)	(880)	<b>19,341</b>
Derivative contracts: forward currency	(6,388)	19,375		(13,228)	<b>(241)</b>
	<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				<b>52</b>
Cash deposits	<b>11,485</b>				<b>30,914</b>
	<b>11,529</b>				<b>30,966</b>
<b>Net investment assets</b>	<b>659,695</b>				<b>805,542</b>

## NOTE 14B: ANALYSIS OF INVESTMENTS

31 March 2017		31 March 2018	
£'000		£'000	
<b>Pooled Funds</b>			
<b>UK</b>			
80,804	Fixed Interest Securities	Corporate	81,651
20,079	Index Linked Securities	Public Sector	20,794
64,409	Managed Funds - Property	Unit Trusts	67,656
<b>165,292</b>			<b>170,101</b>
<b>Global</b>			
267,790	Managed Funds - Equities	Unitised Insurance Policy	196,717
263,824	Managed Funds - Equities	Other	233,451
<b>531,614</b>			<b>430,168</b>
29,324	Managed Funds - Alternatives	Unit Trusts	95,601
29,096	Managed Funds - Alternatives	Other	93,978
<b>58,420</b>			<b>189,579</b>
19,341	Managed Funds - Private Equity	Other	13,844
<b>Other Funds</b>			
2,015	Derivatives		7,310
150	Equity in London CIV		150
52	Cash with investment managers		53
30,914	Cash Deposits		4,643
<b>807,798</b>	<b>Total Investment Assets</b>		<b>815,848</b>
<b>Investment Liabilities</b>			
(2,256)	Derivatives		(1,445)
<b>(2,256)</b>	<b>Total Investment Liabilities</b>		<b>(1,445)</b>
<b>805,542</b>	<b>Net Investment Assets</b>		<b>814,403</b>

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

Market value 31 March 2017	Percentage of Fund	Manager	Investment assets	Market value 31 March 2018	Percentage of Fund
£'000	%			£'000	%
64,409	8	Aviva	Pooled property Cash with investment	67,656	8
52	0	BlackRock	managers	53	0
80,804	10	BlackRock	Fixed interest securities	81,651	10
20,079	3	BlackRock	Index-linked securities	20,794	3
30,901	4	Cash Deposits		3,205	0
94,156	12	GMO	Emerging markets equities- active	77,181	9
29,096	3	Insight	Diversified growth fund Cash with investment	93,978	12
13	0	JP Morgan	managers	1,438	0
150	0	London CIV LCIV	UK equities-passive Developed world equities- active	150	0
86,213	11	(Longview)	Developed world equities- active	90,034	11
83,455	10	Oldfields	Private equity	66,236	8
19,341	2	Pantheon	Forward currency contracts	13,844	2
(241)	0	Record	Diversified growth fund	5,865	1
29,324	4	Standard Life	Global equities-passive	95,601	12
267,790	33	State Street		196,717	24
<b>805,542</b>	<b>100</b>			<b>814,403</b>	<b>100</b>

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

Market value 31 March 2017	% of total fund	Investment assets	Market value 31 March 2018	% of total fund
£'000			£'000	
267,790	33	SSGA MPF All World Equity Index Sub-Fund	196,717	24
		SLI Global Absolute Return Strategies Fund	95,601	12
		Insight Broad Opportunities Fund	93,978	12
86,213	11	LCIV LV Global Equity Fund (longview)	90,034	11
		BlackRock Institutional Bond Fund - Corp Bond 10 yrs A Class	81,651	10
94,156	12	GMO Emerging Domestic Opportunities Equity Fund	77,181	9
64,409	8	Aviva Investors UK Real Estate Fund of Funds	67,656	8
83,455	10	Overstone Global Equity CCF (USD Class A1 Units)	66,236	8
<b>676,827</b>	<b>84</b>	<b>Total over 5% holdings</b>	<b>769,054</b>	<b>94</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.

Value of Stock on Loan @ 31 March 2018 £17.3m (8.8%) compared to £20.2m (7.6%) @ 31 March 2017.

**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	Local value	Currency sold	Local value	Asset	Liability
		00		000	£'000	£'000
Up to one month	NOK	2,570	GBP	(234)		(0)
One to six months	AUD	1,065	GBP	(599)		(16)
One to six months	CAD	1,991	GBP	(1,162)		(61)
One to six months	CHF	1,063	GBP	(807)		(15)
One to six months	EUR	2,712	GBP	(2,399)		(21)
One to six months	GBP	2,420	AUD	(4,492)		(28)
One to six months	GBP	3,803	CAD	(6,960)		(38)
One to six months	GBP	2,951	CHF	(3,957)		(8)
One to six months	GBP	4,449	HKD	(49,407)		(36)
One to six months	GBP	77	NZD	(151)		(0)
One to six months	GBP	976	SEK	(11,441)		(1)
One to six months	GBP	482	SGD	(895)		(4)
One to six months	HKD	4,337	GBP	(413)		(20)
One to six months	SEK	3,726	GBP	(331)		(14)
One to six months	SGD	177	GBP	(98)		(2)
One to six months	USD	9,230	GBP	(6,866)		(286)
Over six months	EUR	2,712	GBP	(2,406)		(21)
Over six months	GBP	10,151	EUR	(11,522)		(19)
Over six months	GBP	19,517	JPY	(2,919,500)		(105)
Over six months	GBP	50,078	USD	(71,426)		(458)
Over six months	USD	9,230	GBP	(6,846)		(291)
Up to one month	AUD	4,492	GBP	(2,428)		

29

London Borough of Harrow Statement of Accounts 2017-18

Pension Fund Financial Statement

Up to one month	CAD	6,960	GBP	(3,811)	38	
Up to one month	CHF	3,957	GBP	(2,939)	8	
Up to one month	EUR	11,522	GBP	(10,085)	19	
Up to one month	HKD	49,407	GBP	(4,451)	37	
Up to one month	JPY	1,330,400	GBP	(8,892)	29	
Up to one month	NZD	151	GBP	(77)	0	
Up to one month	SEK	11,441	GBP	(973)	2	
Up to one month	SGD	895	GBP	(483)	4	
Up to one month	USD	71,426	GBP	(50,447)	472	
One to six months	GBP	3,157	AUD	(5,557)	117	
One to six months	GBP	5,257	CAD	(8,951)	307	
One to six months	GBP	3,852	CHF	(5,020)	113	
One to six months	GBP	576	EUR	(643)	12	
One to six months	GBP	5,151	HKD	(53,744)	268	
One to six months	GBP	92	JPY	(13,500)	1	
One to six months	GBP	530	NOK	(5,792)	4	
One to six months	GBP	105	NZD	(204)	0	
One to six months	GBP	1,375	SEK	(15,167)	83	
One to six months	GBP	595	SGD	(1,072)	12	
One to six months	GBP	4,357	USD	(5,752)	257	
One to six months	JPY	272,200	GBP	(1,818)	8	
One to six months	NOK	652	GBP	(59)	0	
One to six months	NZD	53	GBP	(27)	0	
Over six months	GBP	24,815	EUR	(27,825)	376	
Over six months	GBP	10,859	JPY	(1,602,600)	88	
Over six months	GBP	115,695	USD	(155,560)	5,016	
Over six months	JPY	272,200	GBP	(1,822)	8	
<b>Open forward currency contracts at 31<sup>st</sup> March 2018</b>					<b>7,310</b>	<b>(1,445)</b>
<b>Net forward currency contracts at 31<sup>st</sup> March 2018</b>						<b>5,865</b>
<b><u>Prior year comparative</u></b>						
<b>Open forward currency contracts at 31<sup>st</sup> March 2017</b>					<b>2,015</b>	<b>(2,256)</b>
<b>Net forward currency contracts at 31<sup>st</sup> March 2017</b>						<b>(241)</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
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end.	Exchange rate risk	Not required
Pooled investments - property funds	Level 3	Closing bid price where bid and offer prices are published	Not required	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

**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<sup>st</sup> March 2018.

	Assessed valuation range (+/-)	Valuation at 31 March 2018	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	10.42%	13,844	15,287	12,401
Pooled investments - property funds	2.14%	67,656	69,104	66,208

**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.

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 2018	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit and loss	722,342	7,310	81,500	<b>811,152</b>
Financial liabilities at fair value through profit and loss	0	(1,445)	0	<b>(1,445)</b>
<b>Net Investment asset</b>	<b>722,342</b>	<b>5,865</b>	<b>81,500</b>	<b>809,707</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1 Restated £'000	Level 2 £'000	Level 3 Restated £'000	Total £'000
Financial assets at fair value through profit and loss	691,067	2,015	83,750	<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>691,067</b>	<b>(241)</b>	<b>83,750</b>	<b>774,576</b>

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

Transfer of £67.66m from level 1 to Level 3 in relation to Pooled Property Fund – additional information regarding pricing and valuations becoming available.

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

	Market Value 1 April 2017	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 2018
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	19,341	0	0	0	(285)	0	(5,212)	<b>13,844</b>
Pooled investments - property funds	64,409	0	0	0	(346)	0	3,593	<b>67,656</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 2017			31 March 2018			
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>						
531,614	0	0	Pooled equities investments	430,168	0	0
100,883	0	0	Pooled bonds investments	102,445	0	0
58,420	0	0	Pooled alternative investments	189,579	0	0
64,409	0	0	Pooled property investments	67,656	0	0
150	0	0	Equity in London CIV	150	0	0
19,341	0	0	Private equity	13,844	0	0
2,015	0	0	Derivative contracts	7,310	0	0
0	32,028	0	Cash	0	6,389	0
0	312	0	Debtors	0	310	0
<b>776,832</b>	<b>32,340</b>	<b>0</b>		<b>811,152</b>	<b>6,699</b>	<b>0</b>
<b>Financial liabilities</b>						
(2,256)	0	0	Derivative contracts	(1,445)	0	0
0	0	(340)	Creditors	0	0	(275)
<b>(2,256)</b>	<b>0</b>	<b>(340)</b>		<b>(1,445)</b>	<b>0</b>	<b>(275)</b>
<b>774,576</b>	<b>32,340</b>	<b>(340)</b>		<b>809,707</b>	<b>6,699</b>	<b>(275)</b>
<b>806,576</b>			<b>Grand Total</b>	<b>816,131</b>		

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

31 March 2017		31 March 2018
£'000		£'000
	<b>Financial assets</b>	
154,823	Fair value through profit and loss	21,287
0	Loans and receivables	0
	<b>Financial liabilities</b>	
(13,228)	Fair value through profit and loss	11,537
0	Financial Liabilities at amortised cost	0
<b>141,595</b>	<b>Total</b>	<b>32,824</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	10.42
Fixed interest & index linked securities	8.26
Alternative investments	5.56
Pooled property investments	2.14
Cash and equivalents	0.56

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 2018	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Investment portfolio assets:</b>				
Total equities	444,162	10.42	490,442	397,882
Fixed interest & index linked securities	102,445	8.26	110,909	93,981
Alternative investments	189,579	5.56	200,112	179,046
Pooled property investments	67,656	2.14	69,102	66,210
Derivative contracts: net forward currency	5,865	0.00	5,865	5,865
<b>Total</b>	<b>809,707</b>		<b>876,430</b>	<b>742,984</b>

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>



*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<sup>st</sup> March 2018 and 31<sup>st</sup> March 2017 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 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	4,696	0	4,696	4,696
Fixed interest securities	81,651	817	82,468	80,834
<b>Total change in assets available</b>	<b>86,347</b>	<b>817</b>	<b>87,164</b>	<b>85,530</b>

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>

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 6.44%

A 6.44% 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 2018	Change to net assets	
	£'000	+6.44%	-6.44%
		£'000	£'000
Overseas Equities	389,585	414,674	364,496

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

### 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 2018 was £4.7m (31<sup>st</sup> March 2017: £31.0m). This was held with the following institutions:

Summary	Balances at 31 March 2018	Balances at 31 March 2017
	£'000	£'000
<b>Bank accounts</b>		
Royal Bank of Scotland	3,205	30,901
JP Morgan	1,438	13
BlackRock	53	52

**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<sup>st</sup> March 2018 the value of illiquid assets was £81.5m. This represented 10% of the total Fund assets (31<sup>st</sup> March 2017: £83.7m).

All financial liabilities at 31<sup>st</sup> March 2018 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<sup>st</sup> March 2016. The next valuation takes place as at 31<sup>st</sup> 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<sup>st</sup> April 2008 and 75% for service from 1<sup>st</sup> 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 2017		31 March 2018
£m		£m
(1,102)	Present value of promised retirement benefits	(1,116)
733	Fair value of scheme assets	761
<b>(369)</b>	<b>Net Liability</b>	<b>(355)</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**

	2017/18	2016/17
	% pa	% pa
Inflation/pensions increase rate assumption	2.4	2.4
Salary increase rate	2.7	2.7
Discount rate	2.6	2.5

**NOTE 21: CURRENT ASSETS**

31 March 2017		31 March 2018
£'000		£'000
	<b>Debtors:</b>	
142	Contributions due - employers	248
170	Sundry debtors	62
1,062	Cash owed to Fund	1,693
<b>1,374</b>		<b>2,003</b>

**Analysis of debtors**

31 March 2017		31 March 2018
£'000		£'000
12	Central Government bodies	0
1,062	Other local authorities	1,693
4	NHS bodies	4
142	Scheduled/Admitted bodies	248
154	Other entities and individuals	58
<b>1,374</b>		<b>2,003</b>

**NOTE 22: CURRENT LIABILITIES**

31 March 2017		31 March 2018
£'000		£'000
(202)	Sundry creditors	(158)
0	Transfer values payable (leavers)	0
(138)	Benefits payable	(117)
<b>(340)</b>		<b>(275)</b>

**Analysis of creditors**

31 March 2017		31 March 2018
£'000		£'000
(7)	Central government bodies	(6)
0	Other local authorities	0
(333)	Other entities and individuals	(269)
<b>(340)</b>		<b>(275)</b>

**NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS**

AVC contributions of £0.48m were paid directly to the providers during the year (2016/17: £0.43m)

Market value 31 March 2017		Market value 31 March 2018
£'000		£'000
1,382	Prudential Assurance	1,712
667	Clerical Medical	666
239	Equitable Life Assurance Society	234
<b>2,288</b>		<b>2,612</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 transaction are settled on a monthly basis and settlement of any outstanding balance is adjusted when the Council pays its contributions to the fund.

31 March 2017		31 March 2018
£'000		£'000
(17,514)	Employer's Pension Contributions to the Fund	(18,789)
826	Administration expenses paid to the Council	846
1,062	Cash held by the Council	1,693

**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 are the Councils' Director of Finance (S151 Officer) and the Treasury & Pension Fund Manager.

Total remuneration payable from the Pension Fund to these key management personnel is set out below:

31 March 2017		31 March 2018
£'000		£'000
35	Short-term benefits	81
21	Termination benefits	0

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

Outstanding capital commitments at 31<sup>st</sup> March 2018 totalled £2.5m (31<sup>st</sup> March 2017: £3.0m).

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**

Four 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 2017/18 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 2018	31 March 2017
Active members (£m)	491	440
Deferred members (£m)	255	250
Pensioners (£m)	482	497
<b>Total (£m)</b>	<b>1,228</b>	<b>1,187</b>

The promised retirement benefits at 31 March 2018 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 Administering Authority 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 financial, demographic and longevity assumptions used are those adopted for the Administering Authority's IAS19 report this year and are identical as at 31 March 2018 and 31 March 2017. There is therefore no impact from any change in the financial, demographic or longevity assumptions over the accounting period.



**Financial assumptions**

Year ended (% p.a.)	31 March 2018	31 March 2017
Pension Increase Rate	2.4%	2.4%
Salary Increase Rate	2.7%	2.7%
Discount Rate	2.6%	2.6%

**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 a 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 not 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:

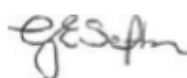
Sensitivity to the assumptions for the year ended 31 March 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	101
0.5% p.a. increase in the Salary Increase Rate	1%	10
0.5% p.a. decrease in the Real Discount Rate	9%	116

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 2018 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

3 May 2018

For and on behalf of Hymans Robertson LLP

---

May 2018

## Appendices

### 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 leasee.

**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 its 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 its council tax, and when central government calculates entitlement to Formula Grant.

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

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

## 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
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