



Harrow Council

Statement of Accounts

2010 - 11

London Borough of Harrow
Statement of Accounts
2010 - 2011

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1 Explanatory Foreword

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

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

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

- All relevant International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) – a constituent board of the IFRS Foundation;
- The Code of Practice on Local Authority Accounting in the United Kingdom (UK) 2010-11; and
- The Best Value Accounting Code of Practice 2010-11 (BVACOP) issued by CIPFA that establishes proper practice for consistent financial reporting below the Statement of Accounts level and has statutory recognition.

The Statement of Accounts:

- **Movement in Reserves Statement:** This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.
- **Comprehensive Income and Expenditure Statement (CIES):** This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- **Balance Sheet:** The balance sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.

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

- **Cash Flow Statement:** The cash flow statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the receipts of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.
- **Housing Revenue Account (HRA):** This statement reflects a statutory obligation to account separately for the Council's housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.
- **The Collection Fund:** It is a statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and council tax. It illustrates the way in which these have been distributed to finance services provided by the Council and the Greater London Authority (GLA).
- **The Pension Fund Account:** The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the fund. It shows contributions to the Council's Pension Fund for employees during 2010-11, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund as at 31 March 2011. The accounts do not include any liabilities relating to payment of pensions and benefits in future years. The Pension Fund and its financial position are certified in section 9.

Accounting Developments

The statement of accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2010-11 which requires compliance with International Financial Reporting Standards. This is the first year of fully compliant accounts and for this reason there are changes to the accounts which are explained below:

The Council has moved to an International Financial Reporting Standard based Code from the former UK GAAP based one. Accounting changes include:

- Grants and contributions for capital purposes will be recognised as income immediately rather than being deferred and released to revenue to match depreciation;
- The main financial statements have changed, and there are additional requirements regarding segmental reporting;
- There is a greater emphasis on component accounting, and a greater emphasis on de-recognising parts of an asset that are replaced;
- Property leases are classified and accounted for as separate leases of land and buildings;
- Investment properties are measured at fair value which must reflect market conditions at the Balance Sheet date, with gains and losses recognised in Surplus or Deficit rather than through the revaluation reserve;
- Impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset;
- The Code introduces a new classification of non-current assets held for sale. Specific criteria apply to this classification;
- All employee benefits are accounted for as they are earned by the employee. This requires accruals for items such as holiday pay; and
- The definition of associates is based on the ability to control rather than actual control, and could lead to a change in the group boundary.

Pensions

The financial statements include the relevant pension costs and provisions required to reflect the pension accounting arrangements under the Pensions Accounting Standard IAS19.

Review of the year

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

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

Better Deal for Residents

The programme has been developed to support the Council's vision and address the financial challenges resulting from central Government cuts. The main objectives of the programme are:-

- Being a more efficient and effective organisation that can live within its means;
- Improved customer service and providing more joined up services; and
- Building on the community spirit of residents.

During the year progress was made on several projects as detailed below:-

Adult's Services Consultation – Residents, service users and carers are being consulted in order to make decisions about which services to change, with a final report to be presented to Cabinet in autumn 2011.

Reablement Phase 1 of the reablement project is complete. The reablement service is designed to help residents regain vital skills and the confidence needed to live independently at home.

Libraries Radio Frequency Identification (RFID) The project to introduce self service technology into libraries is being rolled out across the Council's 11 libraries with the target completion during autumn 2011.

Public Realm This involves the introduction of new technology to the Streets and Grounds Maintenance team which enables a delivery of more efficient and effective service.

Special Needs Transport work has progressed from route optimisation in phase 1 to developing and delivering a programme promoting independent travel for school children with special needs due to be completed by summer 2011.

Support Services There are a number of large scale projects such as Business Support and Customer Contact, Assess and Decide underway, which are mostly on target to be completed by spring 2012. This will enable the Council to provide a more efficient and effective service to its residents.

General Fund Revenue Account (GF)

During 2010-11, against a background of severe financial restraint, the Council has continued to push forward with innovations and improvements to services. This has resulted in savings of over £45m in the last four years, and increased general reserves year on year up to our current balance of £7m. Council Tax was kept to a zero increase for the second year running in 2011.

The Council's revenue budget outturn for 2010-11 confirmed an under spend of £1.135m. This represented 1% of the total net expenditure of £171.685m.

	2010-11			
	Budget £m	Outturn £m	Outturn Variation £m	Outturn Variation %
Departmental Costs	297.370	293.298	-4.072	-1.4
Carry forward for future commitments and pressures	0.000	2.008	2.008	0.0
Net Directorate outturn position	297.370	295.306	-2.064	-0.7
Non Departmental Costs	-125.685	-124.961	0.724	-0.6
Contributions to Reserves	0.000	0.205	0.205	0.0
Net Expenditure	171.685	170.550	-1.135	-0.7
Contribution to				
Transformation and Priority Initiative Fund	0.000	0.429	0.429	
General reserve	0.000	0.706	0.706	
Total	0.000	1.135	1.135	

Departmental Costs

The outturn position for the directorates of a £4.1m under spend represents a favourable variance of 1.4% against a net budget of £297.4m. This is a significant achievement especially in the light of in year cuts of £1.3m and a challenging environment of unexpected service and income pressures. Some of this underspend does however relate to timing differences in relation to activity commenced in 2010-11 which will need to be completed in 2011-12 and for which £2.008m has been carried forward. This reduces the directorates' outturn to £2.064m as reported in the above table. The under spend was mainly due to:

- Adult and Housing services delivering a £0.252m under spend spread over a number of service areas;
- Children's services delivering a £0.550m favourable variance, of which £0.213m resulted from reallocation of grant funding in the Early Year's Service;
- Community and Environment producing a favourable variance of £0.153m across various budget heads; and
- Under spends in Corporate departments and Place Shaping which mainly resulted from over accruals of liabilities in the prior year and vacancy management.

This enabled pressures of £0.724m on Non Departmental Costs to be offset which resulted mainly from charges to revenue in respect of prior year capital projects which are no longer going ahead due to current economic climate.

Net Expenditure

From the total net under spend of £1.135m, £0.429m has been allocated to the Transformation and Priority Initiatives Fund for initiatives which will deliver ongoing revenue savings and the balance of £0.706m has been transferred to general reserves. The balance carried forward into 2011-12 now stands at £7.000m.

The net cost of service for the year was £331.1m (£288.0m in 2009-10). The main reason for the significant increase is the impairment charge on Council dwellings amounting to £121.2m. This was offset by accounting entries as per IAS19 in respect of pension gains totalling a credit of £74.0m.

Achievements

The year started with being short listed for both the Municipal Journal's (MJ) 'Best Achieving Council' and Local Government Chronicle's (LGC) 'Most Improved Council of the Year', and in June 2011 we were named as the Best Achieving Council.

Adult's Social care was judged the most improved service in London and 4th nationally. During the year the service received recognition as detailed below:

- European recognition for its work on personalisation, which culminated in Adults' services presenting its journey to Finland's first national conference on personal budgets. One in five personal budgets in London is awarded by Harrow;
- The Department of Health recognised Harrow as a national leader in reablement which improves users' quality of life by enabling them to live at home rather than in hospital. The service was short listed for the MJ award in the category of 'Total Place Achievement of the Year' for reablement; and
- Adults and Housing management team was short listed for LGC 'Management Team of the Year' awards category.

Eighty-five percent of Harrow's schools are now rated as good or outstanding by Ofsted and Harrow is also in the top 11 councils in London for English and Mathematics GCSE results.

Environmental services successfully increased the recycling rates to 50% which matches the best in London.

In July 2010, the communication team won the award at the Good Communications Awards for 'Our Harrow, Our Community' campaign which successfully increased community cohesion across the borough.

Capital

Actual capital spend in the year was £58m, compared with an original capital programme of £46m. The increase in the programme was due to commitments carried forward from 2009-10 and additions during the year, mainly in Children's Services. The commitments brought forward from the previous year and the additions during the year were mainly funded from grants. At year end there were projects which were not completed and therefore commitments of £16m were carried forward to 2011-12, of which £3.3m related to the HRA and £6m were grant funded projects.

During the year an over spend was reported on the Whitmore School project which was managed by additional controls that were put in place to minimise non urgent capital expenditure for the remainder of the year. This resulted in the final net over spend of £2.363m on the General Fund capital programme. Additional project and financial management controls are in place to avoid any recurrence of the issue. In addition, processes around the development and implementation of the capital programme have been reviewed and robust arrangements are in place for the approval of the capital projects.

Major projects included in the programme were:

- Continued investment in new technology to improve Council Services;
- Education modernisation and improvements, Catering in Schools, Whitmore School;
- Improvements to the Council's housing stock to achieve the 'Decent Homes' standard;
- Highways Infrastructure; and
- Supported Housing and Empty Property Grants.

Expenditure during the year was funded from grants (£26m), usable capital receipts (£6m), revenue contributions (£4m) and borrowing from UK banks (£22m). The total capital programme including the Housing Revenue Account (HRA) for 2011-12 is £52m. This will be funded from government grants (£10m), revenue contributions (£4m), capital receipts (£8m) and borrowings (£30m).

Housing Revenue Account

The Council provides rented accommodation of 4,966 units. In 2010-11, average Council rents were £86.60 per week, an increase of 2.85% from 2009-10. The HRA outturn confirmed a deficit of £1.004m in 2010-11. This was lower than planned and resulted in a decrease in the HRA balance from £4.8m to £3.8m.

To arrive at an existing use value for social housing 25% of the unadjusted vacant possession value of dwellings has been applied to valuations in 2010-11, compared with 37% in 2009-10. This is the main factor contributing to a £121m impairment adjustment reflected in the HRA revenue account.

Collection Fund

The outturn surplus on the Collection Fund at year end is £2.774m compared to the estimated figure of £2.494m. This is a movement of £1.002m from last year when there was a surplus of £1.772m. The Council's share of the surplus is £2.200m and the Greater London Authority's (GLA) share is £0.574m.

Treasury Management

During 2010-11 the main focus for Treasury Management was to reduce the Counter Party and Interest Rate risks within the investment portfolio and to minimise borrowing costs.

The investment portfolio achieved an average return of 1.30% in the year (2.25% in 2009-10), exceeding both the 7 day and 3 month LIBID rates. This resulted in interest earned of £1.0m compared to the budgeted figure of £0.7m generating a favourable variance of £0.3m.

The average interest rate on debt has moved over the course of the year from 4.66% to 4.57%, which is well below the overall national average rate of Interest. The actual cost of borrowing was £11.2m compared to the budgeted figure of £11.3m resulting in an under spend of £0.1m.

The Minimum Revenue Provision (MRP) showed a favourable variance of £0.6m resulting from projects of around £5.0m not completed within planned timescales and a £2.7m under spend in 2009-10 on capital projects funded from borrowing.

Outlook for the Future

The Government's announcement in January 2011 on the Local Government Finance Settlement determined the level of grant funding available to local authorities for 2011-12 and provisional amounts for 2012-13. The wider picture of the state of public finances is well documented and the reality of the need for significant cuts to all areas of public sector funding, including local government, has been factored into the medium term forecast.

The Council has had to find £14.7m new savings on its General Fund when setting the 2011-12 Council Tax, with further significant savings required for future years. This is an unprecedented step change in terms of the magnitude of savings required and carries risks. In addition, there will continue to be ongoing pressures on key Council services such as demographic pressures on adult social care, demand for school places, impact of changes to benefits on the community and escalating waste disposal costs. These are also included in the medium term forecast.

Looking at the wider picture, the economic recovery for 2011-12 is likely to be slow and uneven. With growth prospects remaining subdued the Monetary Policy Committee will want to keep interest rates low, however they are likely to come under pressure to increase rates as global and household inflation rises. Consumer Price Inflation is stubbornly above 3% and is likely to spike over 4% and possibly higher during 2011 as a result of increases in VAT, utilities and rail fares. In this context, in the public sector the impact of a return to normal inflationary conditions may be delayed due to the pressure on

the public finances. This should reduce pay expectations in local government, although this will be offset by inflationary pressures on contracts.

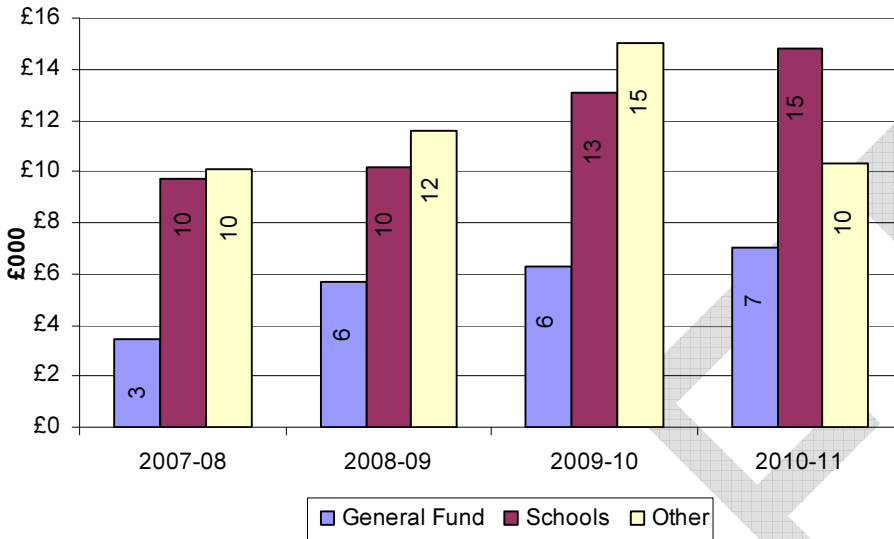
The above pressures will be addressed through the Better Deal for Residents programme which started in 2010-11, redesigning services to contain the growth in demand for services, joint work with partners to drive out efficiencies and making the best use of Council's assets.

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1.1.1 Financial Data

The following tables and charts analyse Balances, Council Tax at Band D, income and expenditure of the Council services provided and a summary of capital expenditure:

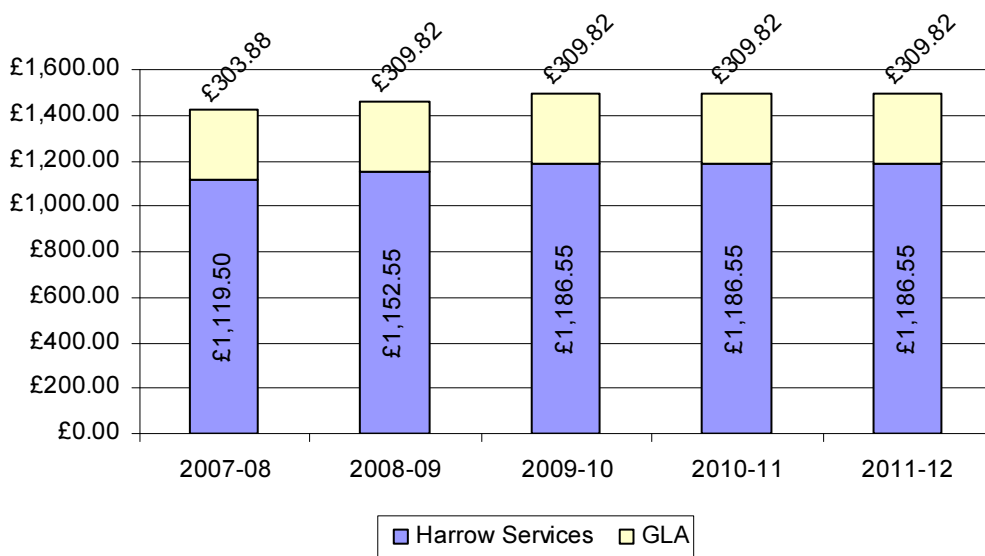
1.1.2 Council Revenue Balances (£000's)



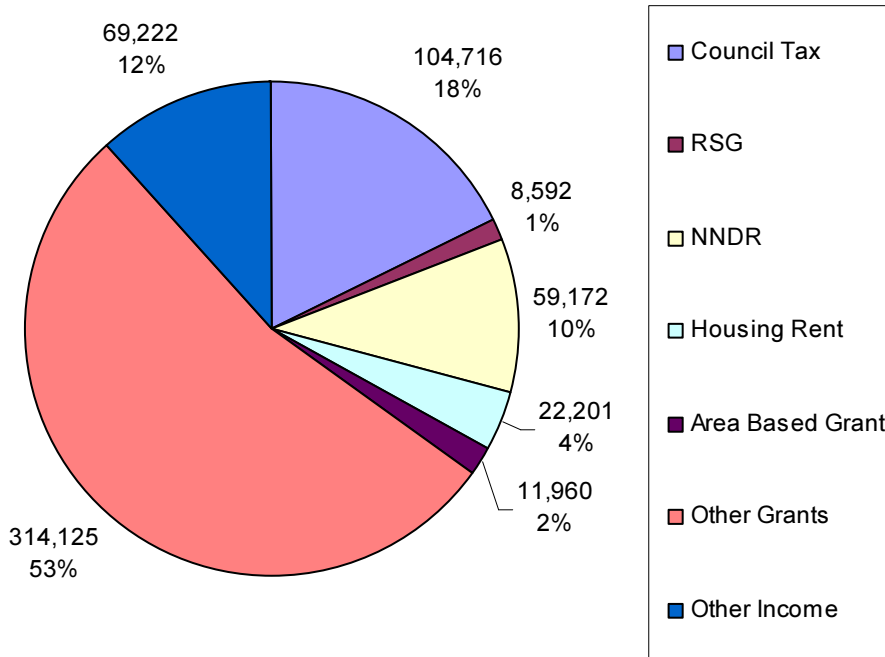
Note: the above balances, excluding General Fund, are ring fenced.

1.1.3 Council Tax Band D

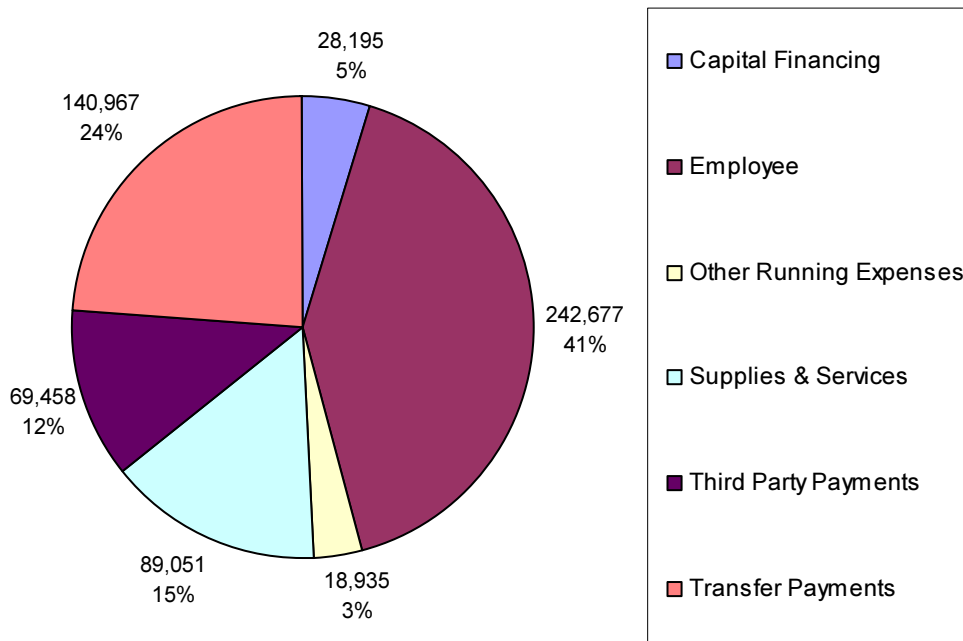
Council tax helps to pay for the services provided by Harrow Council and the Greater London Authority (GLA). The total Council Tax for Band D was £1,496.37.



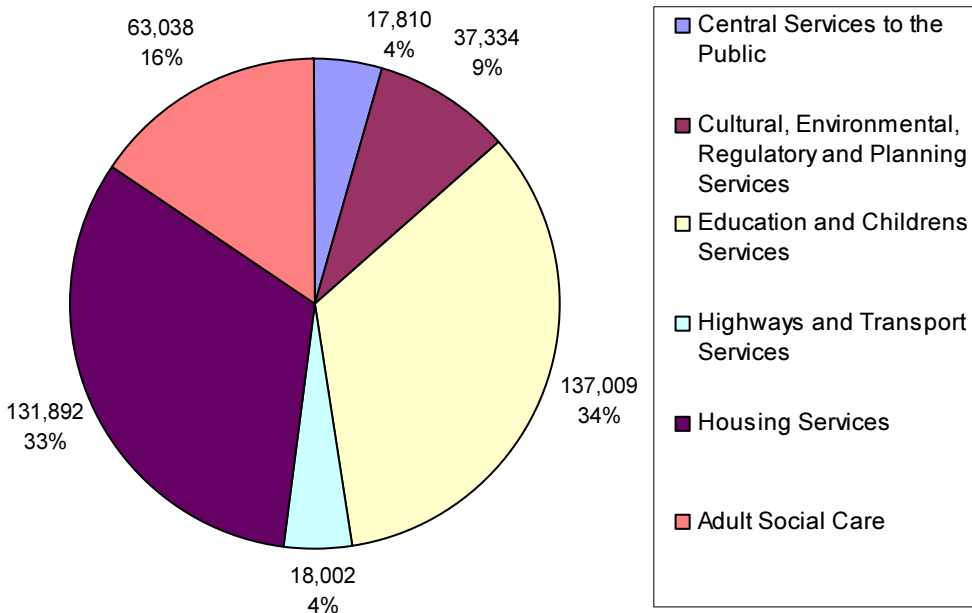
1.1.4 Analysis of Revenue Income (£000's)



1.1.5 Analysis of Revenue Expenditure (£000's)



1.1.6 The Services Provided – analysis of expenditure

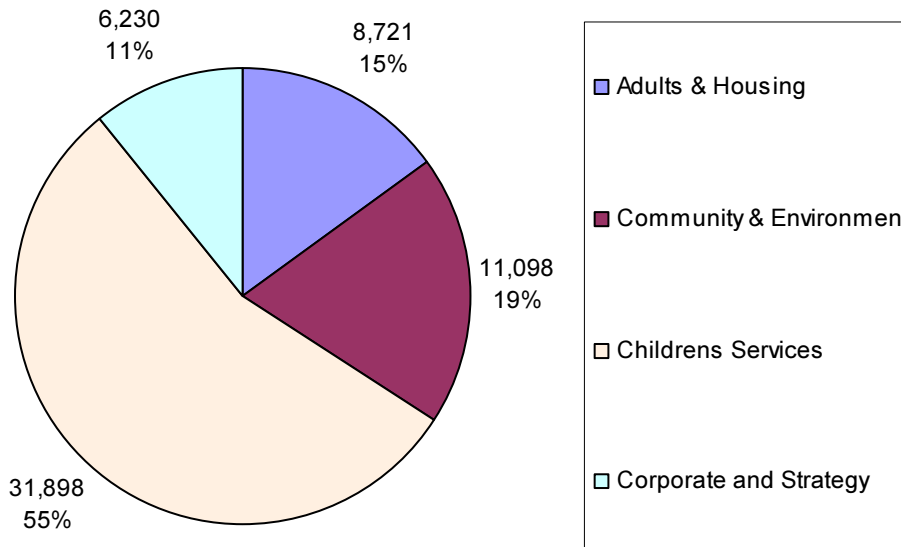


Housing Services includes both the General Fund and Housing Revenue Account lines from the CIES.

Central Services to the Public includes Central Services, Corporate and Democratic Core and Non Distributed costs lines from the CIES but excludes accounting entries for pension gains totalling a credit of £74.022m .

1.1.7 Capital Expenditure (£000's)

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



Further information about the accounts is available from:

London Borough of Harrow Statement of Accounts 2010 – 2011

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

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

www.audit-commission.gov.uk

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2 Statement of Responsibilities

The Council's Responsibilities

- 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 Chief Finance Officer, i.e. the Interim Director of Finance;
- To manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets; and
- To approve the statement of accounts (delegated to the Governance, Audit & Risk Management Committee (GARM Committee)).

The Chief Finance Officer's Responsibilities

The Chief Finance Officer 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 2010-11.

In preparing this Statement of Accounts, the Chief Finance Officer 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 Chief Finance Officer 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.

I certify that the Statement of Accounts as set out in this document presents a true and fair view of the financial position, performance and cashflow of the council as at 31 March 2011 and its income and expenditure for the year then ended.

Julie Alderson (ACA)

Chief Finance Officer

30 June 2011

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

I can confirm that these accounts were considered and approved by the Governance, Audit and Risk Management Committee (GARMC) at the meeting held on 21 September 2011.

Signed on behalf of London Borough of Harrow Council

Sachin Shah
Chairman (GARMC)
September 2011

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3 Audit Opinion & Certificate

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

Opinion on the Authority accounting statements

We have audited the accounting statements of London Borough of Harrow for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and their related notes 5.1 to 5.47.10, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and the related notes 6.2 to 6.2.11 and Collection Fund and the related notes 7.1 to 7.1.3. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Authority'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. Our responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

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

Opinion on accounting statements

In our opinion the accounting statements:

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

Opinion on other matters

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

Matters on which we report by exception

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

We have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes 9.4 to 9.5. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the pension fund'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. Our responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

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

Opinion on accounting statements

In our opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

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

Authority's responsibilities

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

Auditor's responsibilities

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

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

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, London Borough of Harrow put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

The audit cannot be formally concluded and an audit certificate issued until we have completed our consideration of matters brought to our attention by local authority electors in respect of prior year accounts. We are satisfied that these matters do not have a material effect on the financial statements.

Paul Schofield (Engagement Lead)
For and on behalf of Deloitte LLP
Appointed Auditor
St Albans, United Kingdom
[Date]

4 Presentation of Financial Statements

4.1 Movement in reserves statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Locally Managed Schools Reserve £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2010 (restated)	-6,294	-15,011	-13,108	-4,784	-6,167	-2,500	-47,864	-420,878	-468,742
<u>Movement in reserves during 2010-11</u>									
(Surplus) or deficit on the provision of services	-18,307	0	-1,691	125,101	0	0	105,103	-76	105,027
Other Comprehensive Expenditure and Income	-67,509	0	0	0	0	0	-67,509	0	-67,509
Total Comprehensive Expenditure and Income (note 4.2)	-85,816	0	-1,691	125,101	0	0	37,594	-76	37,518
Adjustments between accounting basis & funding basis under regulations (Note 5.6)	89,787	0	0	-124,097	-81	1,654	-32,737	32,737	0
Net Increase/Decrease before Transfers to Earmarked Reserves	3,971	0	-1,691	1,004	-81	1,654	4,857	32,661	37,518
Transfers to/from Earmarked Reserves (note 5.7)	-4,677	4,677	0	0	0	0	0	0	0
Increase/Decrease in 2010-11	-706	4,677	-1,691	1,004	-81	1,654	4,857	32,661	37,518
Balance at 31 March 2011 carried forward (note 4.3)	-7,000	-10,334	-14,799	-3,780	-6,248	-846	-43,007	-388,217	-431,224
Balance at 31 March 2009 (restated)	-5,716	-11,594	-10,131	-5,142	-5,906	-1,543	-40,032	-691,345	-731,377
<u>Movement in reserves during 2009-10</u>									
(Surplus) or deficit on the provision of services	138,196	0	-2,977	-35,847	0	0	99,372	30	99,402
Other Comprehensive Expenditure and Income	163,233	0	0	0	0	0	163,233	0	163,233
Total Comprehensive Expenditure and Income (note 4.2)	301,429	0	-2,977	-35,847	0	0	262,605	30	262,635
Adjustments between accounting basis & funding basis under regulations (Note 5.6)	-305,377	-47	0	36,205	-261	-957	-270,437	270,437	0
Net Increase/Decrease before Transfers to Earmarked Reserves	-3,948	-47	-2,977	358	-261	-957	-7,832	270,467	262,635
Transfers to/from Earmarked Reserves (note 5.7)	3,370	-3,370	0	0	0	0	0	0	0
Increase/Decrease in 2009-10	-578	-3,417	-2,977	358	-261	-957	-7,832	270,467	262,635
Balance at 31 March 2010 carried forward (note 4.3) (restated)	-6,294	-15,011	-13,108	-4,784	-6,167	-2,500	-47,864	-420,878	-468,742

4.2 Comprehensive Income and Expenditure Statement (CIES)

2009-10 Restated				2010-11			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Notes	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
23,293	-21,935	1,358	Central Services		25,087	-23,460	1,627
61,521	-14,051	47,470	Cultural, Environmental, Regulatory and Planning Services		46,536	-9,202	37,334
367,583	-193,358	174,225	Children's and Education Services		341,710	-204,701	137,009
29,412	-13,433	15,979	Highways and Transport Services		31,793	-13,791	18,002
-11,516	-25,440	-36,956	Housing Services (HRA) (note 6.1)		145,062	-25,691	119,371
128,319	-119,615	8,704	Housing Services (General Fund)		139,569	-127,048	12,521
89,404	-21,903	67,501	Adult Social Care		83,254	-20,216	63,038
14,213	-4,927	9,286	Corporate and democratic core		11,777	-1,253	10,524
613	-220	393	Non distributed costs	5.43.6	-68,249	-114	-68,363
702,842	-414,882	287,960	Cost Of Services (Section 10.3)		756,539	-425,476	331,063
9,162	-1,853	7,309	Other Operating Expenditure	5.8	12,885	-1,291	11,594
25,862	237	26,099	Financing and Investment Income and Expenditure	5.9	21,941	-2,442	19,499
	-221,966	-221,966	Taxation and Non-Specific Grant Income	5.10	0	-257,129	-257,129
		99,402	Deficit on Provision of Services				105,027
		11,152	Deficit on revaluation of non current assets	5.27.1			2,001
		152,081	Actuarial (gains)/losses on pension assets / liabilities	5.43.2 & 5.43.6			-69,510
		163,233	Other Comprehensive Income and Expenditure				-67,509
		262,635	Total Comprehensive Income and Expenditure				37,518

4.3 Balance sheet

Restated			Notes	31-Mar-11
1-Apr-09	31-Mar-10			£000
£000	£000			
1,167,750	1,091,169	Property Plant and Equipment	5.11	885,739
18,636	24,822	Investment Property	5.14	23,681
16,345	0	Long Term Investments	5.15	18,000
3,897	3,712	Long Term Debtors	5.16	3,604
<u>1,206,628</u>	<u>1,119,703</u>	Long Term Assets		<u>931,024</u>
53,881	64,741	Short Term Investments	5.17	65,557
91	26	Inventories	5.18	141
32,242	28,205	Short Term Debtors	5.19	21,279
9,355	23,275	Cash and Cash Equivalents	5.20	25,497
<u>95,569</u>	<u>116,247</u>	Current Assets		<u>112,474</u>
-17,594	-16,181	Short Term Borrowing	5.21	-33,658
-66,747	-69,429	Short Term Creditors	5.22	-66,159
-9,249	-2,701	Provisions	5.23	-3,632
<u>-93,590</u>	<u>-88,311</u>	Current Liabilities		<u>-103,449</u>
-3,915	-4,474	Provisions	5.23	-3,929
-212,217	-242,108	Long Term Borrowing	5.24	-261,963
-204,437	-369,476	Other Long Term Liabilities	5.25	-236,820
<u>-56,660</u>	<u>-62,839</u>	Capital Grants Receipts in Advance	5.39.3	-6,113
<u>-477,229</u>	<u>-678,897</u>	Long Term Liabilities		<u>-508,825</u>
<u>731,378</u>	<u>468,742</u>	Net Assets		<u>431,224</u>
-40,032	-47,864	Usable Reserves	5.26	-43,007
-691,346	-420,878	Unusable Reserves	5.27	-388,217
<u>-731,378</u>	<u>-468,742</u>	Total Reserves		<u>-431,224</u>

4.4 Cash flow statement

Restated			Notes	2010-11
2009-10				£000
£000				
99,402		Net deficit on the provision of services	4.2	105,027
-115,565		Adjustments to net surplus or deficit on the provision of services for non cash movements	5.28	-125,605
9,309		Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	5.28	11,374
<u>-6,854</u>		Net cash flows from Operating Activities		<u>-9,204</u>
38,190		Investing Activities	5.29	46,027
-45,256		Financing Activities	5.30	-39,045
<u>-13,920</u>		Net increase in cash and cash equivalents		<u>-2,222</u>
-9,355		Cash and cash equivalents at the beginning of the reporting period	5.20	-23,275
<u>-23,275</u>		Cash and cash equivalents at the end of the reporting period		<u>-25,497</u>

5 Notes to the Financial Statements

5.1 Accounting Policies

The Council's objective is to ensure that for all material items:

- The appropriate accounting policies have been adopted, given the Council's circumstances to ensure the Accounts give a true and fair view;
- The accounting policies adopted are reviewed regularly to ensure that they remain appropriate; and
- Sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

Estimation Techniques

These are the methods adopted by the Council to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves.

The Authority has determined the estimation techniques that most closely reflect the economic reality of the transactions or other events to which the relevant accounting policy refers.

5.1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010-11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 and the Best Value Accounting Code of Practice 2010-11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

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

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

Going Concern

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

Primacy of Legislative Requirements

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

Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

5.1.2 Cash and Cash Equivalents

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

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

5.1.3 Investments

The Council has adopted the CIPFA Code of Practice for Treasury Management. Investments are made in accordance with this code and the Council's Treasury Strategy Statement is approved by Members each year.

5.1.4 Exceptional Items

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.

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

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

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

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

5.1.6 Charges to Revenue for Non-Current Assets

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

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

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make Minimum Revenue Provision (MRP) from revenue towards the reduction in its overall borrowing requirement.

MRP is the amount of money the council has to set aside each year in respect of its capital borrowing debt. The MRP is a technical accounting entry which impacts on General Fund balances and Council Tax levels. The Capital Financing and Accounting Regulations place a duty on Local Authorities to make an MRP which is considered to be prudent and places a responsibility with the council to approve an Annual MRP Strategy.

The Regulations allow four different methods to be used for the calculation of MRP. The Council's policy is to use:

- Option 1 (the 'Regulatory method') for borrowings entered into before 1 April 2008 and for any future supported borrowing after 1 April 2008. Under this method, MRP is set at a uniform rate of 4% of the adjusted CFR on a reducing balance method; and
- Option 3 (the 'Asset Life Method') for any unsupported borrowing entered into after 1 April 2008. Under this method, MRP is spread over the estimated useful life of the asset created and is calculated using the equal instalment basis.

5.1.7 Employee Benefits

Benefits Payable during Employment

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

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 Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

Post Employment Benefits

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

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

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

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

5.1.8 Pensions – IAS19

The requirements of International Accounting Standard 19 (IAS 19) are implemented in full in the accounts. The accounts include a net pension liability within the balance sheet. The change in the figure between years reflects the change in the estimated employer's assets and the present value of the scheme's liabilities. The Council's triennial valuation takes a longer term view and provides a more appropriate measure of pension obligations.

From April 2011, pensions were increased in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). This change is reflected in the 2010-11 actuarial calculation. The change has reduced the employer's liability by £72.230m which is included within Corporate and Democratic Core for 2010-11. This entry is reversed in the Movement in Reserve Statement.

5.1.9 Financial Instruments

A financial instrument is any transaction that generates an asset in the accounts of one entity and a liability in the accounts of another entity. All Financial Instruments are either classified as Financial Assets or Financial Liabilities and insofar as the Council is concerned this covers our borrowings, loans, investments, trade debtors and creditors.

The Council's financial liabilities and financial assets are carried on the balance sheet at amortised cost. The Amortised Cost on initial recognition is at equivalent fair value. However, the code requires that the Fair Value of these instruments is disclosed in the notes to the account. The Fair value of an instrument is the amount for which it could be sold for in an open market based on the present value of the future cash flows.

Premiums paid on the early settlement of debt are also classified as Financial Instruments. Regulations allow such premiums to be charged to general fund balances over the number of years equal to that which was remaining on the original loan, or to charge such premiums over a shorter time frame if desired. The council's policy is to spread the premium over the term that was remaining on the original loan which gave rise to the

premium. Further information on the council's Financial Instruments is set out in the Notes to the Statement.

5.1.10 Government Grants and Contributions

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

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line in the Comprehensive Income and Expenditure Statement.

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. Where it has been applied, it is posted to the Capital Adjustment Account.

Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ring fenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

5.1.11 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

5.1.13 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.

Finance leases are accounted for on an annual basis according to the point in the year at which the lease commences.

The Council as a Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on either the Balance Sheet after the commencement of the lease, where the lease begins on or before 30 September or in the following year's Balance Sheet where the lease begins on or after 1 October. It is recognised 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.

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

Operating Leases

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

The Council as a Lessor

Operating Leases

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

5.1.14 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010-11 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

5.1.15 Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

There is a rolling programme of valuations intended to embrace the whole of the property asset portfolio of the Council over a period of five years. A review is also undertaken of the values at which each category of fixed assets is included in the Council's balance sheet at each year-end. Where there is sufficient reason to believe that values may have changed materially since the last valuation, and that change is likely to be other than temporary, the relevant categories of assets are re-valued accordingly (for example, where capital expenditure of over £0.250m has been incurred on a property within the five year rolling programme period). Asset Under Construction are valued in year coming into use. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains

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

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

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

Impairment

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

Where impairment losses are identified, they are accounted for by:

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to

the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

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

Depreciation is calculated on the following basis:

- Other buildings – straight-line allocation over the useful life of the property as estimated by the valuer: 20-80 years;
- vehicles, plant, furniture and equipment: 5 years;
- infrastructure assets – straight-line allocation: 10-80 years;
- Freehold land has not been depreciated;
- Community assets are held at nominal value and therefore has not been depreciated;
- Newly acquired or completed assets are depreciated in the year following acquisition or completion; and
- The Council dwellings have been depreciated by an amount equal to the Major Repairs Allowance.

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

The objective of component accounting is to follow proper accounting practice by ensuring that Property Plant & Equipment is accurately and fairly included in an authority's Balance Sheet and that the Comprehensive Income and Expenditure Statement properly reflects the consumption of economic benefits of those assets (i.e. the cost of their use) over their individual useful lives, through depreciation charges. Componentisation in local authority accounts applies to revaluations from 1 April 2010 and also to acquisitions and enhancements from the same date.

The Council has adopted the approach outlined in CIPFA LAAP Bulletin 86 to develop a policy in relation to the identification of potential components of fixed assets and then assess whether from not using a shorter useful economic life a material misstatement in the accounts would arise.

The policy allows for the following de-minimis criteria to be applied to general fund properties before componentisation of assets will be applied

	De-minimis Threshold	Reasoning
1	Main building asset de-minimis value of £4m.	If the value of the building is below £4m it is not subject to component accounting.
2	Main asset remaining Useful Economic Life (UEL) de-minimis level at 20 years.	It would be uneconomical to replace a component where the main asset life is 20 years or less.
3	De-minimis life for a component is less than 75% of the life of the parent asset.	For example - if the life of the main asset is 40 years the life of a component needs to be 30 years or less for componentisation to apply.
4	De-minimis cost of a component is 20% or more of the main building asset.	If the value of the asset is £5m the value of the component needs to be at least £1m.

There are 14 buildings where the value at 31.3.11 exceeds £4m but there are no components such as flat roofs or mobile classrooms that exceed the de-minimis criteria identified in the policy.

For HRA dwellings an exercise was carried out to identify the main components such as kitchens, bathrooms, central heating etc and assign a useful economic life and value to these potential components. The value of depreciation calculated on the basis of estimated componentisation was then compared with the value of the Major Repairs Allowance (MRA) as a proxy for depreciation. The outcome of this process was to proceed with the MRA as the basis of depreciation in 2010-11.

The valuation of land and buildings has been carried out separately for all assets.

Disposals

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

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

5.1.16 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 Authority.

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

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

5.1.17 Provisions and Contingent Liabilities

Provisions

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

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

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

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

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 authority. 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.

5.1.18 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily for earmarked purposes that fall outside the definition of provisions.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

5.1.19 Revenue Expenditure Funded from Capital under Statute

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

5.1.20 Value Added Tax (VAT)

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

5.1.21 Collection Fund

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

- In its capacity as a billing authority the Council acts as agent; it collects and distributes Council Tax income on behalf of the major preceptors and itself;
- While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors;
- Up to 2008-09 the Code of Practice ('The Code') required the Council Tax income included in the Income and Expenditure Account to be that specified under regulation; and
- From the year commencing 1 April 2009 the Council Tax income included in the Income and Expenditure Account for the year is to be the accrued income for the year. The difference between the income included in the Income and Expenditure Account and the amount specified by regulation to be credited to the Collection Fund is to be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

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

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

5.2 Critical Judgements in Applying Accounting Policies

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

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

- The council has reviewed its significant contractual arrangements and has determined that none of these give rise to a service concession under IFRIC 12 or embedded lease arrangements under IFRIC 14.

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

Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.

It is estimated that there would not be any significant increase in the annual depreciation charge if the useful life of the assets is reduced.

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 (Hymans Robertson LLP) is engaged to provide the Council with expert advice about the assumptions to be applied.

The Council's actuary advised that the underlying bond yields that form the foundation for the adopted discount rate assumption were the same at the date of the last triennial valuation (31 March 2010) as they were at the previous valuation. The actuary's asset out performance assumption has also remained constant, providing justification for the discount rate used to estimate the cost of future benefit payments remaining unchanged. Furthermore, the actuary has subsequently advised that the same discount rate should be rolled forward in the calculation of the present value of promised retirement benefits at 31 March 2011.

Given this view on stability of the discount rates, the Council has assumed that rates previously adopted will prevail until subsequently advised to the contrary. The effect of a 0.5% decrease in the real discount rate would be to increase the Employer Liability by approximately 9% (£56.3m).

The assumptions interact in complex ways. During 2010-11, the actuary advised that the actuarial present value of the promised retirement benefits net pensions liability had decreased by £108m. Similarly, the scheme deficit has decreased by £134m as a result of experience, estimates being corrected and the updating of underlying assumptions.

5.4 Heritage assets (Standard not yet effective)

The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Council, which will need to be adopted fully by the Council in the 2011-12 financial statements.

Heritage assets are assets that are held by the Council principally for their contribution to knowledge or culture. The Council has identified that the Headstone Manor site is a potential heritage asset. The property is currently classified as a community asset and held at £1 in the balance sheet and is not depreciated to reflect the fact that the asset will be maintained in perpetuity for the benefit of the community.

5.5 Events after the Balance Sheet Date

The Statement of Accounts were signed by the Chief Finance Officer on 30 September 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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5.6 Adjustment between accounting basis and funding basis under regulations

2010-11	Usable Reserves					Movement in Unusable Reserves £000
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	
Adjustments involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the CIES:</u>						
Depreciation	-30,233	-3,987	0	0	0	-34,220
Impairment	-93,512	-120,916	0	0	0	-214,428
Movements in the market value of Investment Properties	490	47	0	0	0	537
Capital grants and contributions	72,400	289	0	0	1,654	74,343
Revenue expenditure funded from capital under statute	-5,834	0	0	0	0	-5,834
Non Current assets written out on disposal	-3,655	-5,015	0	0	0	-8,670
<u>Insertion of items not debited or credited to the CIES:</u>						
Minimum Revenue Provision	12,062	23	0	0	0	12,085
Capital expenditure charged against the General Fund and HRA balances	290	0	0	0	0	290
Adjustments involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited to the CIES	5,052	1,327	-6,349	0	0	30
Use of the Capital Receipts Reserve to finance new capital expenditure			5,462	0	0	5,462
Less Administrative Cost of disposals	-106	-10	116	0	0	0
Less payments to the Capital Receipt Pool	-690		690	0	0	0
Adjustment involving the Major Repairs Reserve						
Reversal of Major Repairs Allowance credited to the HRA	0	3,932	0	-3,932	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	3,932	0	3,932
Adjustments involving the Financial Instruments Adjustment Account:						
Premiums and Discounts on Debt Restructure	-249	220	0	0	0	-29
Adjustments involving the Pensions Reserve:						
Charges made for retirement benefits in accordance with IAS19	45,085	-377	0	0	0	44,708
Employer's pensions contributions payable in the year	19,363	350	0	0	0	19,713
Adjustments involving the Collection Fund Adjustment Account:						
	795	0	0	0	0	795
Adjustment involving the Accumulating Compensated Absences Account						
	1,020	20	0	0	0	1,040
Total Adjustments	22,278	-124,097	-81	0	1,654	-100,246

Notes to the Financial Statements

2009-10	Usable Reserves					Movement in Unusable Reserves
	General Fund Balances	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the CIES:</u>						
Depreciation	-27,031	-3,825	0	0	0	-30,856
Impairment	-160,956	36,860	0	0	0	-124,096
Movements in the market value of Investment Properties	-1,480	-2,057	0	0	0	-3,537
Capital grants and contributions	42,761	0	0	0	-957	41,804
Revenue expenditure funded from capital under statute	-1,178	0	0	0	0	-1,178
Non Current assets written out on disposal	-105	-965	0	0	0	-1,070
<u>Insertion of items not debited or credited to the CIES:</u>						
Minimum Revenue Provision	9,002	0	0	0	0	9,002
Capital expenditure charged against the General Fund and HRA balances	122	0	0	0	0	122
Adjustments involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited to the CIES	913	2,045	-2,958	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,314	0	0	1,314
Less Administrative Cost of disposals	-37	0	37	0	0	0
Less payments to the Capital Receipt Pool	-1,346	0	1,346	0	0	0
Adjustment involving the Major Repairs Reserve						
Reversal of Major Repairs Allowance credited to the HRA		3,778	0	-3,778	0	0
Use of the Major Repairs Reserve to finance new capital expenditure		0	0	3,778	0	3,778
Adjustments involving the Financial Instruments Adjustment Account:						
Premiums and Discounts on Debt Restructure	-249	230	0	0	0	-19
Adjustments involving the Pensions Reserve:						
Charges made for retirement benefits in accordance with IAS19	-23,999	-337	0	0	0	-24,336
Employer's pensions contributions payable in the year	19,084	470	0	0	0	19,554
Adjustments involving the Collection Fund Adjustment Account:						
	1,125	0	0	0	0	1,125
Adjustment involving the Accumulating Compensated Absences Account						
	1,230	6	0	0	0	1,236
Total Adjustments	-142,144	36,205	-261	0	-957	-107,157

5.7 Transfers to/from Earmarked Reserves

London Borough of Harrow Statement of Accounts 2010 – 2011

Notes to the Financial Statements

	Balance at 1-Apr-09	Transfers Out 2009-10	Transfers In 2009-10	Balance at 31-Mar-10	Transfers Out 2010-11	Transfers In 2010-11	Balance at 31-Mar-11
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
Balances held by schools under a scheme of delegation	-10,131	0	-2,977	-13,108	0	-1,691	-14,799
Compensatory Added Years	0	0	-1,069	-1,069	75	-13	-1,007
Transformation and Priority Initiatives Fund	-500	445	-1,002	-1,057	909	-282	-430
Borough Elections	-151	0	-76	-227	227	0	0
Building Schools for the future	-400	0	0	-400	400	0	0
Harvist reserve_harrow Share	-26	30	-14	-10	0	-13	-23
NW London Education Business Partnership	-93	0	0	-93	0	0	-93
PFI Schools	-4,017	492	-446	-3,971	2,336	-2,101	-3,736
Personal Injury Reserve	-103	0	-7	-110	0	0	-110
Projects in progress	-2,369	2,361	-3,605	-3,613	3,402	-2,001	-2,212
Bad Debt Reserve	-250	75	0	-175	175	0	0
Insurance reserve	-500	0	0	-500	0	0	-500
Litigation and employment related Reserve	-515	496	-757	-776	221	0	-555
Local Housing Allowance		0	0	0	0	-300	-300
Revenue Grant Reserve	-2,671	0	-47	-2,718	2,669	0	-49
Revenue Contribution for Capital from Schools	0	0	0	0	0	-818	-818
PFI Neighbourhood Resource Centre	0	5	-297	-292	838	-1,047	-501
Total	-21,726	3,904	-10,297	-28,119	11,252	-8,266	-25,133

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

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

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

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

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

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

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

Accumulation of smaller earmarked reserves: Reserves under £400,000 are established for various minor miscellaneous purposes.

5.8 Other Operating Expenditure

2009-10		2010-11
£000		£000
	Levies	
748	London Boroughs Grants Committee	748
348	London Pension Fund Authority	330
6,284	West London Waste Authority (WLWA)	6,983
264	Lee Valley Regional Park Authority	264
172	Environment Agency	172
<u>7,816</u>	Sub Total Levies	<u>8,497</u>
1,346	Payments to the Government Housing Capital Receipts Pool	690
-1,853	Gains/losses on the disposal of non current assets	2,407
<u>7,309</u>	Total	<u>11,594</u>

5.9 Financing and investment income and expenditure

2009-10		2010-11
£000		£000
Restated		
12,178	Interest payable and similar charges	13,636
13,684	Pensions interest cost and expected return on pensions assets	8,305
-1,559	Interest receivable and similar income	-1,121
1,796	Income and expenditure in relation to investment properties and changes in their fair value	-1,321
<u>26,099</u>	Total	<u>19,499</u>

5.10 Taxation and non specific grant incomes

2009-10		2010-11
£000		£000
-103,177	Council tax income	-104,716
-54,262	Non domestic rates	-59,172
-9,243	Area Based Grant	-11,960
-12,524	Revenue Support Grant	-8,592
-42,760	Capital grants and contributions	-72,689
<u>-221,966</u>	Total	<u>-257,129</u>

5.11 Property, Plant and Equipment

2010-11

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2010	454,370	702,483	89,891	163,000	567	59,538	1,469,849	31,927
Additions	5,126	26,199	8,022	7,231	0	5,498	52,076	357
Revaluation gains recognised in the Revaluation Reserve	0	3,618	0	0	0	0	3,618	0
Assets reclassified from Asset Under Construction	46	47,331	2,673	1,410	0	-51,460	0	15
Derecognition - Disposals	-300	-2,628	0	0	0	0	-2,928	0
Derecognition - Other	-4,710	-13,404	0	0	0	0	-18,114	0
At 31 March 2011	454,532	763,599	100,586	171,641	567	13,576	1,504,501	32,299
Accumulated Depreciation and Impairment								
At 1 April 2010	-54,836	-221,135	-45,131	-57,011	-566	0	-378,679	-5,831
Depreciation written out to the Revaluation Reserve	0	-134	0	0	0	0	-134	0
Depreciation charges for 2010-11	-3,932	-5,922	-16,286	-7,946	0	0	-34,086	-316
Depreciation Derecognition - Disposals and Other	216	2,267	0	0	0	0	2,483	0
Impairment recognised in the Revaluation Reserve	0	-2,394	0	0	0	0	-2,394	-1,285
Impairment for 2010-11 charged to Provision of Service	-121,179	-84,773	0	0	0	0	-205,952	-269
At 31 March 2011	-179,731	-312,091	-61,417	-64,957	-566	0	-618,762	-7,701
Net Book Value								
At 31 March 2011	274,801	451,508	39,169	106,684	1	13,576	885,739	24,598
At 31 March 2010	399,534	481,348	44,759	105,989	1	59,538	1,091,169	26,096

2009-10 (restated)	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Constructio n	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2009	369,849	658,056	74,195	148,384	1	43,601	1,294,086	23,731
Additions	11,108	21,092	15,646	9,774	566	41,467	99,653	8,196
Revaluation gains recognised in the Revaluation Reserve	37,305	9,895	0	0	0	0	47,200	0
Impairment losses reversed in the Deficit on Provision of Services	36,858	92	0	0	0	0	36,950	0
Assets reclassified from Asset Under Construction	0	20,639	49	4,842	0	-25,530	0	0
Derecognition - Disposals	-750	-244	0	0	0	0	-994	0
Derecognition - Other	0	-7,047	0	0	0	0	-7,047	0
At 31 March 2010	454,370	702,483	89,890	163,000	567	59,538	1,469,848	31,927
Accumulated Depreciation and Impairment								
At 1 April 2009	-14,228	-30,392	-31,938	-49,778	0	0	-126,336	-710
Depreciation charge							0	
Depreciation written out to the Revaluation Reserve	-380	-30	0	0	0	0	-410	0
Depreciation charges for 2009-10	-3,398	-6,611	-13,193	-7,233	0	0	-30,435	-294
Depreciation Derecognition - Disposals and Other Impairment recognised in the Revaluation Reserve	28	226	0	0	0	0	254	0
Impairment for 2009-10 charged to Provision of Service	-36,858	-23,846	0	0	0	0	-60,704	0
	0	-160,482	0	0	-566	0	-161,048	-4,827
At 31 March 2010	-54,836	-221,135	-45,131	-57,011	-566	0	-378,679	-5,831
Net Book Value								
At 31 March 2010	399,534	481,348	44,759	105,989	1	59,538	1,091,169	26,096
At 31 March 2009	355,621	627,664	42,257	98,606	1	43,601	1,167,750	23,021

5.11.1 Depreciation

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer: 20-80 years;
- vehicles, plant and equipment: 5 years;
- infrastructure – straight-line allocation: 10-80 Years;
- Freehold land has not been depreciated;
- Newly acquired or completed assets are depreciated in the year following acquisition or completion; and
- The Council's Housing dwellings have been depreciated by an amount equal to the Major Repairs Allowance.

5.11.2 Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally as at 1 April 2010. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

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

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

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

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

The HRA portfolio was valued in line with the 5 year rolling programme. The Land Registry index was used to calculate any material adjustments required to effect the movement in the property price index for operational HRA properties between 1 April 2010 and 31 March 2011. This has resulted in a downward revaluation during the year of £121.2m (2009-10 resulted in a £37.3m upward revaluation).

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Asset Under Construction £000	Total £000	Investment Property £000
Valued at historical cost	0	0	39,169	106,684	13,576	159,429	0
Valued at current value:							
As at 31st March 2011	274,801	261,121	0	0	0	535,922	23,681
As at 1st April 2010	0	97,598	0	0	0	97,598	0
As at 1st April 2009	0	92,789	0	0	0	92,789	0
Total Cost or Valuation	274,801	451,508	39,169	106,684	13,576	885,738	23,681

5.11.3 Impairment losses

2009-10				2010-11		
General Fund £000	HRA £000	Total £000		General Fund £000	HRA £000	Total £000
184,894	-36,858	148,036	Total Impairment	98,711	121,202	219,913
			Impairment Charged to Revaluation			
-23,938	0	-23,938	Reserve	-5,199	-286	-5,485
160,956	-36,858	124,098	Impairment charged to Provision of Service	93,512	120,916	214,428

5.11.4 Capital Financing

2009-10 £000 Restated		2010-11 £000
257,094	Opening Capital Financing Requirement	292,920
	Capital Investment	
94,538	Property, Plant and Equipment	52,113
5,275	Vehicle, Plant and Equipment - Leased	3,674
7,746	Revenue Expenditure Funded from Capital under Statute	5,834
	Sources of finance	
-1,315	Capital receipts	-5,461
-57,516	Government grants and other contributions	-26,101
	Sums set aside from revenue:	
-3,900	• Direct revenue contributions	-4,222
-9,002	• Minimum Revenue Provision	-12,089
292,920	Closing Capital Financing Requirement	306,668
	<i>Explanation of movements in year</i>	
6,872	Increase in supported borrowing	6,703
26,382	Increase in unsupported borrowing	15,460
5,275	Assets acquired under finance leases	3,674
6,299	Assets acquired under PFI/PPP contracts	0
-9,002	Minimum Revenue provision	-12,089
35,826	Increase in Capital Financing Requirement	13,748

5.11.5 Property Plant and Equipment Statistical Analysis

31-Mar-10 Number	Fixed Asset	31-Mar-11 Number
	<u>Council Dwellings</u>	
59	Car Ports	59
10	Community Centres	10
5,058	Dwellings	4,966
993	Garages	900
1	Travellers' Caravan Site	1
	<u>Other Land and Buildings</u>	
19	Adults - Residential/Day Centres	18
4	Cemetries	4
1	Central Depot	1
11	Childrens Services	11
1	Civic Amenity Site	1
1	Civic Centre Complex	1
2	Community Halls	2
3	Day Nursery	3
8	High Schools	8
1	Hostel for the Homeless Count	1
1	Leisure Centre Complex	1
8	Libraries	8
18	Off Street Car Park	18
4	Offices	4
43	Other Land and Buildings (GF)	41
27	Other Land and Buildings (HRA)	27
6	Playing Fields	6
30	Primary Schools	30
10	Public Conveniences	10
11	School keeper houses	9
4	Special School	4
1	Swimming Pool (unattached)	1
1	Teachers Centre	1
1	Youth Club	1
	<u>Infrastructure Assets</u>	
481	Highways (km)	481
	<u>Community Assets</u>	
33	Allotments	33
4	Cemetries	4
579	Parks & Open Spaces (hectares)	579
	<u>Investment Properties</u>	
1	Community Halls	1
44	Investment Properties	41
	Voluntary aided schools not included in the assets of the authority, as shown below:	
2	High Schools	2
7	Primary Schools	7

5.11.6 Capital Commitments

At 31 March 2011, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment as detailed below:

31-Mar-10 £000 Directorate	31-Mar-11 £000
24 Corporate Finance & Strategy	2,773
3,334 Children's Services	1,653
1,025 Adults and Housing Services	2,016
833 Community & Environment Services	857
5,216	7,299

5.12 Leases

5.12.1 The council as Lessee

5.12.1.1 Finance Leases

The majority of the Council's finance leases relate to its fleet of vehicles, for which there were new acquisitions during the year. The remainder of assets acquired under finance leases are photocopiers and office equipment, some of which are located at its schools.

The assets acquired under finance leases are carried in the balance sheet, at the following net amounts:

31-Mar-10 £000		31-Mar-11 £000
5,060	Vehicles, Plant, Furniture and Equipment	6,905
10	Other Land and Buildings	10
5,070		6915

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

31-Mar-10 £000		31-Mar-11 £000
1,137	Finance lease liabilities (net present value of minimum lease payments):	
	• current	1,486
4,138	• non current	5,743
1,231	Finance costs payable in future years	936
6,506	Minimum lease payments	8,165

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31-Mar-11	31-Mar-10	31-Mar-11	31-Mar-10
	£000	£000	£000	£000
Not later than one year	1,836	1,558	1,486	1,137
Later than one year and not later than five years	5,650	4,169	5,068	3,396
Later than five years	679	779	675	742
	<u>8,165</u>	<u>6,506</u>	<u>7,229</u>	<u>5,275</u>

Minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010-11 £2.2m contingent rents were payable by the authority (2009-10 £2.1m). The finance lease liability represents the repayment of capital due at present value.

5.12.1.2 Operating Leases

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

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

2009-10		2010-11	
£000		£000	
743	Not later than one year	750	
1,283	Later than one year and not later than five years	970	
2,744	Later than five years	2,421	
<u>4,770</u>		<u>4,141</u>	

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

2009-10		2010-11	
£000		£000	
10	Democratic Representation and Management	10	
0	Children's and Education Services	2	
10	Adult Social Care	10	
689	Cultural Environmental Regulatory and Planning Services	740	
8	Highways and Transport Services	8	
3	Housing Services (HRA)	6	
<u>720</u>		<u>776</u>	

5.12.2 The Council as Lessor

5.12.2.1 Finance Leases

The Council does not lease out any assets under finance lease arrangements, when acting as lessor.

5.12.2.2 Operating Leases

The Council leases out property under operating leases for the following purposes:

- for the provision of community services, such as sports facilities and community centres;
- for economic development purposes; and

44 of the operating leases have been classified as investment properties, generating a rental stream of £0.661m in 2010-11. These include flats, small commercial properties and car parking spaces. The balance of properties is included in Vehicles, Plant, Furniture and Equipment, for which only nominal rental income is charged.

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

31-Mar-10		31-Mar-11
£000	Land and Buildings	£000
1,125	Not later than one year	1,189
3,497	Later than one year and not later than five years	3,745
14,214	Later than five years	14,301
<u>18,836</u>		<u>19,235</u>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

The Council leases out one office building at £0.051m per annum and one piece of land at a peppercorn rent under a sublease.

5.13 Private Finance Initiatives and Similar Contracts

The Council has entered into three PFI contracts.

5.13.1 Sancroft Hall

This is a residential and day care facility. The contract is for both the provision of the facilities and the care of the residents, and day care attendees. The site was sold by the Council to the provider and the establishment became operational in November 1999. The Council pays a unitary charge for these services which are subject to payment deductions for service and availability failures and to indexation based on the GDP deflator. The Council receives an annual Government grant which is credited to revenue in the year of receipt.

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

The assets under the Sancroft contract do not revert back to the Council and therefore cannot be treated as a Service Concession Arrangement under IFRIC 12. Under the current accounting rules the contract does not also meet the requirements of a finance lease, and has been treated as an operating lease during the year. The unitary payments

are therefore treated as being expended during the year and the asset remains off the Council's balance sheet.

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Principal Repayment and contingent Rent	Total
Sancroft	£000	£000	£000	£000	£000
Payable in 2011-12	1,148	17	121	159	1,445
Payable within 2 to 5 years	4,921	147	425	698	6,191
Payable within 6 to 10 years	6,960	208	367	1,221	8,756
Payable within 11 to 15 years	5,613	122	109	1,217	7,061
Total	18,642	494	1,022	3,295	23,453

5.13.2 Special Schools & Neighbourhood Resource Centres

The special schools PFI arrangement 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.

Three Neighbourhood Resource Centres (NRC) have been provided under the Local Improvement Finance Trust (LIFT) initiative on Council sites under licence to the provider. These became operational in May 2009 with the contract lasting for 25 years. The NRC PFI is a LIFT contract and these assets are brought onto the balance sheet as a result of Audit Commission Guidance of 13 March 2009: Accounting for LIFT Schemes under International Financial Reporting Standards.

Under both 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 a Government Grant on an annuity basis with the impact of the grant evened out over the contract period by use of a sinking fund.

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

The 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.

The Council is committed to make the payments shown in the table on the next page to the providers for the duration of the contract. These payments will vary depending on

actual inflation, performance and any agreed variations. The movements in the liabilities vary from year to year as the repayments are affected by the finance lease interest and the fluctuating lifecycle replacement costs.

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Principal Repayment and contingent Rent	Total
	£000	£000	£000	£000	£000
Schools					
Payable in 2011-12	728	145	1,167	265	2,305
Payable within 2 to 5 years	3,101	679	4,441	1,271	9,492
Payable within 6 to 10 years	4,332	1,217	4,928	2,046	12,523
Payable within 11 to 15 years	4,902	2,146	3,933	2,367	13,348
Payable within 16 to 20 years	5,545	1,737	2,636	4,361	14,279
Payable within 21 to 25 years	3,149	310	555	3,774	7,788
Total	21,757	6,234	17,660	14,084	59,735

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Principal Repayment and contingent Rent	Total
	£000	£000	£000	£000	£000
NRC					
Payable in 2011-12	206	1	514	139	860
Payable within 2 to 5 years	782	74	1,966	841	3,663
Payable within 6 to 10 years	967	290	2,178	1,682	5,117
Payable within 11 to 15 years	1,094	265	1,740	2,690	5,789
Payable within 16 to 20 years	1,238	668	1,132	3,513	6,551
Payable within 21 to 25 years	1,103	268	270	3,046	4,687
Total	5,390	1,566	7,800	11,911	26,667

5.14 Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2009-10 £000		2010-11 £000
-809	Rental income from investment property	-792
23	Direct operating expenses arising from investment property	8
-786	Net gain/(loss)	-784

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

2009-10		2010-11
£000		£000
20,461	Balance at start of the year	24,822
-104	Disposals	-1,678
-2,582	Net gains/losses from fair value adjustments	244
7,047	Transfer from Property, Plant and Equipment	293
<u>24,822</u>	Balance at end of the year	<u>23,681</u>

5.15 Long Term Investments

31-Mar-10		31-Mar-11
£000		£000
0	Maturity date within 2 years	10,000
0	Maturity date within 2 - 3 years	8,000
<u>0</u>	Net gain/(loss)	<u>18,000</u>

5.16 Long term debtors

31-Mar-10		31-Mar-11
£000		£000
153	Employees Car Loans	150
126	House Purchase Loans to Individuals	97
3,297	West London Waste Authority	3,181
136	Other Loans	176
<u>3,712</u>	Total	<u>3,604</u>

5.17 Short term investments

31-Mar-10		31-Mar-11
£000		£000
64,738	Temporary Investment - Managed in-house	65,554
3	Internal Investments	3
<u>64,741</u>	Total	<u>65,557</u>

Opening balance is restated due to IFRS implementation. Please refer to note 5.47.3 for further details.

5.18 Inventories

31-Mar-10		31-Mar-11
£000		£000
91	Balance outstanding at start of year	26
38	Purchases	234
-103	Recognised as an expense in the year	-119
<u>26</u>	Balance outstanding at year-end	<u>141</u>

5.19 Short term debtors

31-Mar-10		31-Mar-11
£000		£000
11,545	Central government bodies	6,792
3,366	Other local authorities	2,087
454	NHS bodies	670
4,127	Public corporations and trading funds	2,974
8,713	Other entities and individuals	8,756
28,205	Total	21,279

5.20 Cash and cash equivalents

31-Mar-10		31-Mar-11
£000		£000
Restated		
97	Cash held by the Authority	128
-7,400	Bank current accounts	-3,982
30,578	Short-term deposits with Banks and Building Societies	29,351
23,275	Total Cash and Cash Equivalents	25,497

Opening balance is restated due to IFRS implementation. Please refer to note 5.47.3 for further details.

5.21 Short term borrowing

31-Mar-10		31-Mar-11
£000		£000
-15	Public Works Loan Board	0
0	Other Financial Institutions	-65
-11,521	West London Waste Authority	-14,707
-4,377	Pension Fund	-18,750
-268	Other Loans	-136
-16,181	Total	-33,658

5.22 Creditors

31-Mar-10		31-Mar-11
£000		£000
Restated		
-11,820	Central government bodies	-11,674
-1,752	Other local authorities	-2,957
-666	NHS bodies	-1,114
-21,997	Public corporations and trading funds	-15,249
-33,194	Other entities and individuals	-35,165
-69,429	Total	-66,159

Opening balance is restated due to IFRS implementation. Please refer to note 5.47.3 for further details.

5.23 Provisions

	Outstanding Legal Cases £000	Insurance £000	Employment £000	Other Provisions £000	Total £000
Short Term					
Balance at 1 April 2010	-893	-687	-699	-422	-2,701
Additional provisions made in 2010-11	-60	-1,000	-946	-36 ^a	-2,042
Transferred from Long Term	0	-545	0	0	-545
Amounts used in 2010-11	115	971	295	66 ^a	1,447
Unused amounts reversed in 2010-11	200	0	0	9 ^a	209
Balance at 31 March 2011	-638	-1,261	-1,350	-383	-3,632
Long Term					
Balance at 1 April 2010	0	-4,474	0	0	-4,474
Transferred to Short Term	0	545	0	0	545
Balance at 31 March 2011	0	-3,929	0	0	-3,929

Details of the main provisions included in the above table are:

- Litigation provision is in respect of various outstanding legal, planning and other cases;
- The Council operates an insurance programme that requires a significant degree of self-funding. Provisions have been made to cover the costs of the Council's potential liabilities. The Council's insurance programme consists of a range of insurance covers in three broad classes; liability, property and motor. The Council's maximum potential liability is limited by a series of aggregate stop loss covers with the Council's insurers that are triggered off when the total of all claims under the cover exceeds that amount for the period of insurance. It is Council policy not to insure "pound swapping" items (e.g. theft and "all risks" on equipment), or terrorism risks on properties other than the Civic Centre complex. The level of insurance provision covers the actual claims submitted and also the claims reported but not submitted;
- Employee related provision covers a potential liability to employees in respect of redundancies, tribunal cases and part time pension claims; and
- Other provisions relate to the disrepair provision for claims made by Council tenants in respect of repairs to Council property and the provision for claims in relation to charges made in the past for accommodation under the Mental Health Act (s117).

5.24 Long term borrowing

31-Mar-10 £000		31-Mar-11 £000
	Source of Loan:	
-130,308	Public Works Loan Board	-130,000
-111,800	Other Financial Institutions	-131,963
<u>-242,108</u>	Total	<u>-261,963</u>
	Analysis of loans by maturity:	
-40	1-2 years (1.4.2011 - 31.3.2012)	-65
-16,158	2-5 years (1.4.2012 - 31.3.2015)	-16,098
-32,015	5-10 years (1.4.2015 - 31.3.2020)	-32,000
-193,895	More than 10 years (1.4.2020 onwards)	-213,800
<u>-242,108</u>	Total	<u>-261,963</u>

5.25 Other long term liabilities

31-Mar-10 £000 Restated		31-Mar-11 £000
-18,902	PFI Lease Liability	-18,571
-4,138	Vehicles, Plant, Furniture & Equipment Lease Liability	-5,743
-346,436	IAS19 Pension Liability	-212,506
<u>-369,476</u>	Total	<u>-236,820</u>

Opening balance is restated due to IFRS implementation. Please refer to note 5.47.3 for further details.

PFI

	Special Schools £000	NRC £000	Total £000
Balance outstanding at start of year	-12,941	-6,200	-19,141
Lease repayments during the year	1,427	517	1,944
Finance Charge	-1,189	-515	-1,704
Balance outstanding at year-end	<u>-12,703</u>	<u>-6,198</u>	<u>-18,901</u>
Analysed as follows:			
Due within one year	-228	-102	-330
Due after more than one year	-12,475	-6,096	-18,571
	<u>-12,703</u>	<u>-6,198</u>	<u>-18,901</u>
2009-10			
Analysed as follows:			
Due within one year	-238	-2	-240
Due after more than one year	-12,703	-6,198	-18,901
	<u>-12,941</u>	<u>-6,200</u>	<u>-19,141</u>

Vehicle, Plant, Furniture & Equipment Liability

31-Mar-10 £000		31-Mar-11 £000
-3,396	Later than one year and not later than five years	-5,068
-742	Later than five years	-675
<u>-4,138</u>		<u>-5,743</u>

5.26 Usable reserves

31-Mar-10 £000		Note	31-Mar-11 £000
Restated			
-6,294	General Fund	4.1	-7,000
-15,011	Earmarked Reserves General Fund	5.7	-10,334
-13,108	Earmarked Reserves Locally Managed Schools	5.7	-14,799
-4,784	Housing Revenue Account	6.1	-3,780
-6,167	Capital Receipts Reserve	5.26.1	-6,248
-2,500	Capital Grants Unapplied	5.26.2	-846
-47,864	Total Usable Reserves		-43,007

Opening balance is restated due to IFRS implementation. Please refer to note 5.47.3 for further details.

5.26.1 Capital Receipts Reserve

General Fund 2009-10 £000	HRA 2009-10 £000	Total 2009-10 £000		General Fund 2010-11 £000	HRA 2010-11 £000	Total 2010-11 £000
-1,540	-4,366	-5,906	Balance unapplied at 1 April	-1,469	-4,698	-6,167
0	-84	-84	Interest on Affordable Housing	0	-46	-46
-830	-248	-1,078	Receipts in year - Others	-5,047	-336	-5,383
0	-1,797	-1,797	Receipts in year - Right to Buy	0	-920	-920
37	0	37	Disposal Costs	106	11	117
0	1,346	1,346	Pooling payment to the DCLG	0	690	690
864	0	864	Applied during the year - others	4,945	286	5,231
0	451	451	Applied during the year - Right to Buy	0	230	230
-1,469	-4,698	-6,167	Balance unapplied at 31 March	-1,465	-4,783	-6,248

5.26.2 Capital Grants Unapplied

General Fund 2009-10 £000		General Fund 2010-11 £000
-1,543	Balance unapplied at 1 April	-2,500
-1,153	Receipts in year	-615
196	Applied during the year	2,269
-2,500	Balance unapplied at 31 March	-846

5.27 Unusable reserves

31-Mar-10 £000 Restated			31-Mar-11 £000
-15,740	Revaluation Reserve	5.27.1	-13,417
-126	Deferred Capital Receipts		-97
-762,430	Capital Adjustment Account	5.27.2	-596,384
4,416	Financial Instruments Adjustment Account	5.27.3	4,445
346,437	Pensions Reserve	5.27.4	212,506
-1,405	Collection Fund Adjustment Account	5.27.5	-2,200
7,970	Accumulating Compensated Absences Adjustment Account	5.27.6	6,930
<u>-420,878</u>	Total Unusable Reserves		<u>-388,217</u>

Opening balance is restated due to IFRS implementation. Please refer to note 5.47.3 for further details.

5.27.1 Revaluation reserve

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

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

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

2009-10			2010-11		
General Fund	HRA	Total	General Fund	HRA	Total
£000	£000	£000	£000	£000	£000
-27,732	-279	-28,011	-15,292	-448	-15,740
-9,817	-37,381	-47,198	-3,253	-365	-3,618
24,619	197	24,816	2,394	0	2,394
93	36,858	36,951	2,805	286	3,091
-176	0	-176	0	0	0
-3,063	0	-3,063	0	0	0
-16,076	-605	-16,681	-13,346	-527	-13,873
380	30	410	132	2	134
404	127	531	275	47	322
784	157	941	407	49	456
-15,292	-448	-15,740	-12,939	-478	-13,417

5.27.2 Capital adjustment account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing 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 revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2009-10 Restated			2010-11		
£000	£000	£000	£000	£000	£000
General Fund	HRA	Total	General Fund	HRA	Total
-538,573	-325,030	-863,603	-402,653	-359,777	-762,430
Balance at 1 April			Balance at 1 April		
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
27,022	3,823	30,845	28,434	3,958	32,392
9	2	11	1,800	29	1,829
160,956	-36,858	124,098	93,512	120,916	214,428
105	965	1,070	3,655	5,015	8,670
1,178	0	1,178	5,834	0	5,834
-404	-127	-531	-275	-47	-322
188,866	-32,195	156,671	132,960	129,871	262,831
-30	-380	-410	-132	-2	-134
188,836	-32,575	156,261	132,828	129,869	262,697
-864	-451	-1,315	-4,945	-516	-5,461
	-3,778	-3,778	0	-3,932	-3,932
-41,608	0	-41,608	-71,785	-289	-72,074
-196	0	-196	-2,269	0	-2,269
-9,002	0	-9,002	-12,065	-23	-12,088
-122	0	-122	-290	0	-290
137,044	-36,804	100,240	41,474	125,109	166,583
-1,124	2,057	933	-490	-47	-537
-402,653	-359,777	-762,430	-361,669	-234,715	-596,384
Balance at 31 March			Balance at 31 March		

5.27.3 Financial instruments adjustment account

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

2009-10		2010-11
£000		£000
4,397	Balance at 1 April	4,416
	Premiums and Discounts incurred in previous financial years to be charged against the Balance in accordance with statutory requirements	
249	General Fund	249
-230	HRA	-220
<u>4,416</u>	Balance at 31 March	<u>4,445</u>

5.27.4 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 eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2009-10		2010-11
£000		£000
189,574	Balance at 1 April	346,437
152,081	Actuarial (gains) or losses on pensions assets and liabilities	-69,510
24,336	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	-44,708
-19,554	Employer's pensions contributions and direct payments to pensioners payable in the year	-19,713
<u>346,437</u>	Balance at 31 March	<u>212,506</u>

5.27.5 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.

2009-10		2010-11
£000		£000
-280	Balance at 1 April	-1,405
-1,125	Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year	-795
<u>-1,405</u>	Balance at 31 March	<u>-2,200</u>

5.27.6 Accumulating compensated absences adjustment account

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

2009-10		2010-11
£000		£000
6,734	Balance at 1 April	7,970
-6,734	Settlement or cancellation of accrual made at the end of the preceding year	-7,970
7,970	Amounts accrued at the end of the current year	6,930
<u>7,970</u>	Balance at 31 March	<u>6,930</u>

5.28 Cash flow statement – operating activities

2009-10		2010-11
£000		£000
-12,178	Interest payable & similar charges	-13,636
1,559	Interest and Investment income	1,121
1,796	Other investment income	1,321
	Non-Cash Transactions	
-4,782	Contribution from Pension Reserve	64,421
800	Increase in Provision	-386
-156,803	Capital Financing charges	-250,224
42,760	Capital Grants	74,343
-1,235	Accumulated Absence	1,020
1,853	Gains/Loss (-) on disposal of non-current assets	-2,407
1,425	Collection Fund	2,243
-617	Other adjustments	-690
	Items on an accrual basis	
-66	Increase/Decrease (-) in Inventories	115
3,193	Increase/Decrease (-) in Debtors	-7,367
6,730	Increase (-)/Decrease in Creditors	4,521
<u>-115,565</u>	Adjustments for non cash movements	<u>-125,605</u>
-2,030	Interest received	-1,430
12,125	Interest paid	13,588
-786	Other Investment income	-784
<u>9,309</u>	Adjustments for investment and financing activities	<u>11,374</u>

5.29 Cash flow statement – investing activities

2009-10		2010-11
£000		£000
88,239	Purchase of property, plant and equipment, investment property and intangible assets	49,514
10,860	Purchase of short-term and long-term investments	18,816
6,299	Other payments for investing activities	0
-2,922	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-6,238
-185	Proceeds from short-term and long-term investments	-109
-64,101	Other receipts from investing activities	-15,956
<u>38,190</u>	Net cash flows from investing activities	<u>46,027</u>

5.30 Cash flow statement – financing activities

2009-10		2010-11
£000		£000
-30,000	Cash receipts of short- and long-term borrowing	-37,640
-1,077	Other receipts from financing activities	-3,090
299	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,377
-14,478	Repayments of short- and long-term borrowing	308
<u>-45,256</u>	Net cash flows from financing activities	<u>-39,045</u>

5.31 Directorate income and expenditure segmental reporting

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

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

The income and expenditure of the Authority's principal directorates recorded in the budget reports for the year is as follows:

5.31.1 Directorate income and expenditure 2010-11 and comparative

2010-11	Adults and Housing Services	Childrens Services	Community and Environment Services	Corporate Services	Place Shaping	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-16,090	-15,003	-29,694	-42,523	-3,474	-106,784
Government grants	-3,577	-185,741	-1,403	-146,137	-656	-337,514
Total Income	-19,667	-200,744	-31,097	-188,660	-4,130	-444,298
Employee expenses	20,785	159,630	28,673	25,752	4,836	239,676
Other service expenses	62,523	171,870	40,556	178,698	748	454,395
Support service recharges	7,892	6,091	11,822	14,642	3,078	43,525
Total Expenditure	91,200	337,591	81,051	219,092	8,662	737,596
Departmental Costs	71,533	136,847	49,954	30,432	4,532	293,298
2009-10						
Comparative Figures *						
	Adults and Housing Services	Childrens Services	Community and Environment Services	Corporate Services	Place Shaping	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-21,994	-11,628	-33,454	-62,694	-4,456	-134,226
Government grants	-8,323	-176,925	-1,395	-114,273	-167	-301,083
Total Income	-30,317	-188,553	-34,849	-176,967	-4,623	-435,309
Employee expenses	19,677	149,520	28,961	26,754	4,505	229,417
Other service expenses	80,454	197,550	56,067	163,973	1,146	499,190
Support service recharges	6,450	5,704	13,610	13,214	2,957	41,935
Total Expenditure	106,581	352,774	98,638	203,941	8,608	770,542
Departmental Costs	76,264	164,221	63,789	26,974	3,985	335,233

* not restated under IFRS and reconciled to IFRS in the next table

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

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

2009-10 £000		2010-11 £000
335,233	Net expenditure in the Directorate Analysis (note 5.31.1)	293,298
-38,419	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	45,281
-8,854	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	-7,516
<u>287,960</u>	Statement	<u>331,063</u>

5.31.3 Reconciliation to subjective analysis 2010-11 and comparative

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

2010-11	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-106,784	-25,737	0	44,579	-87,942	0	-87,942
Interest and investment income	0	0	980	0	980	-2,442	-1,462
Income from council tax	0	0	0	0	0	-104,716	-104,716
Government grants and contributions	-337,514	-1,000	0	0	-338,514	-152,413	-490,927
Total Income	-444,298	-26,737	980	44,579	-425,476	-259,571	-685,047
Employee expenses	239,676	-75,267	0	-15,803	148,606	0	148,606
Other service expenses	454,395	22,166	0	-19,550	457,011	0	457,011
Support Service recharges	43,525	197	0	-9,226	34,496	0	34,496
Depreciation, amortisation and impairment	0	124,875	0	0	124,875	0	124,875
Interest Payments	0	0	0	0	0	21,942	21,942
Precepts & Levies	0	0	-8,496	0	-8,496	8,496	0
Payments to Housing Capital Receipts Pool	0	0	0	0	0	690	690
Gain or Loss on Disposal of Fixed Assets	0	47	0	0	47	2,407	2,454
Total expenditure	737,596	72,018	-8,496	-44,579	756,539	33,535	790,074
Surplus or deficit on the provision of services	293,298	45,281	-7,516	0	331,063	-226,036	105,027
2009-10							
Fees, charges & other service income	-134,226	-24,920	0	48,523	-110,623	0	-110,623
Interest and investment income	0	0	-1,797	0	-1,797	237	-1,560
Income from council tax	0	0	0	0	0	-103,177	-103,177
Government grants and contributions	-301,083	-901	0	0	-301,984	-118,789	-420,773
Total Income	-435,309	-25,821	-1,797	48,523	-414,404	-221,729	-636,133
Employee expenses	229,417	-2,765	0	-16,188	210,464	0	210,464
Other service expenses	499,190	14,569	0	-23,613	490,146	0	490,146
Support Service recharges	41,935	197	0	-8,722	33,410	0	33,410
Depreciation, amortisation and impairment	0	-24,599	0	0	-24,599	0	-24,599
Interest Payments	0	0	0	0	0	25,862	25,862
Precepts & Levies	0	0	-7,816	0	-7,816	7,816	0
Payments to Housing Capital Receipts Pool	0	0	0	0	0	1,346	1,346
Gain or Loss on Disposal of Fixed Assets	0	0	759	0	759	-1,853	-1,094
Total expenditure	770,542	-12,598	-7,057	-48,523	702,364	33,171	735,535
Surplus or deficit on the provision of services	335,233	-38,419	-8,854	0	287,960	-188,558	99,402

5.32 Road charging schemes under the Transport Act 2000

The London Borough of Harrow assumed responsibility for the enforcement of the on-street parking under the Road Traffic Act on 4 July 1994. Decriminalisation of the off-street car parking came into force in the Borough on 3 July 1995.

The Road Traffic Act 1984 stipulates that the authority must keep a separate account of any income or expenditure related to those parking activities and this includes income from Penalty Charge Notices (PCN's) (and other additional parking charges) and expenditure on enforcement as applied through the 1991 Act.

The Parking Account may be run at a surplus or at a deficit in any one year. Any deficit, though, must be made good from the general fund at the end of the financial year. Section 55(4) of the 1984 Act controls the use of any surplus on the account. The 1991 Act requires a statement to be provided to the Secretary of State annually to show how any deficit or surplus has been financed or used. The surplus generated in 2010-11 is being re-invested in the development of on-street parking provision, road and highway improvements and public transport in the borough.

2009-10 £000		2010-11 £000
-5,073	Penalty Charge Notices	-5,613
-1,102	On street meters	-1,094
-311	Residents Permits	-287
<u>-6,486</u>	Total income	<u>-6,994</u>
1,556	Enforcement contract/costs	1,454
22	TCfL: Core levy and service charges	33
10	Car park repairs	20
181	Notice posting and administration	107
901	Other overheads	1,009
<u>2,670</u>	Total expenditure	<u>2,623</u>
<u>-3,816</u>	Total (surplus) for the year ending 31 March 2011	<u>-4,371</u>
	<u>Utilisation of Surplus</u>	
1,087	Design and implementation of traffic management schemes	0
2,729	Concessionary fares	4,371
<u>3,816</u>		<u>4,371</u>

5.33 Agency arrangements – pooled budgets

Section 31 of the Health Act 1999 allows partnership arrangements between NHS bodies, local authorities, and other agencies in order to improve and co-ordinate services. Each partner makes a contribution to a pooled budget with the aim of focusing services and activities for a client group. Funds contributed are those normally used for the service represented in the pooled budget and allow the organisations involved to act in a more cohesive way.

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

2009-10 £000		2010-11 £000
	Funding provided to the pooled budget:	
-277	• Harrow Contribution	-325
-19	• Schools Contribution	-17
0	• Misc Income	-11
-671	• Harrow PCT	-644
<u>-967</u>		<u>-997</u>
	Expenditure met from the pooled budget:	
1,095	• Gross Expenditure	1,058
<u>128</u>	Deficit for the year	<u>61</u>

5.34 Agency Services

2009-10 £000		2010-11 £000
228	Expenditure Incurred on Provision of Agency Services	197
-228	Management Fee payable for these services	-197
<u>0</u>	Net Surplus arising on agency arrangements	<u>0</u>

The Council provides agency services for the following bodies:

- West London Waste Authority – Accounting and Payroll Services
- Northwick Park Hospital Disability Team – Administrative and Social Work Services
- North West Hospital Trust – Social Work Services
- Central and North West London NHS Foundation Trust – Social Work Services
- Royal National Orthopaedic Hospital – Social Work Services
- Harrow Primary Care Trust (PCT) – Social Work Services

5.35 Members' allowances

The total amount of Members' allowances paid in 2010-11 was £0.810m (£0.813m in 2009-10). Additional information on the Members' Allowance Scheme 2010-11 may be found in a leaflet available at Council libraries.

2009-10 £000		2010-11 £000
813	Allowances	810
<u>813</u>	Total	<u>810</u>

5.36 Remuneration

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

5.36.1 Remuneration bands

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions but including severance payments): The movement between years mainly relates to teaching staff whose remuneration has increased due to an inflation related pay rise and non teaching employees who have moved within their respective pay scales.

2009-10 Number of employees	Remuneration band	2010-11 Number of employees
112	£50,000 - £54,999	126
88	£55,000 - £59,999	103
48	£60,000 - £64,999	53
25	£65,000 - £69,999	32
33	£70,000 - £74,999	21
8	£75,000 - £79,999	15
8	£80,000 - £84,999	9
4	£85,000 - £89,999	7
7	£90,000 - £94,999	7
6	£95,000 - £99,999	6
1	£100,000 - £104,999	2
4	£105,000 - £109,999	1
2	£110,000 - £114,999	3
1	£115,000 - £119,999	3
1	£120,000 - £124,999	0
1	£125,000 - £129,999	0
3	£130,000 - £134,999	2
0	£135,000 - £139,999	2
2	£140,000 - £144,999	3
1	£185,000 - £189,999	0
0	£195,000 - £199,999	2
<u>355</u>		<u>397</u>

5.36.2 Senior officer remuneration

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

Notes	Position Held	Salary,(including Fees and Allowances)		Benefits in Kind		Total Remuneration excluding pension contributions		Employers Pension Contribution		Total Remuneration including pension contributions	
		£	£	£	£	£	£	£	£	£	£
		2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
1	Michael Lockwood (Chief Executive)	194,617	185,297	1,348	1,204	195,965	186,501	34,857	33,003	230,822	219,504

The following table sets out the remuneration disclosures for Senior Officers whose salary is less than £150,000 but equal to more than £50,000

Notes	Position Held	Salary,(including Fees		Benefits in Kind		Total Remuneration		Employers Pension		Total Remuneration	
		£	£	£	£	£	£	£	£	£	£
		2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
2	Corporate Director - Place Shaping	142,338	141,795	0	0	142,338	141,795	26,374	26,019	168,712	167,814
2	Corporate Director - Community and Environment	138,906	122,138	1,278	1,528	140,184	123,666	25,606	22,218	165,790	145,884
1	Director of Legal & Governance Services	137,704	127,157	1,239	1,186	138,943	128,343	25,537	23,413	164,480	151,756
3	Corporate Director - Adults and Housing	135,480	133,653	0	84	135,480	133,737	25,606	24,525	161,086	158,262
3	Corporate Director - Childrens Services	132,072	140,307	0	0	132,072	140,307	24,565	25,262	156,637	165,569
4	Corporate Director - Finance	131,006	133,653	0	0	131,006	133,653	24,367	24,525	155,373	158,178
	Assistant Chief Executive	109,443	106,137	1,239	1,178	110,682	107,315	20,668	19,797	131,350	127,112
		926,949	904,840	3,756	3,976	930,705	908,816	172,723	165,759	1,103,428	1,074,575

Note 1

The Chief Executive and the Director of Legal & Governance Services pay include a one off Government paid fees in respect of Returning and Deputy Returning Officers for May Parliamentary Election.

Note 2

The Corporate Director or Community and Environment joined the Council on 5 May 2009.

Note 3

The previous Corporate Director of Childrens left on 31 March 2010 and the new Corporate Director started on 1 March 2010

Note 4

The Corporate Director Finance left the Council on 13 March 2011

Note 5

A senior officer is a person who had power to direct or control the major activities of the Council

Note 6

A more detailed disclosure is available on our website at www.harrow.gov.uk

5.37 Audit fees

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

2009-10 £000		2010-11 £000
	Fees Payable to external auditors in respect of:	
398	External audit services carried out by the appointed auditor for the year	458
82	Statutory inspections	0
100	Certification of grant claims and returns for the year	110
<u>580</u>	Total	<u>568</u>

The fees payable in 2010-11 includes amounts in relation to capital mis-coding, objections and the value for money conclusion.

5.38 Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by Department for Education (DfE) and known as the Dedicated Schools Grant (DSG). 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 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2010-11 are as follows

	Central Expenditure £000	ISB £000	Total £000
Final DSG for 2010-11			-145,271
Less			
Deficit brought forward from 2009-10			430
Carry forward to 2011-12 agreed in advance			810
Agreed budgeted distribution in 2010-11	-15,362	-128,669	-144,031
Less			
Actual central expenditure	15,000	0	15,000
Actual ISB deployed to schools	0	129,950	129,950
Deficit carry forward to 2011-12 (excluding agreed carry forward)	-362	1,281	919
Deficit carry forward to 2011-12 including agreed carry forward			<u>109</u>

5.39 Grants income

5.39.1 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. These are grants where conditions attached to the grant have been met within the year, or where there were no conditions attached to the use of the grant income by the awarding body.

2009-10 £000	Grant	Awarding Body	2010-11 £000
0			0
-965	Schools Sports Coordinator Grant	Big Lottery Fund	-680
-228	Chartered London Institute of Teaching	Chartered London Institute of Teaching	-17
-139,079	Dedicated Schools Grant	Department for Education	-144,949
-12,919	Standards Fund	Department for Education	-15,005
-6,055	School Standards Grant	Department for Education	-6,228
-4,056	Surestart, Early Years and Childcare & Aiming High for Disabled Children	Department for Education	-5,929
-777	London Pay Addition Grant	Department for Education	-939
-603	Children & Young Peoples Grant	Department for Education	-494
0	Targeted Mental Health in Schools	Department for Education	-222
-173	Contact Point	Department for Education	-186
-1,543	Private Finance Initiative	Department of Communities and Local Gov.	-1,543
-4,650	Supporting People Grant	Department of Communities and Local Gov.	-960
-313	Homelessness Grant	Department of Communities and Local Gov.	-379
0	Housing Advice Service	Department of Communities and Local Gov.	-300
-278	NNDR - Cost of collection allowance	Department of Communities and Local Gov.	-293
-33	Planning Development Grant	Department of Communities and Local Gov.	-282
-853	Local Area Agreement	Department of Communities and Local Gov.	-445
-305	Local Authority Business Growth Incentive	Department of Communities and Local Gov.	0
-845	Neighbourhood Resource Centre PFI	Department of Health	-966
-783	Social Care Transformation Grant	Department of Health	-962
-236	Sancroft Private Finance Initiative	Department of Health	-236
-126	Aids Support Grant	Department of Health	-141
-381	Bus Services Operators Grant	Department of Transport	-26
-111,110	Housing & Council Tax benefit subsidy	Department of Work and Pensions	-122,777
-2,472	Housing benefit admin grant	Department of Work and Pensions	-2,337
-19,002	Council Tax benefit Subsidy		-20,066
-782	Unaccompanied Asylum Seekers Grant	Home Office - UK Border Agency	-578
-130	Xcite Projects	Learning and Development Agency	-272
-126	VTalent	Millenium Volunteers	-155
-970	Safeguarded Adults Learning	Skills Funding Agency	-888
-8,157	Young Peoples Learning Agency	Young Peoples Learning Agency	-8,022
-610	Youth Justice Board Grant	Youth Justice Board	-621
-730	Other		-1,145
-319,290	Total		-338,043

5.39.2 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 where conditions attached to the grant have been met within the year or where there were no conditions attached to the use of the grant income by the awarding body.

2009-10 £000 (restated)	Grant	Awarding Body	2010-11 £000
	Adult and Community Learning Capital Project	Skills Funding Agency	-882
-990	Adult Social Care Single Capital Pot	Department of Health	-130
-130	Aiming High for Disability Capital Grant	Department for Education	-284
-75	Bridges Parapet Protection	London Underground	-119
	Cookery in Curriculum	Department for Education	-3,047
-2,674	Devolved Formula Capital	Department for Education	-3,167
	Disabled Facilities Grant	Department for Communities and Local Government	-514
	Empty Property Grants	The Mayor's Targeted Funding Stream	-194
	Extensions Grant	The Mayor's Targeted Funding Stream	-230
-22,448	FE Capital CMF 16-19	Young People's Learning Agency	-2,337
	Hatch End Arts Centre Pool Modernisation	Department for Education	-575
	HIV Capital Grant	Department of Health	-1,014
-533	ICT Harnessing Technology	Department for Education	-279
	Local Area Agreement Performance Reward Grant	Department for Communities and Local Government	-191
-853	Local Implementation Plan	Transport for London	-5,496
-9,221	Mental Health Social Care Capital Pot	Department of Health	-104
-104	Modernisation LA	Department for Education	-1,590
-5	Playbuilder Capital Grant	Department for Education	-622
-497	Primary Capital	Department for Education	-6,765
-650	School Travel Plan	Department for Education	
-161	Social Care Reform Grant	Department of Health	-122
-472	Sure Start Grant	Department for Education	-2,856
-2,868	Targeted Capital Fund - 14-19	Department for Education	-4,269
-802	Targeted Capital Fund - Kitchens	Department for Education	-4,161
	Targeted Capital Fund - OSP	Department for Education	-33,116
-277	Misc.	Misc.	-625
<u>-42,760</u>	Total Capital Grants included in Comprehensive Income and Expenditure Account		<u>-72,689</u>

A number of capital grants have been received by the Council where conditions attached to the grant remain outstanding at 31 March 2011. These grants are included within long term liabilities in the balance sheet.

5.39.3 Capital grants receipts in advance

31-Mar-10 £000		31-Mar-11 £000
-882	Adult and Community Learning Capital Project	0
-2,284	Cookery in Curriculum	-84
-3,822	Devolved Formula Grant	-2,378
-40	Empty Property Grants	-196
-2,201	FE Capital CMF 16-19	0
-575	Hatch End Arts Centre Pool Modernisation	0
-1,270	Hatch End High School Pool	0
-1,762	HIV Capital Grants	-1,448
-902	Local Implementation Plan	0
-1,300	Modernisation LA	0
-348	Other Grants	-107
-5,245	Primary Capital	-253
-1,428	Sure Start Grant 2009-11	-132
-4,578	Targeted Capital - 14-19 Diploma/SEN	0
-33,116	Targeted Capital - One School Pathfinder (Whitmore)	0
-3,086	Targeted Capital Kitchens	-925
0	Section 106 Capital Receipts	-590
<u>-62,839</u>		<u>-6,113</u>

5.40 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.

During the year no Council Members, chief officers nor their close relations, or members of the same household have declared any related party transactions other than those disclosed below.

Members

The following Members held senior positions in voluntary sector bodies to which the Council has advanced grants in 2010-11:

- Cllr Asante-Twumasi is a Director of Age Concern, Harrow;
- Cllr Gate is a member of the Management Committee of Citizen's Advice Bureau, Chair of Harrow Women's Centre and Trustee of Harrow Association of Voluntary Service;
- Cllr Greek is a Deputy of Harrow Agenda 21 Environmental Forum;
- Cllr Laniman is the Chair of Harrow Teenage Cancer Trust and also the Chair of Harrow in Europe.

- Cllr Miles is a Deputy of Harrow Agenda 21 Environmental Forum, Trustee of Weldon Activity Group and Trustee of Harrow Anti Racist Alliance;
- Cllr Williams is appointed to executive Committee of Harrow Heritage Trust; and
- Cllr Wright is a Deputy of Harrow Agenda 21 Environmental Forum.

Officers

- Myfanwy Barrett, Former Chief Finance Officer, held Treasurers positions with West London Waste Authority, Edward Harvist Trust, Pinner Memorial Park, Middlesex Guildhall Collection, Harrow's Mayor's Charity and Harrow Recreation Trust;
- Jennifer Hydari, Divisional Director of Finance, held Treasurers positions with West London Waste Authority, Edward Harvist Trust, Middlesex Guildhall Collection, Harrow's Mayor's Charity from 1 March 2011; and
- Hugh Peart, Director of Legal and Governance, is the Honorary Secretary of the Edward Harvist Trust.

Details of the transactions between the Council and its related parties are as follows.

5.40.1 West London Waste Authority

2009-10 £000		2010-11 £000
6,517	Payments to WLWA	7,319
-759	Payments from WLWA	-765
11,521	Cash Balances Invested With the Council as at 31 March 2010	14,707
3,297	Long Term Lending to WLWA	3,181

5.40.2 London Borough of Harrow Pension Fund

2009-10 £000		2010-11 £000
16,623	Employers Pension Contributions to the Fund	16,905
-690	Administration expenses paid by the Fund	-639
4,378	Cash Due to the Fund	18,750

5.40.3 Other funds

2009-10 £000		2010-11 £000
22	Cash due to Harrow Weald Common Conservators	23
82	Cash due to Edward Harvist Trust	57
82	Cash due to Harrow Recreation Trust	83
57	Cash due to Middlesex Guildhall Collection	56
24	Cash due to Pinner Memorial Park	25

5.40.4 Central Government and other Local Authorities

Central government provides the statutory framework within which the Council operates. Majority of the funding is in the form of ring fenced grants from Central government, which

prescribes the terms of many of the transactions that the Council has with other parties (e.g. hosing benefits). Grants received and payments to the levying bodies are disclosed in the notes to the accounts. Payments to precepting bodies are detailed in the Collection Fund ,Income and Expenditure Statement.

5.41 Borrowing costs

In line with accounting policy (5.1.15), borrowing costs amounting to £0.167m were capitalised during 2010-11 at 3.5% (actual borrowing cost).

5.42 Termination benefits

The 'Better Deal for Residents Programme' has been designed by the Council to reduce costs for the foreseeable future. The Authority terminated the contracts of a number of staff in 2010-11 incurring a liability at 31 March 2011 of £0.984m for the payment of termination benefits in compensation for loss of office.

5.43 Defined benefit pension schemes

5.43.1 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 balance the pension liabilities with investment assets.

There have been no changes in the scheme during the year

5.43.2 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.

The cumulative amount of actuarial losses recognised in the Movement in Reserves Statement for the year 2010-11 is £169.399m.

2009-10 £000		2010-11 £000
	Cost of Services:	
10,076	• current service cost	18,179
532	• past service costs	-71,424
44	• settlements and curtailments	232
	Financing and Investment Income and Expenditure	
33,601	• interest cost	39,467
-19,917	• expected return on scheme assets	-31,162
24,336	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	-44,708
	Other Post Employment Benefit Charged to the CIES	
-152,081	• actuarial gains and (losses)	69,510
-127,745	Total Post Employment Benefit Charged to the CIES	24,802
	Movement in Reserves Statement	
2009-10		2010-11
-24,336	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	44,708
19,554	Actual amount charged against the General Fund Balance for pensions in the year: Employers' Contributions payable to scheme	19,713

5.43.3 Reconciliation of present value of the scheme liabilities

2009-10 £000		2010-11 £000
490,023	Opening balance at 1 April	775,538
10,076	Current service cost	18,179
33,601	Interest cost	39,467
5,977	Contributions by scheme participants	6,034
258,136	Actuarial (gains) and losses	-93,743
-22,851	Benefits paid	-29,652
532	Past service costs / (Gains)	-71,424
44	Losses on Curtailments	232
775,538	Closing balance at 31 March	644,631

5.43.4 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 £32.466m (2009-10: £125.972m).

2009-10 £000		2010-11 £000
300,448	Opening balance at 1 April	429,100
19,917	Expected rate of return	31,162
106,056	Actuarial gains and (losses)	-24,233
19,553	Employer contributions	19,713
5,977	Contributions by scheme participants	6,034
-22,851	Benefits paid	-29,652
<u>429,100</u>	Closing balance at 31 March	<u>432,124</u>

5.43.5 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 of £644.631m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £212.506m. 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 increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary;

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £16.565m.

	2010-11 £000	2009-10 £000	2008-09 £000	2007-08 £000	2006-07 £000
Present value of liabilities	-644,631	-775,538	-490,024	-496,877	-530,900
Fair value of assets	432,125	429,100	300,448	388,504	414,643
Surplus/(deficit) in the scheme	-212,506	-346,438	-189,576	-108,373	-116,257

5.43.6 Basis for estimating assets and liabilities

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

The government announced in the June 2010 budget that the cost of living increases to pensions in payment and to deferred pensions under the LGPS would be linked to the rise in the Consumer Price Index (CPI) rather than to the rise in Retail Price Index (RPI), to apply to increases from April 2011. The change has reduced the employer's liability by £72.230m which is included within Corporate and Democratic Core for 2010-11. This entry is reversed in the Movement in Reserves Statements.

The principal assumptions used by the actuary have been:

2009-10		2010-11
	Long-term expected rate of return on assets in the scheme:	
7.8%	Equity investments	7.5%
5.0%	Bonds	4.9%
5.8%	Property	5.5%
4.8%	Other	4.6%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
20.8	Men	21.6
24.1	Women	23.6
	Longevity at 65 for future pensioners:	
22.3	Men	23.6
25.7	Women	25.9
3.8%	Rate of inflation	2.8%
5.3%	Rate of increase in salaries (1% p.a. up to 31 March 2013 reverting to 4.6% p.a. thereafter)	4.6%
3.8%	Rate of increase in pensions (CPI)	2.8%
5.5%	Rate for discounting scheme liabilities	5.5%
	Take-up of option to convert annual pension into retirement lump sum	
50.0%	- Pre April 2008 Service	50.0%
75.0%	- Post April 2008 Service	75.0%

5.43.7 Scheme Assets

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

31-Mar-10		31-Mar-11
%		%
81%	Equity investments	76%
11%	Bonds	11%
6%	Property	8%
2%	Other assets	5%
100%		100%

5.43.8 History of experience gains and losses

	2010-11	2009-10	2008-09	2007-08	2006-07
	%	%	%	%	%
Differences between the expected and actual return on assets	-77,174	-101,636	112,482	35,922	-990
Experience gains and (losses) on liabilities	4.03	-0.16	-0.34	-4.02	0.03

Teachers' Pension

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

In 2010-11 the Council paid £9.563m (£9.131m in 2009-10) to the Teachers' Pension Agency in respect of Employers Contributions on teachers pension costs. The current contribution rate remains unchanged at 14.10% which was effective from 1 January 2007.

In addition, the Council is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2010-11 these amounted to £0.705m (£0.732m in 2009-10) representing 0.98% (1.07% in 2009-10) of gross pay.

The assets and liabilities for the Teachers' Scheme cannot be identified at individual employer level and for the purposes of Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme. The accrued liability in respect of pension contribution as at 31 March 2011 was £1.163m (2009-10 £nil).

5.44 Contingent liabilities

At 31 March 2010-11, the Council had two material contingent liabilities:

- There is a provision of £0.253m for claims in relation to charges made in the past for accommodation under the Mental Health Act s117. Claims are now being processed and the amounts payable may be in excess of the provision. Other local authorities have similar potential claims; and
- The Council has a contingent liability in relation to Municipal Mutual Insurance (MMI), its former insurer, arising from possible new claims and clawback provisions. However, the extent of this liability is very unclear at this stage and subject to a long chain of events. Moreover any issues arising will affect a large number of local authorities and may require government intervention.

5.45 Post Balance Sheet Event

The Academies Act 2010 included provision to allow all maintained schools to apply to become academies and to permit the secretary of state to issue an academy order requiring the local authority to cease to maintain the school. An academy school is independent of Council control and reports directly to the Department for Education. Seven of Harrow's secondary schools will transfer to academy status with effect from 1 August 2011.

The schools that will become academies are:

Bentley Wood High School
 Canons High School
 Harrow High School
 Hatch End High School

Nower Hill High School
Park High School
Rooks Heath College

A transfer agreement has been signed between the Council; the predecessor school's governing body and the academy's governing body

The land and buildings will transfer to the new academy schools under a 125 lease agreement. The assets will no longer be included in the Councils' Balance sheet and derecognised in the 2011-12 accounts. The value of assets in the balance sheet at 31 March 2011 that will be transferred is £115.7m. The gross expenditure of these seven schools in 2010-11 was £50.9m (excluding capital charges).

5.46 Financial instruments

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

	Long-term		Current	
	31-Mar-11 £000	31-Mar-10 £000	31-Mar-11 £000	31-Mar-10 £000
Investments				
Loans and receivables	18,000	0	65,557	64,741
Cash and cash equivalents	0	0	29,479	30,675
Total investments	18,000	0	95,036	95,416
Debtors				
Loans and receivables	3,604	3,713	0	0
Financial assets carried at contract amounts	0	0	10,776	13,625
Total Debtors	3,604	3,713	10,776	13,625
Borrowings				
Financial liabilities at amortised cost	-261,963	-242,108	-37,640	-23,581
Total borrowings	-261,963	-242,108	-37,640	-23,581
Other Long Term Liabilities				
PFI and finance lease liabilities	-24,315	-23,040	-1,816	-1,377
Total other long term liabilities	-24,315	-23,040	-1,816	-1,377
Creditors				
Financial liabilities carried at contract amount	0	0	-44,481	-47,264
Total creditors	0	0	-46,297	-48,641

The balance on the current category of financial liabilities consists of certain elements of creditors. The reason for exclusions is that many sections of creditors relate to statutory functions, not contractual arrangements as covered by the new Financial Reporting Standards.

Similarly, and for the same reason, the balance on current loans and receivables consists of short term loans and certain elements of debtors. The short term loans amount to £65.6m.

For further details of gross amounts held under debtors and creditors, and the corresponding provisions for bad debt, please refer to notes 5.19 and 5.22. These notes provide a more comprehensive picture as they include all debtor and creditor amounts irrespective of whether they are due to contractual or statutory activities.

Fair Value of Assets and Liabilities

The fair value of an instrument is determined by calculating the Net Present Value of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation, for an instrument with the same duration.

The calculations are made with the following assumptions:

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

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

	31-Mar-11		31-Mar-10	
	Carrying Amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities	-261,963	-260,489	-242,108	-254,604
Financial Assets	113,036	113,785	95,416	97,323

The above table includes fair value of investment and debt portfolio and excludes trade debtors and creditors.

At 31 March 2010, the fair value of liabilities was higher than the carrying amount because the Council's portfolio of loans included a number of fixed rate loans where the interest payable was higher than the rates for similar loans at the balance sheet date. The portfolio is structured differently at 31 March 2011. The fair value of the stepped rate LOBO loan exceeds the original principal by £3.90m. The position is similar for the external market date, where the fair value of the loans is £7.56m higher than the original principal. However, the position is reversed for the PWLB debt, for which the fair value of £117.06m is less than the original principal of £130.0m by £12.94m.

Nature and extent of risks arising from financial instruments

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices. The Treasury Management and Investment Strategy for 2010-11 was approved by the Council in February 2010.

Credit Risk

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

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

	Amount at 31-Mar-11	Historical experience of default	Historical experience of adjusted for market conditions at 31-Mar-11	Estimated exposure to default and incollecability
	£000	%	%	£000
UK Banks	90,188	0.00	1.77	1,596
UK Building Societies	15,000	0.00	1.77	266
UK Money Market Funds	7,713	0.00	1.77	137
Customers	9,268	13.10	39.45	1,214
Total				<u>3,213</u>

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

The Council does not allow credit for customers. There are no impaired debtors. The past due date amount can be analysed by age as follows:

Amount at 31-Mar-10		Amount at 31-Mar-11
£000		£000
9,236	Less than three months	3,475
552	Three to six months	1,214
593	Six months to one year	1,196
11,161	More than one year	3,383
<u>21,542</u>	Total Debtors	<u>9,268</u>

Reduction in the overall level of debt is the result of a write-off of old irrecoverable balances during 2010-11.

Liquidity risk

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

Note 5.24 gives further details on the maturity analysis of financial liabilities.

Market Risk – Interest Rate Risk

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

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

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

The Council has a number of strategies for managing interest rate risk. The Council's policy is to aim to bring the average borrowing rate down and to keep a maximum of 50% of its borrowings in variable rate loans. However, at present the Council does not hold any variable rate loans as most of the higher rate variable loans were replaced by fixed interest rate loans when a major debt restructuring exercise was carried out. Also, a total of £83.80m is held in the form of Lenders Option Borrowers Option (LOBOs) loans, at favourable rates (approximately 63.58% of the total debt portfolio). Following the initial fixed term, this will allow the flexibility of variable rate loans characteristics. As part of treasury management the debt portfolio is kept under review and during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

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

The Council had a weighted average balance of loans during 2010-11 of £259.03m. A movement of 1% in the rate payable would not have exposed the Council to any additional interest cost as the Council does not currently hold any variable rate loans.

The Council had an average balance of investments for 2010-11 of £127.2m. With the base rate currently fixed at 0.5%, the risk of exposure from a downwards move is minimised. A positive movement of 1% in rates received on average investment balances would generate additional investment income of £1.3m.

5.47 Transition to IFRS

The Council has prepared its accounts under International Reporting Standards (IFRS) for the first time in 2010-11. In the first year of adoption there are specific transitional arrangements which require the accounts to reflect the new accounting policies as if these had always been applied. This has required the restatement of comparative figures in the income and expenditure account for 2009-10 and balance sheet at 1 April 2009 and 31 March 2010.

The relevant policies are detailed in section 5.1.1.

5.47.1 Comprehensive Income and expenditure statement

The table shows the adjustments made to the comprehensive income and expenditure statement (CIES) for 2009-10 accounts in the format required under the Code of Practice on Local Authority Accounting.

DRAFT

	Original Accounts Figure in IFRS format 2009-10			Changes Due to IFRS 2009-10			Restated Figure 2009-10		
	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Central Services to the public	23,293	-21,935	1,358	0		0	23,293	-21,935	1,358
Cultural, Environmental, Regulatory and Planning Services	59,817	-12,249	47,568	1,704	-1,802	-98	61,521	-14,051	47,470
Education and Children's Services	365,724	-193,305	172,419	1,859	-53	1,806	367,583	-193,358	174,225
Highways and Transport Services	27,854	-13,433	14,421	1,558	0	1,558	29,412	-13,433	15,979
Housing Services (HRA)	-11,555	-25,440	-36,995	39	0	39	-11,516	-25,440	-36,956
Housing Services (General Fund)	128,327	-119,625	8,702	-8	10	2	128,319	-119,615	8,704
Adult Social Care	89,019	-21,903	67,116	385	0	385	89,404	-21,903	67,501
Corporate and democratic core	14,212	-4,927	9,285	1	0	1	14,213	-4,927	9,286
Non distributed costs	613	-220	393	0	0	0	613	-220	393
Cost Of Services	697,304	-413,037	284,267	5,538	-1,845	3,693	702,842	-414,882	287,960
Other Operating Expenditure (Note 5.8)	9,162	-1,853	7,309	0	0	0	9,162	-1,853	7,309
Financing and Investment Income and Expenditure (Note 5.9)	25,349	-1,559	23,790	513	1,796	2,309	25,862	237	26,099
Taxation and Non-Specific Grant Income (Note 5.10)	0	-179,206	-179,206	0	-42,760	-42,760	0	-221,966	-221,966
(Surplus) or Deficit on Provision of Services			136,160			-36,758			99,402
Surplus or deficit on revaluation of fixed assets			11,152						11,152
Actuarial gains / losses on pension assets / liabilities			152,081						152,081
Other Comprehensive Income and Expenditure			163,233			0			163,233
Total Comprehensive Income and Expenditure			299,393			-36,758			262,635

IFRS Restatement Adjustments in CIES
2009-10

	Property Classification	Investment Property Income	Investment Property Revaluation	Lease Adjustments	Short Term Compensated Accumulated Absences	Government Grants	Deferred Credits	Total
	Depreciation Charges	Property Income	Property Revaluation					
Note	£000	£000	£000	£000	£000	£000	£000	£000
Central Services	0	0	0	0	0	0	0	0
Cultural, Environmental, Regulatory and Planning Services	229	786	-2,582	-125	57	1,537	0	-98
Children's and Education Services	0	0	0	-195	1,112	889	0	1,806
Highways and Transport Services	0	0	0	-122	57	1,623	0	1,558
Housing Services (HRA)	44	0	0	1	-6	0	0	39
Housing Services (General Fund)	0	0	0	-17	8	11	0	2
Adult Social Care	0	0	0	-16	8	393	0	385
Corporate and Democratic Core	0	0	0	1	0	0	0	1
Non Distributed Costs	0	0	0			0	0	0
Cost Of Services	273	786	-2,582	-473	1,236	4,453	0	3,693
Other Operating Expenditure	0	0	0	0	0	0	0	0
Financing and Investment Income and Expenditure	0	-786	2,582	482	0	0	31	2,309
Taxation and Non-Specific Grant Income	0	0	0	0	0	-42,760	0	-42,760
(Surplus) or Deficit on Provision of Services	273	0	0	9	1,236	-38,307	31	-36,758

5.47.2 Balance Sheet

The table shows the balance sheet at 1 April 2009 and 31 March 2010 restated in accordance with the introduction of IFRS.

	Original Figures in IFRS Format 01-Apr-09 £000	Changes due to IFRS 01-Apr-09 £000	Restated 01-Apr-09 £000	Original Figures in IFRS Format 31-Mar-10 £000	Changes due to IFRS 31-Mar-10 £000	Restated 31-Mar-10 £000
Property Plant and Equipment	1,143,657	24,093	1,167,750	1,068,713	22,456	1,091,169
Investment Property	41,011	-22,375	18,636	42,491	-17,669	24,822
Long Term Investments	16,345	0	16,345	0	0	0
Long Term Debtors	3,897	0	3,897	3,712	0	3,712
Long Term Assets	1,204,910	1,718	1,206,628	1,114,916	4,787	1,119,703
Short Term Investments	68,858	-14,977	53,881	95,319	-30,578	64,741
Inventories	91	0	91	26	0	26
Short Term Debtors	32,242	0	32,242	28,205	0	28,205
Cash and Cash Equivalents	-5,622	14,977	9,355	-7,303	30,578	23,275
Current Assets	95,569	0	95,569	116,247	0	116,247
Short Term Borrowing	-17,594	0	-17,594	-16,181	0	-16,181
Short Term Creditors	-69,376	-1,286	-70,662	-63,041	-6,388	-69,429
Provisions	-9,249	3,915	-5,334	-7,175	4,474	-2,701
Current Liabilities	-96,219	2,629	-93,590	-86,397	-1,914	-88,311
Long Term Provision	0	-3,915	-3,915	0	-4,474	-4,474
Long Term Borrowing	-212,217	0	-212,217	-242,108	0	-242,108
Other Long Term Liabilities	-202,516	-1,921	-204,437	-365,339	-4,137	-369,476
Capital Grants Receipts in Advance	-70,116	13,456	-56,660	-107,422	44,583	-62,839
Long Term Liabilities	-484,849	7,620	-477,229	-714,869	35,972	-678,897
Net Assets	719,411	11,967	731,378	429,897	38,845	468,742
Usable Reserves	-91,244	51,212	-40,032	-107,985	60,121	-47,864
Unusable Reserves	-628,167	-63,179	-691,346	-321,912	-98,966	-420,878
Total Reserves	-719,411	-11,967	-731,378	-429,897	-38,845	-468,742

5.47.3 Prior year adjustments

The net effect of the adjustments on the balance sheet are summarised in the following tables.

Changes due to IFRS			Note	Changes due to IFRS	
Balance Sheet	Restated			Balance Sheet	Restated
01-Apr-09 £000	01-Apr-09 £000			31-Mar-10 £000	31-Mar-10 £000
		Property Classification			
22,375	627,664	Property Plant and Equipment - Other Land and Buildings	5.11	17,396	481,348
-22,375	18,636	Investment Property	5.14	-17,669	24,822
		Lease Adjustments			
1,718	42,257	Property Plant and Equipment - Vehicles Plant Furniture and Equipment	5.11 & 5.12	5,060	44,759
-1,640	-36,456	Short Term Creditors - Other entities and individuals	5.22	-1,135	-33,194
-281	-281	Other Long Term Liabilities - Vehicles , Plant Furniture and Equipment	5.25	-4,138	-4,138
		Short Term Accumulated Compensating Absences			
-6,734	-36,456	Short Term Creditors - Other entities and individuals	5.22	-7,970	-33,194
		Government Grants			
13,456	-56,660	Capital Grants Receipts in Advance	5.39.3	44,583	-62,839
5,448	-11,560	Short Term Creditors - Central government bodies	5.22	2,718	-11,820
		Insurance Provision			
-3,915	-3,915	Long Term Provisions - Insurance	5.23	-4,474	-4,474
3,915	-5,334	Short Term Creditors	5.22	4,474	-2,701
		Cash and Cash Equivalents			
-14,977	53,881	Short Term Investments - temporary Investments Managed in House	5.17	-30,578	64,741
14,977	9,355	Cash and Cash Equivalents - Short Term Deposits with Banks and Building Societies	5.20	30,578	23,275
11,967		Balance Sheet Adjustments 1 April 2009 to 31 March 2010 Equity		38,845	
		Movement In Reserves			
-2,671	-11,594	Revenue Grant Reserve			
		Government Grants - Revenue Grant Reserve	5.7	-2,718	-15,011
		Government Grants Unapplied			
55,426	0	Government Grants	5.47.8	65,339	0
		Capital Grants Unapplied Account			
-1,543	-1,543	Government Grants	5.26.2	-2,500	-2,500
51,212		Balance Sheet Adjustments 1 April 2009 to 31 March 2010 Usable Reserves	5.26	60,121	
		Revaluation Reserve			
11,327	-28,011	Property Classification - Investment Properties to PP&E	5.27.1	11,505	-15,740
		Capital Adjustment			
-11,327	-863,605	Property Classification - Investment Properties to PP&E	5.27.2	-11,232	-762,432
-70,116	-863,605	Government Grants	5.27.2	-107,422	-762,432
203	-863,605	Lease Adjustments	5.27.2	213	-762,432
		Accumulated Short Term Compensating Absences Account			
6,734	6,734	Accumulated Short Term Compensating Absences	5.27.6	7,970	7,970
-63,179		Balance Sheet Adjustments 1 April 2009 to 31 March 2010 Unusable Reserves	5.27	-98,966	
-11,967		Net Movement in Reserves 1 April 2009 to 31 March 2010		-38,845	

5.47.4 Adjustments

Property Classification

Property has been reclassified as either Property Plant and Equipment (PP&E) or Investment Properties in accordance with the code of practice. The definition of Investment Property is more restricted under the code of practice so a number of properties have moved to PP&E resulting in an additional depreciation charge in 2009-10. Investment properties are properties (land or building, or part of a building, or both) held solely to earn rentals or for capital appreciation (or both). The net income generated from investment properties and changes in fair value are recognised in the Comprehensive Income and Expenditure Account under the heading of Financing and Investment Income and Expenditure.

5.47.5 Borrowing costs

For 2010-11 the Council has changed its accounting policy for borrowing costs incurred where items of property, plant and equipment take a substantial period of time to get ready for their intended use. Previously borrowing costs had been charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the financial year in which they were incurred.

The Council has enhanced the accounting policy because it believes that the capitalisation of borrowing costs better reflects the costs of property, plant and equipment and helps ensure that those benefiting from the use of the asset meet those costs.

In applying the new accounting policy, the Council has not identified any other scheme in 2009-10 where there would be a continuing material impact if borrowing costs had been capitalised.

5.47.6 Short term accumulating compensated absences

Employees build up an entitlement to paid holiday as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

5.47.7 Leases

The Council has examined lease arrangements for property and equipment. A number of equipment leases where the Council is lessee, primarily for vehicles and photocopiers were previously recognised as operating leases and have been reclassified under IFRS as finance leases. This means that these assets are recognised in the Council's balance sheet. There is also a liability shown in the balance sheet representing minimum lease

repayments. This is split between short term creditors for payments due within one year and long term liabilities for payments due beyond one year.

Apart from the lease by the Council of one HRA property under a finance lease, no other properties where the Council is either lessee or lessor were identified as finance lease arrangements. As a result there has been no change in accounting treatment of the existing property leases.

5.47.8 Government Grants

Under the Code of Practice, capital and revenue grants are recognised in the income and expenditure account with immediate effect unless there are conditions attached to the grant that would require repayment in the event of those conditions not being fulfilled. Where the conditions of a capital grant have been fulfilled but the related expenditure has not yet been incurred, the grant is held as a Usable Reserve in the balance sheet. Where the conditions have not yet been fulfilled, the grant is held as a Capital Receipt in Advance, indicating that a liability for repayment exists. If the expenditure relating to an unconditional revenue grant has not yet been incurred, the grant can be held in an earmarked reserve to be drawn down to finance expenditure in a future year, or the income can just be part of the general reserve balances rather than set aside of a specific purpose.

Original Figures in IFRS Format 01-Apr-09 £000	Changes due to IFRS 01-Apr-09 £000	Restated 01-Apr-09 £000		Original Figures in IFRS Format 31-Mar-10 £000	Changes due to IFRS 31-Mar-10 £000	Restated 31-Mar-10 £000
-75,588	75,588	0	Government Grants Deferred	-114,124	114,124	0
0	-56,660	-56,660	Capital Grants Receipts in Advance	0	-62,839	-62,839
5,472	-5,472	0	Accumulated Amortisation of Grants	6,702	-6,702	0
-70,116	13,456	-56,660	Capital Grants Receipts in Advance	-107,422	44,583	-62,839

5.47.9 Cash and cash equivalents

Short term investments have been reclassified as cash and cash equivalents as part of the restatement. These are investments which mature within 3 months of acquisition.

5.47.10 Provisions

The Council's future liability to make settlements of Insurance claims has been reclassified from a liability to a provision. A provision is made where the timing or amount of a future payment are uncertain.

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.

Summary of Income and Expenditure

Restated 2009-10 £000		Note	2010-11 £000	£000
	Expenditure			
5,274	Repairs and maintenance		6,139	
6,968	Supervision and management		7,112	
195	Rents, rates, taxes and other charges		174	
6,847	Negative HRA Subsidy payable	6.2.3	6,582	
3,825	Depreciation of non current assets	6.2.4	3,958	
0	Impairment of non current assets		121,203	
-34,801	Reversal of past impairment losses		-286	
40	Debt management costs		32	
136	Movement in the allowance for bad debts		148	
-11,516	Total Expenditure			145,062
	Income			
-21,809	Dwelling rents (gross)	6.2.1	-22,201	
-800	Non-dwelling rents (gross)	6.2.2	-774	
-2,213	Charges for services and facilities		-1,962	
-618	Contributions towards expenditure		-753	
-25,440	Total Income			-25,690
-36,956	Net cost of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement			119,372
197	HRA's share of Corporate and Democratic Core			197
-36,759	Net cost of HRA Services			119,569
	HRA share of operating income & expenditure included in the Whole Authority Comprehensive Income & Expenditure Statement			
-1,080	(Gain) or loss on sale of HRA Fixed Assets			3,698
2,107	Interest payable and similar charges	6.2.5		2,227
-115	Interest & investment income			-104
0	Capital Grant income			-289
-35,847	(Surplus) / Deficit for the year on HRA services			125,101

Statement of Movement on the HRA Balance

2009-10 £000		Note	2010-11 £000
Restated 5,142	Balance on HRA at end of the previous year		4,784
-35,847	(Surplus) or Deficit for the year on the HRA Income & Expenditure Statement		125,101
1,316	Adjustment between accounting basis and funding basis under regulations	6.2.11	-3,458
-34,531	Net increase or decrease before transfers to/from reserves		121,643
34,889	Transfer to/from reserves	6.2.11	-120,639
358	Decrease in year on the HRA		1,004
4,784	Balance on HRA at end of the current year		3,780

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 0.89% of lettable properties were vacant; in 2009-10 the figure was 1.13%. The average depooled rents were £86.60 per week in 2010-11 (£84.00 in 2009-10). There was an average rent increase of 2.85% over the previous year.

6.2.2 Non-dwelling Rents

This includes garages. At the year-end 46.30% of garages were vacant compared with 46.39% in 2009-10.

6.2.3 HRA Subsidy

This represents the amount of negative subsidy payable to the Government by the Council. It represents notional rent and other income against expenditure deemed by the Government to have been incurred for management, maintenance and charges for capital.

2009-10 £000		2010-11 £000
	Notional Expenditure	
9,118	Management and maintenance	9,600
3,778	Major Repairs Allowance	3,932
2,217	Charges for capital	2,292
15,113	Total notional expenditure	15,824
	Notional Income	
-21,946	Rents	-22,314
-10	Other	-8
-21,956	Total notional income	-22,322
	Other	
6,843	HRA subsidy	6,498
4	Prior year adjustment	84
6,847	Total Subsidy payable	6,582

6.2.4 Depreciation

	Land £000	Dwellings £000	Garages & Halls £000	Shops £000	Non operational assets £000	Total 2010-11 £000
Net book value as at 1 April 2010 (Restated)	134,596	249,964	14,973	3,821	17	403,371
Revaluations and restatements	-40,416	-75,050	-540	354	47	-115,605
Value at 31 March 2011	94,180	174,914	14,433	4,175	64	287,766
Disposals	-1,403	-2,606	-785	-220	0	-5,014
Gross book value as at 31 March 2011	92,777	172,308	13,648	3,955	64	282,752
Depreciation for year	0	-3,932	0	-26	0	-3,958
Net book value as at 31 March 2011	92,777	168,376	13,648	3,929	64	278,794

The valuation of HRA fixed assets has been prepared on the basis of Existing Use Value and calculated in accordance with the Guidance on Stock Valuation published by the DCLG in July 2005 (This recognises their value as social housing). The HRA portfolio has been adjusted in line with the 5 year rolling programme of valuations as set out in Accounting Policies 5.1.15 Property, Plant and Equipment.

A vacant possession valuation for dwellings at 1 April 2010 would have been £982.471m (£894.663m at 1 April 2009), therefore recognising the economic cost to the Government of providing Council housing at less than open market value of £736.883m.

Although The Code requires disclosure of Economic cost of providing Council housing at less than open market rent by resource accounting, the equivalent cost based on Land Registry index as at 1 April 2010 is £832.224m.

In accordance with IFRS, an assessment of the depreciation charge using asset componentisation was made for HRA dwellings. The MRA has been used as a proxy for the depreciation charge as it is considered a reasonable estimate of dwelling depreciation. Non dwellings have been depreciated in line with the Standard Accounting Policies.

Charges for impairment of HRA assets were £121.203m (2009-10 £nil). There was no amortisation of revenue expenditure funded from capital resources during the financial year. No non operational land is held within the HRA.

6.2.5 Interest Payable

Interest charges payable on borrowings are charged to the HRA and are determined in accordance with the item 8 Credit and Item 8 Debit (General) determination made by the Secretary of State.

6.2.6 Major Repairs Reserve

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

	Balance 01-Apr-10 £000	Transfer to Reserve £000	Capital Expenditure £000	Balance 31-Mar-11 £000
Movements	0	3,932	-3,932	0

6.2.7 Capital Expenditure and Funding Statement

2009-10 £000		2010-11 £000
	HRA Capital Expenditure	
11,163	Dwellings	5,302
<u>11,163</u>	Total	<u>5,302</u>
	Financed by:	
3,778	Major Repairs Reserve	3,932
451	Capital receipts - Right to Buy & Affordable Housing	516
39	Grant - extensions and conversions	249
6,895	Borrowing	605
<u>11,163</u>	Total	<u>5,302</u>

6.2.8 Capital Receipts

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

2009-10 £000		2010-11 £000
0	Balance at 1 April	0
	Receipts in year:	
1,797	Houses	920
-1,346	Paid to DCLG Pool	-690
-451	Applied in the year	-230
<u>0</u>	Balance at 31 March	<u>0</u>

6.2.9 Pensions (IAS 19)

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

Note 5.43 gives further details.

6.2.10 Housing Revenue Account Statistics

2009-10 Total	Housing Stock	Houses	Flats	Bungalows	2010-11 Total
99	4 or more bedrooms	103	1	1	105
1,409	3 bedrooms	1294	98	1	1,393
1,514	2 bedrooms	558	882	26	1,466
2,036	1 bedroom	0	1866	136	2,002
5,058	LBH managed stock as at 1 April *				4,966
1,052	Garages				959
	Summary of change in stock				
5,067	Stock as at 1 April				5,058
	Less				
-9	Sales				-5
0	Conversions				-87
5,058	Total HRA stock at 31 March				4,966
	Measures of performance & information for disclosure notes to HRA				
£41.88	Average weekly costs per dwelling of management and maintenance				£46.04
£1.397m	Rent arrears (current and former tenants)				£1.253m
97.19%	Rent collection rate (BVPI 66a)				98.36%
	Current tenant arrears as percentage of the authorities rent roll (whether dwellings occupied or not)				2.06%
3.46%	Rent loss through voids				0.94%
0.80%	Write offs in year				£0.035m
£0.013m	Provision for bad debts				£0.786m
£1.010m					

*Included in the LBH managed stock is one property transferred from London Borough of Ealing under the 1994 boundary changes.

6.2.11 Statement of Movement on the HRA Balance

2009-10 £000		2010-11 £000
	Adjustment between accounting basis and funding basis under regulations	
230	Premiums on Debt Restructure	220
	Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	
6	Accumulated Compensated Absences Adjustment	20
1,080	Gain or loss on sale of HRA fixed assets	-3,698
<u>1,316</u>		<u>-3,458</u>
	Transfer to/from earmarked reserves	
	HRA share of contributions to/from Pensions reserve :	
470	Net charges made for retirement benefits in accordance with IAS19	-377
-337	Employer's contributions payable in the year	350
	Transfer to/from the Capital Adjustment Account	
34,801	Impairment	-120,869
0	Capital expenditure funded by Grants	289
0	Voluntary set aside	23
-45	Finance Lease Depreciation	-29
-3,778	Depreciation transfer	-3,958
3,778	Transfer to/from the Major Repairs Reserve	3,932
<u>34,889</u>		<u>-120,639</u>
<u>36,205</u>		<u>-124,097</u>

7 Collection Fund

This account reflects the statutory requirements for the London Borough of Harrow, as the billing Authority, to maintain a separate Collection Fund. The Fund shows the transactions in relation to the Council Tax and Non-Domestic Rates, and sets out the way in which these have been distributed to the General Fund and the Greater London Authority (the preceptor). The council tax is the means of raising income from local residents to pay for council services.

Statement of Income and Expenditure

2009-10 £000	Notes	2010-11 £000
Income		
-112,795	Income from Council Tax	-112,101
-18,802	Council Tax Benefits (transfer from General Fund)	-19,828
-46,528	Income Collectable from business ratepayers	-44,069
<u>-178,125</u>	Total Income	<u>-175,998</u>
Expenditure		
Precepts and demands		
101,753	Local Demand (Harrow)	102,473
26,568	Greater London Authority	26,757
Business Rates		
46,268	Payment to the National Pool	42,606
0	Payment to the GLA - BRS (Crossrail) 7.1.3	1,206
260	Costs of Collection	257
Contributions		
380	Towards previous year's Collection Fund surplus	1,826
Bad and Doubtful Debts		
1,000	Council Tax Write Offs	1,381
479	Council Tax Provisions	-1,510
<u>176,708</u>	Total Expenditure	<u>174,996</u>
-1,417	Movement on Fund balance: Surplus for the year	-1,002
-355	Surplus(-) brought forward	-1,772
<u>-1,772</u>	Surplus(-) carried forward	<u>-2,774</u>

7.1 Notes to the Collection Fund

7.1.1 Income from Council Tax

The Council tax is levied on domestic properties and the charge is based on the valuation band assessed for each dwelling. The council tax base, which is used in the tax calculations, is based on the number of dwellings in each band. This is adjusted for exemptions, discounts, disabled banding changes and appeals. The 2010-11 Council Tax Base was 86,362 with a Band D of £1,496.37. The Council Tax, as shown, reflects both Harrow Council and GLA services:

2009-10			2010-11		
Property Numbers	Council Tax	Valuation Bands	Band D Ratio	Property Numbers	Council Tax £
163	997.58	A = Not exceeding £40,000	6/9	171	997.58
2,029	1,163.84	B = £40,001 - £52,000	7/9	2,032	1,163.84
13,837	1,330.11	C = £52,001 - £68,000	8/9	14,156	1,330.11
25,075	1,496.37	D = £68,001 - £88,000	1	25,179	1,496.37
24,409	1,828.90	E = £88,001 - £120,000	11/9	24,537	1,828.90
10,271	2,161.42	F = £120,001 - £160,000	13/9	10,258	2,161.42
9,388	2,493.95	G = £160,001 - £320,000	15/9	9,420	2,493.95
2,110	2,992.74	H = £320,001 +	18/9	2,147	2,992.74
87,282		Total		87,900	
-1,527		Adjustment for non-collection		-1,538	
85,755		Council tax base		86,362	

7.1.2 National Non-Domestic Rates

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

The total non-domestic rateable value for the London Borough of Harrow at the year-end was £128.25m (£128.84m in 2009-10) and the national non-domestic rate multiplier for 2010-11 was 0.414 (0.485 in 2009-10).

7.1.3 Business Rate Supplement - Crossrail

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

8 Statements Reporting Reviews of Internal Controls

8.1 Scope of Responsibility

- 8.1.1 Harrow Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 8.1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk i.e. it is responsible for ensuring a sound system of governance.
- 8.1.3 The Council has approved and adopted a Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government*'. The code has been taken into account in drafting our constitution and a copy can be obtained from Harrow Council, Civic Centre, Station Road, Harrow, Middlesex HA1 2XF or from our website at: http://www.harrow.gov.uk/downloads/file/8017/part_5k-code_on_corporate_governance. This statement explains how the Council has complied with the code and the governance framework and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 in relation to the publication of this Annual Governance Statement.

8.2 The Purpose of the Governance Framework

- 8.2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 8.2.2 The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Harrow Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 8.2.3 The governance framework has been in place at Harrow Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

8.3 The Governance Framework

Identifying, communicating and reviewing the authority's vision

- 8.3.1 Harrow Council's vision during 2010-11 was 'to be recognised as one of the best London Councils by 2012, in a borough that is cosmopolitan, confident and cohesive'. The vision is reviewed annually and Council set a new vision and corporate priorities in March 2011 alongside the budget. Extensive consultation was undertaken through the Lets Talk programme, which is reflected in the new vision for 2011-12 'Working together: Our Harrow, our community'.
- 8.3.2 The priorities and flagship actions set out in the corporate plan were set in response to consultations with residents and filter down the organisation hierarchically at Directorate, Service and individual plan levels. The priorities are communicated to residents through 'Harrow People' magazine and the harrow.gov internet site.
- 8.3.3 The Council's vision and corporate priorities are consistent with the Sustainable Community Strategy which has been developed by the Harrow Strategic Partnership (HSP) together with the local community, with local agencies, stakeholders and residents involved in identifying its priorities. Progress against priorities with residents was also measured through the Reputation Tracker in 2010 and the Involvement Tracker in 2011. The Strategy shows how the organisations making up the Harrow Strategic Partnership will try to shape the effects of global, national, regional and local trends and events to work towards successful outcomes for Harrow. These successful outcomes include making Harrow a better place to live and work over the long term.
- 8.3.4 Through this partnership, the HSP Members agreed a Local Area Agreement which ran until 31 March 2011 and reflects the work that partners needed to do over 3 years to improve the quality of life for local people.
- 8.3.5 The Better Deal for Residents: Shaping Harrow for the Future (BDfR) programme, agreed by Cabinet in July 2010, has been developed to significantly reduce costs each year for the foreseeable future, whilst radically considering the manner and scale of services offered, given the changing needs of residents. The BDfR programme will, in the first instance, include a fundamental review of how the council can deliver more integrated services to local taxpayers across all the public sector partners in the borough. It will focus on how the council can better align services with residents' needs, whilst being more cost effective. The programme will act as the first phase of the Council's Change Management Programme, which will be undertaken over the next two to three years.
- 8.3.6 Five improvement boards, which cover all areas of the Council, oversee all improvement initiatives across the Council, and the Corporate Strategy Board (CSB) has regular performance monitoring meetings scheduled throughout the year. CSB Membership consists of the Council's 5 Corporate Directors, the Assistant Chief Executive, the Director of Legal and Governance Services and is chaired by the Chief Executive or Assistant Chief Executive.

- 8.3.7 Progress towards the Council's corporate priorities is regularly monitored by the improvement boards, Corporate Strategy Board (CSB), the Executive (Members of the Cabinet, consisting of the Leader of the Council and nominated Portfolio Holder Councillors) and the LAA by the Harrow Strategic Partnership. Improvement boards also monitor risks to the achievement of Directorate objectives each quarter and these are reported to the quarterly CSB performance morning meetings.
- 8.3.8 The Executive meets monthly and the Corporate Strategy Board meet weekly to monitor performance and to consider the key risks to the achievement of those objectives. There are also six weekly 'leadership meetings' between CSB and Cabinet Members.
- 8.3.9 The corporate priorities which support the Council's vision are reviewed annually and the priorities for 2010-11 were to:
- Deliver cleaner and safer streets;
 - Improve support to vulnerable people;
 - Build stronger communities.

Measuring the quality of services and ensuring best use of resources

- 8.3.10 The Council has an integrated planning and budget framework to develop its Corporate Plan and Medium Term Financial Strategy each year, and monitor performance against plans and budgets. The Sustainable Community Strategy and the Local Area Agreement inform the Council's Corporate Planning process. The direction provided by the Corporate Plan and the Medium Term Financial Strategy is cascaded through directorate service improvement plans down to service development plans and then to personal development plans and Individual Performance Appraisal & Development (IPADS) for individual staff.
- 8.3.11 The process commences with the development of a Year Ahead Statement, setting out the evidence base to support the Council's priorities, and this sets the scene for the planning round. More detailed work follows, culminating in the approval of the corporate plan and budget in February each year.
- 8.3.12 Performance against plans, key indicators and targets and budgets are monitored during the year by Directorate Management Teams, quarterly Improvement Boards and CSB. There are quarterly monitoring reports to Cabinet on both the budget and performance using a balanced scorecard approach covering projects, budgets, risks, workforce performance, complaints, debt and VFM.
- 8.3.13 The Council has made considerable progress to improve its financial position and financial management in the last 3-4 years. This has involved much more robust medium term planning, an increase in the number of qualified finance staff, training for budget holders, and the replacement of the finance system with an Enterprise Resource Management System (ERP).
- 8.3.14 CSB meet monthly as a Transformation Board to monitor projects under the Better Deal for Residents Programme.

8.3.15 A Use of Resources Assessment was carried out annually up to and including 2008-09 by the Audit Commission which was wide ranging and covered financial management, performance management, internal control and value for money. The outcome of the assessment resulted in actions being built into service plans and the Council's Improvement Programme. This assessment was abandoned by the new government and as a consequence there was no assessment relating to 2009-10 and a new assessment/self-assessment regime has yet to be announced. However work is still undertaken by the External Auditors as part of the VFM conclusion in the accounts.

8.4 Defining roles

8.4.1 The Council's constitution describes the role and terms of reference of Members, the Executive, Portfolio Holders, Mayor, full Council, the Standards Committee and the Overview and Scrutiny Committee.

8.4.2 Officer responsibilities are also set out in the Constitution, including the Chief Executive, Corporate Directors and the Director of Legal & Governance Services. This includes the various statutory responsibilities of these roles and role profiles of senior officers are in place and relevant officers have written delegated authority to undertake the statutory functions.

8.4.3 Democratic services maintain a register of Members' interests which is published on-line via the Council's web-site.

8.4.4 The Constitution is reviewed on an on-going basis, with full Council making amendments as and when required. During 2010-11 work began on a review of the Financial Regulations and Contract Procedure Rules.

8.5 Standards of behaviour and codes of conduct

8.5.1 Members and employees have clear codes of conduct, which set out expectations of behaviour and are regularly reviewed and re-issued. Two training sessions for Members, organised by the Council's Legal and Democratic Services team, on the code and ethical governance were provided during May 2010 and a third covering the code and social media took place in June 2011. The employee code forms part of the officer induction training.

8.5.2 A Standards Committee is in place to ensure that individual Members uphold and exemplify good governance and behaviour, and the role of the Committee and its structure was revised during early 2008-09 to reflect its new powers and responsibilities. The Localism Bill includes proposals to abolish Standards for England and means that the Council will be able to choose whether or not to have a member code of conduct and a Standards Committee. Officers are currently working with members in a working group to consider how the council will ensure the high standards of conduct in public life are maintained in the future which is a requirement under the Bill.

- 8.5.3 Separate mechanisms for Members and Officers are in place in the event that the codes are breached and appropriate action is taken as necessary.
- 8.5.4 Registers of gifts and hospitality are held at Member and Officer level and reviewed regularly. Departmental Management Teams review the Officer registers at regular intervals. The Members' register is available on-line via the Council's web-site.
- 8.5.5 In September 2008 the Council adopted new Council values which apply to all employees and replace the previous competency framework for middle managers and above. The values set out expected behavioural standards within 6 themes known as the CREATE values:
- Customer first;
 - Respect;
 - Engaged communication;
 - Actively 'One Council';
 - Taking responsibility;
 - Energise and improve.
- 8.5.6 A new suite of employment policies were prepared during 2007/08 and introduced from April 2008 which includes key HR policies for dealing with grievance, disciplinary and harassment issues. These have been communicated to managers under new capability and dignity at work procedures and are available on the Council's intranet site together with the full range of HR policies.

8.6 Decision making

- 8.6.1 Decision making arrangements are set out in the Constitution which governs the conduct of the Council's business and includes Contract Procedure Rules and Financial Regulations. The Council operates a Leader and Cabinet (Executive) model of decision making. Although some decisions are reserved for full Council, most are made by the Executive or by Committees, Sub-Committees or officers. The Constitution details those decisions that may not be taken by the Executive and those decisions that have been formally delegated to officers. The powers delegated to individual Portfolio Holders are also set out in the Constitution.
- 8.6.2 The Executive is responsible for the implementation of policy and ensuring the effectiveness of service delivery and forthcoming Executive decisions are published on the Forward Plan which sets out all future key decisions that may be made within the following four month period.
- 8.6.3 Members are required to make sound decisions based on written reports which are prepared in accordance with report writing guidelines and all Cabinet reports have to be cleared by officers in Finance, Legal Services, Performance Management and

Environment together with the relevant Portfolio Holder. Reports must pay due regard to equalities issues, crime and disorder implications, and risks.

- 8.6.4 The Executive receive a briefing (Cabinet Briefing) two weeks before the formal Cabinet meeting date when Members can ask detailed technical questions of officers. A Member Development programme is in place to support Members and provide them with information and the skills to make effective decisions.
- 8.6.5 In accordance with the Local Government Act 2000 the Council has mechanisms in place to allow the effective, independent and rigorous examination of the proposals and decisions by the Executive. These mechanisms involve the Overview and Scrutiny process and call-in. The Overview and Scrutiny Committee is responsible for overseeing a targeted work programme that can help support service improvement through an in-depth investigation of performance and the development of an effective strategy/policy framework for the council and its partners. This includes consideration of the Corporate Plan, Local Area Agreements and the Medium Term Financial Strategy. The Performance and Finance sub-committee is the scrutiny body responsible for monitoring the performance of the council and its partners in relation to their stated policy and priorities.
- 8.6.6 All formal meetings are clerked by well trained and experienced Democratic Services Officers who also provide advice on constitutional procedure. Lawyers are present when appropriate to provide advice on law and all committee reports must have legal clearance before they are published.

8.7 Internal Control and Risk Management

- 8.7.1 Internal control refers to the systems devised by management to guard against risk and promote achievement of objectives. More specifically, internal controls promote:
- • achievement of business objectives and performance standards;
 - • compliance with plans, policies, procedures, codes of conduct, laws and regulations;
 - • the reliability, integrity, timeliness and usefulness of information;
 - • the legality of transactions and compliance with approved budgets and procedures; and
 - • the safeguarding of people, property, finances, services, continued operations and reputation.
- 8.7.2 Internal controls are an essential part of the Council's risk management arrangements and are required to be reviewed on a regular basis by management under the Council's Financial Regulations. Control systems provide for clarity of

policies, objectives, targets, responsibilities and accountabilities, and appropriate authorisations and approvals, separation of duties, level of internal check, management information and physical safeguards.

- 8.7.3 The Director of Finance and the Assistant Chief Executive are responsible for assisting the authority in putting in place an appropriate control environment and effective internal controls which provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with all applicable statutes, regulations and codes of practice.
- 8.7.4 The Council has a duty to manage its risks effectively and this is achieved through a consistent corporate process in a hierarchical series of risk registers. A risk management strategy is reviewed and agreed by the Executive each year. The strategic risk register is reviewed by the Corporate Strategy Board on a quarterly basis. All Directorates have risk registers as part of Service Improvement Plans and these are reviewed by Directorate Management Teams regularly and the Improvement boards quarterly.
- 8.7.5 The Corporate Risk Steering Group, consisting of nominated directorate risk champions and chaired by the Assistant Chief Executive, met 4 times during 2010-11 and provides challenge on the robustness of the strategic and corporate operational risk registers and the adequacy of controls to mitigate the risk.
- 8.7.6 All risk registers identify risks to the achievement of objectives, the impact and likelihood of current and target risk scores, mitigating actions to control the risks and assign risk owners/champions and control owners.
- 8.7.7 Business as usual projects are managed through the corporate risk management process, with dedicated risk registers in place to ensure risks are being managed throughout the life of a change programme/project.
- 8.7.8 All committee reports requiring decisions are required to include commentary on the risks associated with the subject matter of the report so that Members can take informed decisions based on the balance of opportunities versus risks.

8.8 Audit arrangements

- 8.8.1 The Council considers that it has an effective Internal Audit service provided by an in-house team, which operates in accordance with the standards set out in the CIPFA Code of Practice for Internal Audit for Local Government.
- 8.8.2 The Council's External Auditors, Deloitte LLP, rely on the Internal Audit team's work on the authority's core financial systems to inform their risk assessment that guides the external audit approach.
- 8.8.3 The Governance, Audit and Risk Management Committee undertake the core functions of an audit committee as identified in CIPFA's Guidance *Audit Committees – Practical Guidance for Local Authorities*. Its terms of reference which encompasses the review and monitoring role of a range of risk related services,

including monitoring performance on corporate governance generally, were reviewed and updated during 2010-11.

- 8.8.4 Training was undertaken for the members of the GARM Committee in September 2010 and lead members were nominated as specialists in distinct areas of the GARM Committee responsibilities. Following a change of Chair and membership between the April and June 2011 meetings further training was undertaken in June 2011 to ensure that all new members were aware of the role and responsibilities of the GARM Committee.

8.9 Compliance with statute and internal policies and procedures

- 8.9.1 The Council's legal service tracks new legislation and keeps the relevant Directorate(s) informed of the implications for future service delivery. Corporate issues are discussed at the Corporate Strategy Board and Corporate Leadership Group.
- 8.9.2 All internal policies and procedures are contained on the Council's intranet site and communicated to staff. Compliance is monitored through the annual management assurance exercise, Internal Audit reviews and specific monitoring at Directorate Management Team meetings and the quarterly improvement boards.
- 8.9.3 Key internal policies and procedures are reviewed and communicated regularly, such as the Council's Financial Regulations and Contract Procedure Rules both updated during 2009-10 with a further review currently underway.
- 8.9.4 Serious breaches of policies and procedures are subject to the Council's disciplinary procedures and where necessary investigated by the Council's Internal Audit service which works closely with the Council's Corporate Anti-Fraud team who maintain the Council's Corporate Anti-fraud Policy and Corruption Strategy.

8.10 Whistle blowing and complaints

- 8.10.1 The Council has a whistle blowing policy, publicised to staff and available on the intranet. The policy is primarily designed for staff to raise concerns but also explicitly encompasses contractors, councillors and agents outside the authority. A register of whistle blowing complaints is maintained by the Monitoring Officer and reported to the GARM Committee annually.
- 8.10.2 The Council has a three stage complaints procedure for members of the public to complain about individual service areas. This was refreshed in 2008-09 and details of the procedure and an online form are contained on the Harrow.gov website. Details of the Local Government Ombudsman Service are included and a printable information pack is available to download. The facility also enables members of the public to provide general comments and suggestions, or compliments.
- 8.10.3 The aim of the complaints procedure is:
- To provide an accessible means to all our customers who wish to express either satisfaction or dissatisfaction with a service they have received.

- To provide a fair, consistent and structured process for resolving complaints in a courteous and efficient manner.
- To enable customers to complain with the assistance of a representative or advocate if required.
- To record all complaints and compliments to help us analyse customer feedback and inform future service planning and delivery.
- To obtain records of complaints and compliments made so that regular reviews can be produced for internal performance monitoring and public accountability.

8.11 Training and development

8.11.1 The Council runs a Member induction programme for new Members and a development programme for all Members. The latter consists of a schedule of events throughout the year in a variety of formats, including events led by key officers from across the organisation and quarterly update sessions to keep Members up to speed on new developments/ideas.

8.11.2 A staff appraisal programme (IPAD) exists for all employees which is conducted on an annual basis with a mid year review. The process is formal with a corporate template and is designed to record achievements of staff, enable discussion about training and development needs, personal development and provide a clear understanding of how each individual's work contributes to the Team, Service, Directorate and Corporate priorities. The 2010-11 Management Assurance process highlighted that the appraisal process is working well in 92% of departments across the Council. Action was also identified in the action plan arising from the Staff Survey in November 2010 and although an increased compliance was noted in the 2011 Staff Survey the IPAD process is being reviewed with senior management to address the cultural challenges in ensuring effective performance management. This includes considering whether an on-line appraisal system is introduced (though this is subject to funding) or alternative approaches to IPAD.

8.11.3 The appraisals process is monitored at Divisional Management Team level, at Council Improvement Boards and as part of the annual management assurance exercise.

8.11.4 All Directorates have developed workforce strategies. Learning and development plans for staff are integral to these strategies, as are initiatives to provide career opportunities for existing staff within the Council and Directorates.

8.11.5 A manager's development programme (MDP) foundation stage has been delivered and an MDP practitioner stage is being developed during 2010-11.

8.11.6 Most service areas have a budget allocated for training and development of staff.

8.12 Communication and consultation

- 8.12.1 The Council launched a new corporate consultation strategy in 2008-09 to ensure that there is a joined-up co-ordinated approach to consultation with local people at Harrow Council and the HSP. Consultations are managed through a number of channels, including the Residents Panel and the Council magazine 'Harrow People', which is delivered to every household in Harrow six times a year, and is used to communicate important messages to residents. Consultation on the Better Deal for Residents programme is co-ordinated through the Better Together Board.
- 8.12.2 Internally a variety of media are used to keep staff informed of developments and important information. These range from communications e-letters to poster campaigns, 'The Arrow' internal newsletter, the 'Grapevine' an e-newsletter, the Chief Executive's newsletter and staff forums held jointly by the Chief Executive and Leader of the Council when all staff are able to attend and ask questions, as well as managers' conferences.
- 8.12.3 The Council's communications strategy, the Council's Involvement and Reputation Plan was reviewed in October 2010 and again in May 2011.
- 8.12.4 Protocols for 2 way communication between the Council and the Trade Unions are well established.
- 8.12.5 All Committee meetings are held in public except where items on the agenda are exempt from publication due to confidentiality.

8.13 Partnerships

- 8.13.1 The Local Strategic Partnership in Harrow is called the Harrow Strategic Partnership (HSP). The HSP brings together a group of people who represent the statutory, private, business, community and voluntary sectors in Harrow. The HSP constitution and protocols provide details on the governance of the partnership and the structure and function of the HSP.
- 8.13.2 Community views and partners data are used by the partnership to shape and influence the borough's priorities in the Sustainable Community Strategy and the Harrow Compact sets out the agreement on how statutory partners interact with the voluntary and community sector.
- 8.13.3 The Sustainable Community Strategy provides the partnership with a shared vision for the future of Harrow, and is delivered through the three year Local Area Agreement that ran until March 2011.
- 8.13.4 There will not be an LAA in the future as the Coalition Government has abolished the CAA and reduce the reward grant in-year. There is an ongoing debate throughout local government about the role of partnerships without the driver of LAAs. However, the council adopted new priorities for the partnership in April 2011 and is working up targets and action plans supported by the last receipt of the Reward Grant.
- 8.13.5 The Council has engaged a number of commercial partners to support the delivery of services, from a business transformation partner to construction and

infrastructure partners. The partnerships have been secured under framework agreements and are subject to strong governance and accountability processes.

8.13.6 Directorate Service Improvement Plans are required to list key partnerships and to consider partnership risks. Joint risk registers exist with key commercial and public partners.

8.14 Review of Effectiveness

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

8.14.2 The process and activities that have been applied in maintaining and reviewing the effectiveness of the governance framework in the 2010-11 financial year are described below.

The Council

- Approved the policy framework and the annual revenue and capital budget;
- Contributed to the good governance of the Council and maintained the highest standards of conduct and ethics through the role of Councillors; and
- Aimed to govern within a framework of fairness, openness, integrity and accountability and provided excellent standards of ethics and probity in decision making.

The Executive

- Made decisions in accordance with corporate priorities;
- Allocated responsibility for Member Portfolio Holders to specific areas of responsibility;
- Considered risks and opportunities as part of the decision making process; and
- Monitored performance against the corporate priorities.

The Audit Committee (GARM Committee)

- Met 6 times during 2010-11 and has considered the work of Internal Audit during the year including mid year and end of year reports, will consider the results of the management assurance exercise, approved the Internal Audit Annual work plan,

the Internal Audit delivery plan and the results of the updated Internal Audit self assessment against the CIPFA Code of Practice for 2010-11;

- Monitored the effective development of the Council's corporate governance framework;
- Will use reasonable endeavours to review, and approve the Annual Statement of Accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council;
- Reviewed and challenged the reports provided by External Auditors on behalf of the Audit Commission including the annual audit and inspection letter; and
- Will review and approved the Annual Governance Statement and the supporting evidence.

The Standards Committee

- Received reports from the Council's Monitoring Officer. It also considered and made decisions on allegations of breaches of the member's code of conduct.

The Overview and Scrutiny Committee

- Supported the Council and Executive in developing the policy framework and budget for the Council and worked with partner organisations on issues that may be outside the remit of the Council;
- Considered the Council and its partners' performance against stated policy and priorities;
- Reviewed specific services by making reports and/or recommendations to the full Council, Executive, Portfolio Holders and any joint or area committees on any of their functions;
- Reviewed policy and decisions developed by others by reviewing and/or scrutinising decisions made or actions taken in connection with the discharge of the Council's functions;
- Reviewed issues of concern to local people by considering matters affecting the area or its inhabitants and monitoring and scrutinising the activities of others; and
- Considered the Forward Plan prior to key decisions as appropriate.

Internal Audit

- Provided assurance to the Council on operational and financial controls through the delivery of an agreed audit plan and follow-up reviews;

- Produced mid and end of year reports including the annual interim audit opinion on the Council's internal control framework;
- Supported the Corporate Governance Group and Corporate Governance Working Group;
- Provided assurance and advice to major project boards and partnership arrangements;
- Co-ordinated an annual management assurance exercise the results of which will inform risk registers, corporate governance update reports, action plans and also this annual governance statement;
- Contributed to the drafting of the annual governance statement;
- Implemented an escalation procedure to the Corporate Strategy Board and Audit Committee on audit reviews that gave rise to concern;
- Worked closely with the Corporate Anti-Fraud Team in relation to system controls and investigations to counter fraud;
- The Internal Audit plan for 2010-11 was approved by the Audit Committee in June 2010 and 91% of the plan was completed, including all the key financial system reviews relied upon by the External Auditors. A total of 232 recommendations were made during the audit year and 221 (95%) were agreed for implementation by the various managers; and
- Undertook work on the authority's core financial systems for external audit reliance purposes.

The interim overall audit opinion for the Council's control environment for 2010-11 was assessed as 'adequate – good'. The detailed report setting out the reasoning behind this assessment was considered and approved by the Governance, Audit and Risk Management Committee (GARM) in June 2011 and the final opinion will be produced once the work on the core financial systems has been completed and the results of the Management Assurance exercise for 2010-11 are available.

Corporate anti-fraud team

- Is responsible for reviewing and updating the Council's corporate anti-fraud policy and corruption strategy;
- Investigated allegations of fraud both from external and internal sources;
- Worked closely with Police partners to secure convictions where appropriate; and
- Published successful prosecutions as part of a deterrent communication strategy.

8.15 Management Assurance Exercise

- 8.15.1 The management assurance process was developed and introduced across the Council in 2005-06 (the 2004-05 exercise). The areas of assurance are reviewed and updated annually by Internal Audit and the Corporate Governance Group using the corporate risk register to provide a clear link between the controls identified in the risk management process and the assurances being obtained.
- 8.15.2 The management assurance process involves obtaining self-assessments supported by documentary evidence from every third tier manager across the Council. These are then used to produce a statement for each directorate and an overall corporate statement that feeds into this Annual Governance Statement. The exercise is co-ordinated and 'reality checked' by Internal Audit.
- 8.15.3 The management assurance exercise is usually undertaken during March and April each year however this year's exercise was delayed until May to take account of the work on the assurance mapping exercise being undertaken to provide information on assurance provided across the Council.
- 8.15.4 In the spirit of reducing the burden of assurance on managers the self-assessment areas were reviewed by the Corporate Governance Group and a 51% reduction made in those that managers need to self-assess. Assurance on the areas taken out of the self-assessment process was obtained from other sources and included in the Corporate Management Assurance Statement.
- 8.15.5 Overall the 2010-11 management assurance exercise confirmed that 77% of the areas of assurance covered by the process are working well across the Council i.e. above the assurance level of 80% set for each area, and have been given a green assurance rating. This is a 4% increase on areas given a green assurance rating in 2009-10 but 3% below the 80% target set. Overall this reflects a continuing improvement in governance arrangements across the Council and is a significant achievement given the level of change/transformation that took place during the year.
- 8.15.6 Action points were agreed as part of the management assurance statements sign off by the 3rd tier managers for all areas of assurance identified as working towards or where a gap was identified. These will be monitored throughout 2011-12 by Internal Audit and the quarterly Improvement Boards.

8.16 Significant Governance Issues/Progress on Previous Agreed Actions

- 8.16.1 The annual review of the Council's governance arrangements and the annual management assurance exercise identified a number of governance issues for which detailed action plans have been developed. The year end update of the 2009-10 AGS Action Plan shows that the governance gaps identified in 2009-10 were closed fully or partially in 2010-11 for only 55% of gaps identified. Seven actions from 2009-10 have been carried forward to the 2010-11 AGS Action Plan attached to this statement one of which relates to IT Disaster Recovery which was recognised as a significant governance gap in the 2008-09 Annual Governance Statement and remained a gap throughout 2009-10 and 2010-11. There are already some arrangements in place to meet this requirement (including an annual DR test)

and a comprehensive range of improvements have been developed to ensure resilience and recovery capabilities as part of the new Capita IT contract. One of the main projects to support this is the migration of the council's IT applications to the Capita West Malling site, which is due to commence in September on a phased programme which will be completed in April 2012. There is a continuing risk until this project is complete although the wider business continuity plan takes this into account and the risk is no greater than it has been historically over a number of years.

- 8.16.2 Six new gaps have been identified through the annual review of governance process, although none are considered significant by CGG, actions have been agreed to address these and are shown in 2010-11 AGS Action Plan.
- 8.16.3 The serious weakness identified in the 2009-10 statement in relation to the management and control of certain capital projects was followed by investigations into the overspend in the Children's Services capital programme. Cabinet received a report in December 2010 setting out issues and the outcomes of two investigations, one focussing on project management, and one on financial management. The investigations made a series of specific detailed recommendations to avoid any recurrence of the issues which had affected the programme. Key staff within Finance, Children's Services and Community & Environment have been working together on implementing these recommendations and in addition on a fundamental review of process to ensure that the Council has robust and holistic arrangements in place for both the development and implementation of its capital programme. Cabinet requested that the GARM Committee monitor and report on implementation of the recommendations made in the investigation reports, supported by Internal Audit, who have been instructed to independently verify the process. Progress against the detailed implementation plan shows that 50% of actions are reported as implemented by management and Internal Audit is in the process of reviewing evidence to support this assertion; 43% of actions are not yet due/are in progress; 3.5% of actions are incomplete and the implementation date is imminent or has been extended and 3.5% of actions are incomplete and the implementation date has passed.
- 8.16.4 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our follow-up review in December with particular emphasis given to ensuring that actions carried forward from previous years are implemented.

8.17 Declaration

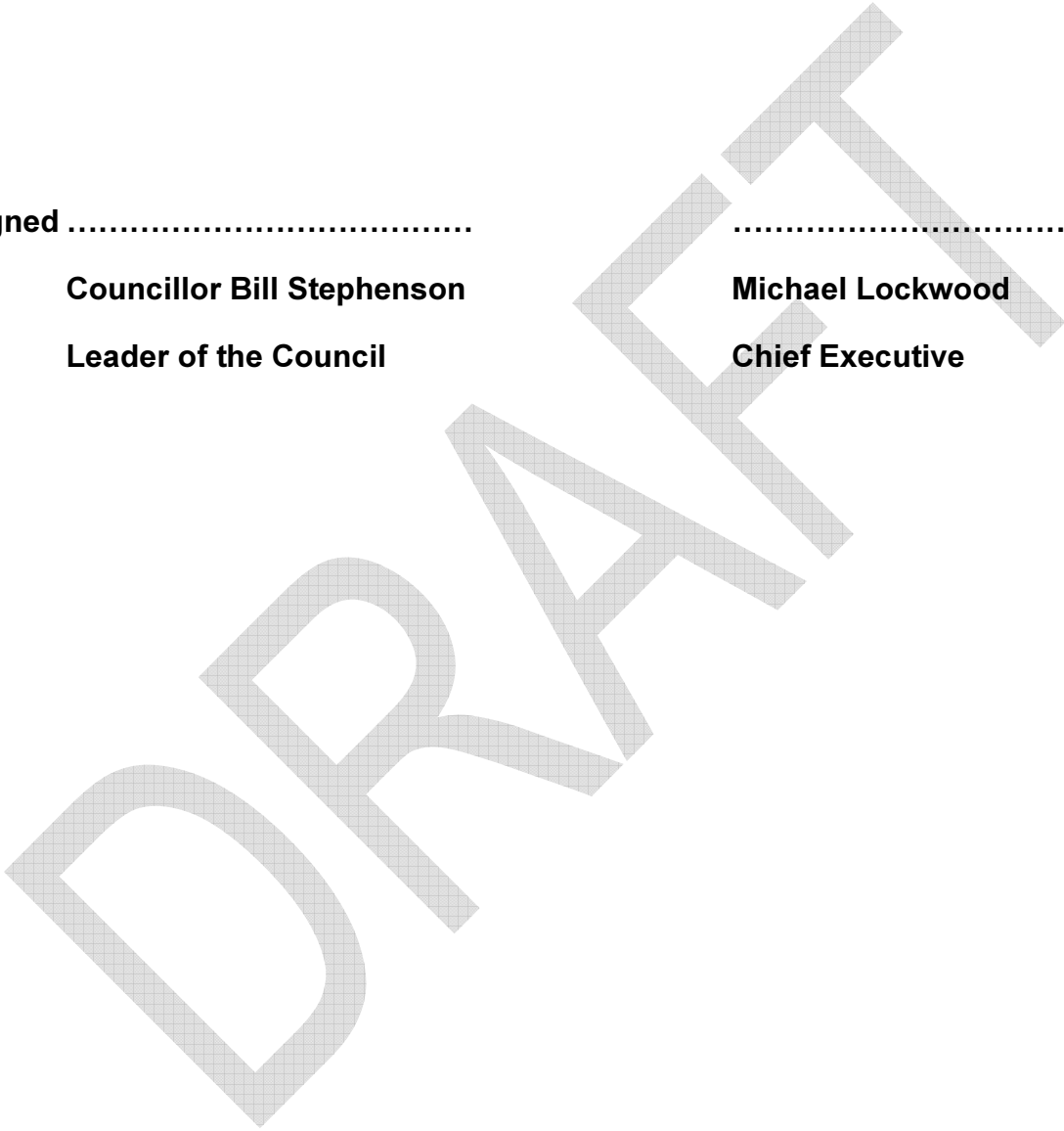
8.17.1 We have been advised on the implications of the review of the effectiveness of the governance framework by the Governance, Audit and Risk Management Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Signed

Councillor Bill Stephenson
Leader of the Council

.....

Michael Lockwood
Chief Executive



9 Pension Fund Accounts

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2010-11

I certify that the accounts set out in Section 9 present fairly the financial position of the Pension Fund as at 31 March 2011 and its income and expenditure for the year.

Julie Alderson

ACA

Chief Finance Officer

30 September 2011

9.1 Administration of the Fund

The London Borough of Harrow Pension Fund is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and The Local Government Pension Scheme (Administration) Regulations 2008. Its purpose is to provide pensions to all the Council's employees with the exception of teaching staff. Also included are certain employees of admitted and scheduled bodies who have gained admittance to the Fund in accordance with the Fund's admission criteria. The London Borough of Harrow is the administering employer.

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

Scheduled:

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

- Harrow Council;
- St Dominic's Sixth Form College;
- Stanmore College; and
- Harrow College.

Admitted:

There are two types of admission body:

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

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

The organisations listed below have been admitted to the fund:

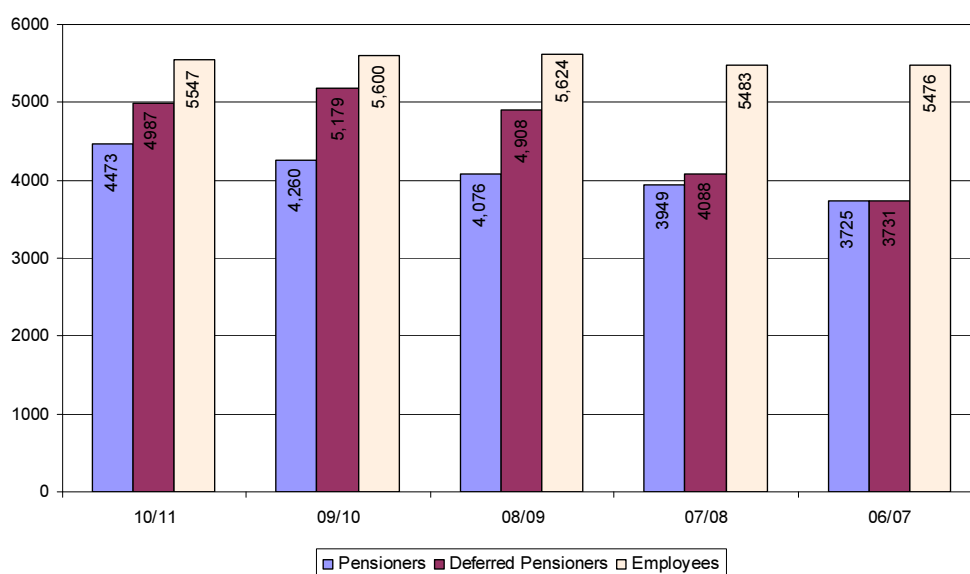
- Capita IT;
- Care UK;
- Harrison Catering;
- Julius Rutherford;

- KGB Cleaning;
- Kier;
- North London Collegiate School; and
- Supporta Care.

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

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

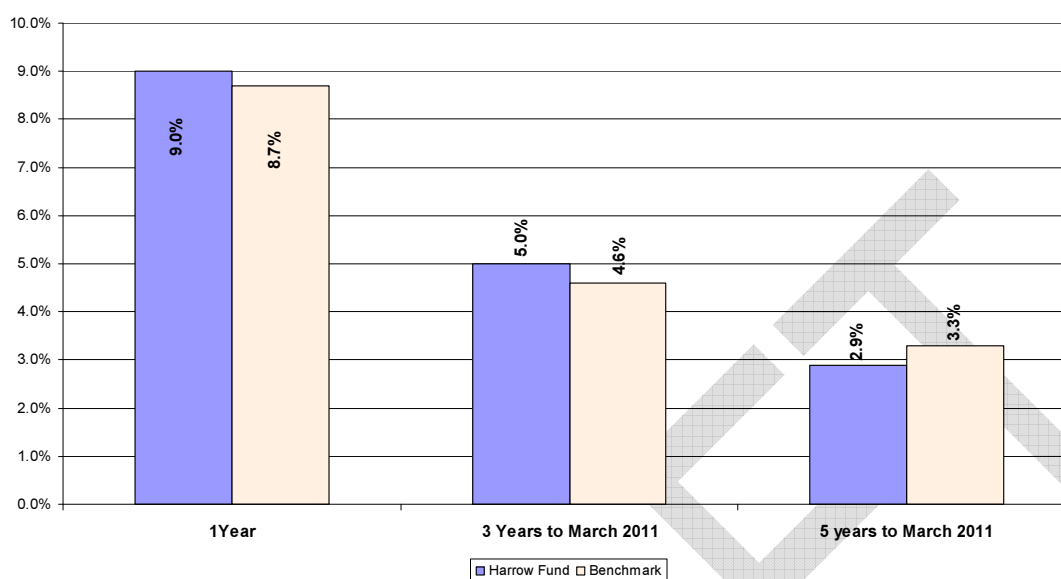
Membership of the Fund



Responsibility for the overall direction of the fund’s investment policy rests with a Council Panel. In implementing the Fund’s investment policy, the Council has appointed 10 investment managers with responsibility to deal at discretion within broad investment objectives laid down by the council. These are UBS Global Asset Management (UK) Limited, BlackRock Investment Management (UK) Limited, Fidelity International, Longview Partners Investments, Wellington Management International Limited, State Street Global Advisors Limited, Pantheon Private Equity, BNY Mellon Asset Management, Aviva Investors Global Services Limited, and Record Currency Management Limited.

9.2 Fund performance

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



The Fund benefited from the continued recovery in financial markets described above together with its high allocation to equity markets and achieved a return of 9.0% in the year to 31 March 2011, outperforming the benchmark. While stock selection added value this was offset by higher than benchmark allocations to cash and private equity. The Fund does not hold Greek or other overseas bonds, although a debt default by Greece has the potential to impact on other financial markets.

The average fund in the local authority universe (as per WM performance services) returned 8.2%, bringing 10 year returns back above inflation. The Fund return of 9.0% compared with the Local Authority average return of 8.2%, ranking in the 22nd percentile. There were 86 funds included in the Local Authority universe at 31 March 2011

The longer term performance continues to disappoint with underperformance of 0.4% over five years. The Council expect that the changes to the investment manager structure implemented in the prior year will support improved performance.

9.3 London Borough of Harrow Pension Fund Account

Pension Fund Account for the year ended 31st March 2011

2009-10 £000		Notes	2010-11 £000
	Contributions and Benefits		
25,170	Contributions receivable	9.4.2	25,496
4,315	Individual Transfers in from other schemes		5,199
93	Other Income (including Capital cost)		31
	Less:		
-23,526	Benefits Payable	9.4.3	-24,581
-3,805	Leavers	9.4.4	-2,455
-816	Administrative expenses	9.4.5	-775
1,431	Net additions from dealings with members		2,915
	Returns on Investments		
5,668	Investment Income	9.4.6	3,338
122,033	Change in market value of investments	9.4.7	34,160
-630	Investment management expenses	9.4.5	202
127,071	Net returns on investments		37,700
128,502	Net (Increase)/decrease in Fund during the year		40,615
307,421	Net assets at start of year		435,923
435,923	Net assets at end of year		476,538

Net Assets Statement

2009-10 £000		Notes	2010-11 £000
	Investment Assets		
432,893	Pooled investment vehicles	9.4.9	455,438
1,354	Derivative contracts	9.4.10	1,527
434,247			456,965
	Investment Liabilities		
-3,245	Derivative contracts	9.4.10	-627
431,002			456,338
517	Cash deposits	9.4.7	1,750
431,519	Net Investment Assets		458,088
5,122	Current assets	9.4.12	18,881
-718	Current liabilities	9.4.12	-431
435,923	Net assets of the scheme available to fund benefits at 31 March 2011		476,538

The accounts summarise the transactions of the Fund and deal with the net assets. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the actuarial statement included on pages 130 - 131 and these accounts should be read in conjunction with it.

9.4 Notes to the Pension Fund Accounts

9.4.1 Accounting Policies

The accounts have been compiled in accordance with the CIPFA code of practice Local Authority Accounting in the United Kingdom 2010-11 and following guidance in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised May 2007). The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

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

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

- All listed investments are quoted at the bid price at the close of business on 31 March of each financial year;
- Unlisted securities are valued having regard to latest dealings, professional valuations, asset values, currency rates and other appropriate financial information adjusted to reflect cash transactions up to 31 March 2011;
- Investments in pooled investment vehicles are stated at the bid value of the latest prices quoted by their respective managers; and
- Derivatives are valued at the appropriate closing exchange rate or the bid spot or forward rates. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

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

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

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

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

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

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

9.4.2 Contributions

2009-10 £000		2010-11 £000
	Employers - normal	
16,623	London Borough of Harrow	16,905
1,367	Scheduled Bodies	1,336
530	Admitted Bodies	575
	Members - normal	
5,977	London Borough of Harrow	6,025
500	Scheduled Bodies	463
173	Admitted Bodies	192
25,170		25,496

9.4.3 Benefits

2009-10 £000		2010-11 £000
	Pensions	
-17,664	London Borough of Harrow	-18,286
-348	Scheduled Bodies	-419
-108	Admitted Bodies	-134
-18,120		-18,839
	Benefits and commitments	
-4,364	London Borough of Harrow	-4,847
-331	Scheduled Bodies	-350
-82	Admitted Bodies	-253
-4,777		-5,450
	Lump Sum Death Benefits	
-629	London Borough of Harrow	-292
-23,526		-24,581

9.4.4 Leavers

2009-10 £000		2010-11 £000
-9	Refunds to members	-4
-3,797	Individual transfers to other schemes	-2,451
1	NI contributions	0
-3,805		-2,455

9.4.5 Investment Management and Administration Expenses

2009-10 £000		2010-11 £000
-630	Investment management expenses	202
	Scheme administration	
-690	Harrow Council	-639
-126	Misc. (including Actuary Fees)	-136
-816	Total Administration Expenses	-775
-1,446	Total Expenses	-573

9.4.6 Investment Income

2009-10 £000		2010-11 £000
889	Interest from fixed interest securities	0
3,534	Dividends from equities	0
310	Income from index-linked securities	0
1,371	Income from pooled investment	3,220
168	Interest on cash deposits	118
-604	Foreign exchange	0
5,668		3,338

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

9.4.7 Investments

	Value at 01-Apr-10 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 31-Mar-11 £000
Pooled Investment Vehicles					
Property	26,440	14,651	-3,093	2,316	40,314
Other	406,453	8,276	-30,421	30,816	415,124
Derivatives	-1,891	2,190	-427	1,028	900
	431,002	25,117	-33,941	34,160	456,338
Cash Deposits	517				1,750
	431,519				458,088

The change in market values is mainly due to the increase in equity values as the global economic background improved over the last year (both the UK and Global Equity markets rose in the region of 8.7% and 8.4% respectively). £34.2m of the change was in respect of unrealised net gains at 31 March 2011.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees, commissions, stamp duty and other fees. Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately available.

Derivative payments (£2.2m) and receipts (£0.4m) are in respect of realised losses and profits on forward foreign exchange trades settled during the period.

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

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

	2010-11		2009-10	
	£000	%	£000	%
State Street Global Advisors	120,397	26	117,459	27
Longview Partners	32,041	7	32,736	7
Fidelity International	86,232	19	85,927	20
Wellington Management	97,834	21	98,251	23
BlackRock	55,130	12	64,956	15
UBS	585	0	12,771	3
Aviva	40,314	9	0	0
Pantheon	21,635	5	15,509	4
Mellon	3,020	1	2,411	1
Record Currency	900	0	1,499	0
Total Fund	458,088	100	431,519	100

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

2009-10		2010-11
£m		£m
117.6	SSGA MPF UK Equity Index Sub-Fund	120.4
98.2	Wellington Global Pooled Value Equity Portfolio	97.8
74.9	Fidelity Inst Select Global Pooled Equities	86.2
40.4	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	43.2
32.7	Longview Partners Invest - Global Pooled Equities FD K Class	32.0
0.0	Aviva Investors UK Real Estate Fund of Funds Open Ended	30.8
<u>363.8</u>		<u>410.4</u>

9.4.9 Pooled Investment Vehicles

2009-10		2010-11
£000		£000
26,440	UK Managed Funds - Property	40,314
174,030	UK Managed Funds - Other	177,382
232,423	Overseas Other	237,742
<u>432,893</u>		<u>455,438</u>

9.4.10 Derivatives

2009-10		2010-11
£000		£000
	Investment Assets	
1,354	Forward Foreign exchange contracts	1,527
	Investment Liabilities	
-3,245	Forward Foreign exchange contracts	-627
-1,891	Net Derivatives	900

Counterparty	Duration	No. of Contracts	Value at 31-Mar-11	
			Assets £000	Liabilities £000
Barclays Bank - London	7 days - 6 mths	6	606	-184
HSBC Bank - London	7 days - 3 mths	4	7	-64
Northern Trust - London	7 days - 6 mths	3	304	-4
Royal Bank of Scotland	7 days - 6 mths	4	33	-4
Royal Bank of Canada - London	7 days - 6 mths	1	24	0
Toronto Dominion - Toronto	7 days - 6 mths	7	83	-296
UBS AG - London	7 days - 3 mths	2	22	-22
Westpac - Sydney	7 days - 6 mths	10	448	-54
		37	1,527	-628

The scheme objective in using derivatives is to reduce risk in the portfolio by entering into forward contracts to mitigate the effect of currency risk from overseas investments held in the portfolio without disturbing the underlying assets. The overseas equity portfolio is 50% hedged against the currency risk, and the value of the economic exposure is £142.5m. The main currency exposures are US\$ forward v £ (£64.7m), Euro forward v £ (£20.3m) and Yen forward v £ (£16.6m). Other currency forwards traded against sterling comprise Australian \$, Canadian \$, Hong Kong \$, Singapore \$, Swedish Krona and Swiss Franc, with aggregate exposures of £40.9m.

9.4.11 Additional Voluntary Contributions (AVCs)

Members of the Fund are able to accrue additional benefit through the payment of AVCs, which are invested outside of the Fund with insurance companies. These amounts are not included in the Pension Fund Accounts in accordance with regulation 5c of the Pension Scheme (Management and Investment of Funds) Regulations 1998. However, the note below details the change in value of AVCs during the year.

2009-10		2010-11
2,120	Value of AVC Fund at 1 April	2,233
223	Employee contributions	249
166	Investment income and change in market value	113
0	Transfer Values In	125
-276	Benefits paid and transfers out	-527
2,233	Value of AVC Fund at 31 March	2,193

9.4.12 Current Assets & Liabilities

2009-10 £000		2010-11 £000
	Current Liabilities	
-516	Unpaid Benefits	-256
-202	Other Unpaid liabilities	-175
<u>-718</u>		<u>-431</u>
	Current Assets	
4,378	Cash balances held by London Borough of Harrow	18,750
114	Contributions due from employers	114
630	Other Current Assets	17
<u>5,122</u>		<u>18,881</u>
<u>4,404</u>	Net Assets	<u>18,450</u>

9.4.13 Related Party Transactions

2009-10 £000		2010-11 £000
16,623	Employer's pension contribution to the fund	16,905
-690	Administration expenses paid to the Council	-639
4,378	Cash in hand held by Council	18,750

The fund is required under FRS8 to disclose details of material transactions with related parties.

The Council is a related party to the Pension fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out above. Details of total contributions made in the year are set out in note 9.4.13 to the accounts.

Pension Fund did not have a separate bank account during the year, rather cash balances were maintained by the Council on the Pension Fund's behalf and are set out in the table above. A separate Pension Fund bank account was implemented from 1 April 2011.

9.4.14 Actuarial Valuation

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

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

The main actuarial assumptions are detailed below:

Assumption	Rate as at 31-Mar-10 nominal
Price Inflation (CPI)	3.3%
Pay Increases	4.8%
Gilt based discount rate	4.5%
Funding basis discount rate	6.1%
Longevity at 65 for current pensioners:	
Male	21.6
Female	23.6
Longevity at 65 for future pensioners:	
Male	23.6
Female	25.9

The Objectives of the Fund are as detailed below:

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

9.4.15 Actuarial present value of promised retirement benefits

IAS26 Accounting and Reporting by Retirement Benefit Plans imposes a new requirement on administering authorities in 2010-11 to disclose the actuarial present value of promised retirement benefits. This has been calculated similarly to the defined benefit obligation under IAS 19 Employee Benefits.

The most recent valuation of the Council's Pension Fund at 31 March 2010 has been used for this purpose. The valuation has been carried out using assumptions that are in line with IAS 19 as opposed to the Pension Fund's funding assumptions. These are as follows:

2009-10		2010-11	
3.8%	Rate of inflation	2.8%	
5.3%	Rate of increase in salaries	4.6%	
3.8%	Rate of increase in pensions	2.8%	
5.5%	Rate for discounting scheme liabilities	5.5%	

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

31-Mar-10 £m		31-Mar-11 £m
757	Present value of promised retirement benefits	649

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation at 31 March 2010. The liability at 31 March 2011 has been estimated by the actuary as comprising £276m in respect of employee members, £99m in respect of deferred pensioners and £274m in respect of pensioners. The actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises.

9.5 Statement of Investment Principles

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

10 Appendices

10.1 Glossary of Terms

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

Accounting Standards

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

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

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

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

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

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

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

Balances: unallocated reserves held to resource unpredictable expenditure demands.

Best Value Accounting: The Best Value Accounting Code of Practice (BVACOP) modernises the system of local authority accounting and reporting to ensure that it meets the changed and changing needs of modern local government, particularly the duty to secure and demonstrate Best Value in the provision of services.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net Current Replacement Cost: 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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10.2 Abbreviations

ASB	Accounting Standards Board
AVC	Additional Voluntary Contributions
BVACOP	Best Value Accounting - Code of Practice
CFR	Capital Financing Regulations
CIPFA	Chartered Institute of Public Finance and Accountancy
CMF	Capital Modernisation Fund
EMU	European Monetary Union
FRS	Financial Reporting Standards
GDP	Gross Domestic Product
IAS 19	International Accounting Standard in respect of Employee Benefits
IAS 26	Accounting and Reporting by Retirement Benefit Plans
ICES	Integrating Community Equipment Service
iFReM	International Financial Reporting Manual
IFRIC	International Financial Reporting Interpretations Committee
IFRIC 12	International Financial Reporting Interpretations Committee relating to Service Concession Arrangements
LBH	London Borough of Harrow Council
LGPS	Local Government Pension Scheme
LOBO	Lenders Option Borrowers Option
MMI	Municipal Mutual Insurance
MRP	Minimum Revenue Provision
NDC	Non Distributed Costs
NI	National Insurance
NPV	Net Present Value
OSP	One School Pathfinder (Targeted Capital)
RCCO	Revenue Contribution to Capital Outlay

RICS	Royal Institute of Chartered Surveyors
RSG	Revenue Support Grant
SETS	Stock Exchange Electronic Trading Service
USM	Unlisted Securities Market
WLWA	West London Waste Authority

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10.3 Best Value Accounting Code Of Practice (BVACOP)

Division of Service	2010-11 Gross Expend. £000	2010-11 Gross Income £000	2010-11 Net Expend. £000	2009-10 Net Expend. £000 Restated
Best Value Service Analysis Summary				
Central Services	24,909	-23,460	1,449	1,208
Court Services	178	0	178	150
Cultural, Environmental, Regulatory & Planning Services	46,537	-9,203	37,334	47,470
Education and Children's Services	341,710	-204,701	137,009	174,225
Highways & Transport Services	31,793	-13,791	18,002	15,979
Housing Services	284,631	-152,739	131,892	-28,252
Adult Social Care	83,254	-20,216	63,038	67,501
Corporate and Democratic Core	11,777	-1,253	10,524	9,286
Non Distributed Costs	-68,249	-114	-68,363	393
Cost of Services	756,540	-425,477	331,063	287,960
Other items	34,826	-260,862	-226,036	-188,558
Surplus or Deficit on the Provision of Services	791,366	-686,339	105,027	99,402
Central Services				
Local Tax Collection	22,457	-21,904	553	839
Registration of Births, Deaths and Marriages	1,081	-1,169	-88	-11
Elections	781	-7	774	425
Emergency Planning	226	0	226	189
Local Land Charges	364	-360	4	-215
General Grants Bequests and Donations	0	-20	-20	-19
	24,909	-23,460	1,449	1,208
Court Services				
Coroners' Court Services	178	0	178	150
	178	0	178	150
Cultural, Environmental and Planning Services				
Culture and Heritage	872	-526	346	4,322
Recreation and Sport	3,604	-571	3,033	8,483
Open Spaces	3,660	-1,113	2,547	3,573
Tourism	9	0	9	42
Library Service	6,441	-496	5,945	7,633
Cemetery, cremation and mortuary services	852	-269	583	745
Environmental Health	3,313	-429	2,884	2,973
Community safety (Crime Reduction)	1,056	-230	826	767
Community Safety (CCTV)	744	-6	738	0
Flood Defence and Land Drainage	1,047	-169	878	921
Trading Standards	830	0	830	847
Street Cleansing (Not chargeable to highways)	4,558	-3	4,555	4,984
Waste Collection	5,291	-813	4,478	4,156
Trade Waste	983	-912	71	89
Recycling	2,732	-161	2,571	2,762
Climate Change Costs	268	-118	150	0
Building Control	1,327	-890	437	108
Development Control	2,331	-744	1,587	2,163
Planning Policy	2,917	-473	2,444	1,992
Environmental initiatives	37	0	37	-6
Economic Development	845	-421	424	406
Community Development	2,820	-859	1,961	510
	46,537	-9,203	37,334	47,470

Appendices

Division of Service	2010-11 Gross Expend. £000	2010-11 Gross Income £000	2010-11 Net Expend. £000	2009-10 Net Expend. £000 Restated
Education and Children's Services				
Nursery Schools	6,763	-5,720	1,043	952
Primary Schools	152,271	-90,654	61,617	78,247
Secondary Schools	107,027	-69,931	37,096	48,334
Special Schools	21,628	-16,943	4,685	9,312
Non School Funding	9,479	-3,349	6,130	6,678
Management and Support Services	14,336	-11,867	2,469	5,583
Service Strategy	1,746	-72	1,674	1,384
Children's services-commissioning and social work	3,215	-331	2,884	2,635
Children looked after	12,306	-2,803	9,503	11,494
Family support services	6,470	-1,437	5,033	4,848
Youth justice	1,575	-806	769	797
Asylum seekers	1,885	-633	1,252	1,209
Other children's and families' services	3,009	-155	2,854	2,752
	341,710	-204,701	137,009	174,225
Highways and Transportation Services				
Transport planning, policy and strategy	185	-40	145	65
Structural Maintenance	4,698	-408	4,290	3,129
Environment Safety and Routine Maintenance	4,021	-691	3,330	4,248
Street Lighting	1,691	-10	1,681	1,734
Winter Service	370	-88	282	246
Traffic Management and Road Safety	7,676	-3,528	4,148	2,800
Parking Services	4,821	-8,998	-4,177	-3,359
Public Transport	8,331	-28	8,303	7,116
	31,793	-13,791	18,002	15,979
Housing Services				
Housing strategy	2,525	-7	2,518	816
Enabling	450	0	450	208
Housing advice	3	0	3	148
Private sector housing renewal	850	-201	649	1,402
Homelessness	3,242	-733	2,509	3,816
Housing benefits payments	122,697	-122,777	-80	382
Housing benefits administration	3,633	-2,108	1,525	1,508
Contribution to the HRA re:items shared by the whole communit	167	0	167	87
Other council property	9	-3	6	15
Supporting People	5,719	-1,195	4,524	101
Other Welfare services	273	-25	248	221
Housing Revenue Account	145,063	-25,690	119,373	-36,956
	284,631	-152,739	131,892	-28,252
Adult Social Care				
Service Strategy	332	-8	324	346
Older people(Aged 65 or over) including older mentally ill	40,312	-9,900	30,412	30,788
Adults aged under 65 with a physical disability or sensory impair	7,960	-824	7,136	10,308
Adults aged under 65 with a learning disabilities	26,571	-9,056	17,515	17,059
Adults aged under 65 with mental health needs	6,162	-225	5,937	8,413
Other adult services	1,917	-203	1,714	587
	83,254	-20,216	63,038	67,501

Appendices

Division of Service	2009-10 Gross Expend. £000	2009-10 Gross Income £000	2009-10 Net Expend. £000	2008-09 Net Expend. £000 Restated
Corporate and Democratic Core				
Democratic Representation and Management	3,894	-231	3,663	4,248
Corporate Management	7,883	-1,022	6,861	5,038
	11,777	-1,253	10,524	9,286
Non Distributed Costs				
Retirement Benefits	5,773	-114	5,659	3,817
IAS19	-74,022		-74,022	-3,424
	-68,249	-114	-68,363	393

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