Public Document Pack

Havering
LONDON BOROUGH

AUDIT COMMITTEE
AGENDA
(SUPPLEMENTARY AGENDA)

7.00 pm	**Thursday 28 September 2017**	**Committee Room 3A - Town Hall**

Members 6: Quorum 3

COUNCILLORS:

Conservative (2)	**Residents' (1)**	**East Havering Residents'(1)**
Viddy Persaud (Chairman) Frederick Thompson	Julie Wilkes (Vice-Chair)	Clarence Barrett

UKIP (1)	**Independent Residents' (1)**
David Johnson	Graham Williamson

For information about the meeting please contact:
Debra Marlow 01708 433091
debra.marlow@OneSource.co.uk

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

AGENDA ITEMS

7 ANNUAL STATEMENT OF ACCOUNTS 2016/17 (Pages 1 - 150)

8 REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (Pages 151 - 210)

Andrew Beesley
Committee Administration Manager

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London Borough of Havering

Statement of accounts

For the financial year

2016/17

Contents

Narrative Report

Introduction

I am pleased to introduce the Authority's Statement of Accounts for 2016/17.

The purpose of the Statement of Accounts is to summarise the financial performance for the financial year 2016/17 and the overall financial position of the Authority. The Narrative Report aims to give a general guide to the main features of the information reported within the rest of the accounts, to provide a summary of the Authority's overall financial position, and to report on the procedures the Authority takes to secure economy, efficiency and effectiveness in its use of resources.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code), published by the Chartered Institute of Public Finance and Accountancy (CIPFA), as supported by International Financial Reporting Standards (IFRS) and the Accounts and Audit Regulations 2015 issued under sections 32, 43(2) and 46 of the Local Audit and Accountability Act 2014.

Whilst these accounts are presented as simply as possible, the use of some technical terminology cannot be avoided. To aid a better understanding of the terminology used a glossary of the terms is set out on pages 143 to 146 at the end of the document.

The key financial statements set out within this document include:

- **Movement in Reserves Statement (MiRS) –** This statement shows the movement in the year on the different reserves held by the Authority, analysed into usable reserves and unusable reserves. It analyses the increase and decrease in the net worth of the Authority as a result of incurring expenses, gathering income, and from movements in the fair value of the assets. It also analyses the movement between reserves, in accordance with statutory provisions;
- **Expenditure Funding Analysis (EFA) –** This statement shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.
- **Comprehensive Income and Expenditure Statement (CIES) –** This statement brings together all of the functions of the Authority and summarises all the resources that the Authority has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Authority, before allowing for the concessions provided by statute to raise council tax according to different rules and the ability to divert particular expenditure to be met from capital resources;
- **Balance Sheet –** This records the Authority's year-end financial position. It shows the balances and the reserves at the Authority's disposal, its long term debt, net current assets and liabilities, and summarises information on the long-term assets held;
- **Cash Flow Statement –** This summarises the inflows and outflows of cash arising from transactions with third parties for both capital and revenue;

- **Notes to the Financial Statements –** The notes provide more detail about the items contained in the key financial statements, the Authority's Accounting Policies and other information to aid the understanding of the financial statements;
- **Housing Revenue Account (HRA) –** This records the Authority's statutory obligations to account separately for the cost of the landlord role in respect of the provision of the Authority Housing;
- **Collection Fund –** The Authority is responsible for collecting council tax and non-domestic rates; and
- **Pension Fund –** The Pension Fund Accounts show the contributions from the Authority, participating employers and employees for the purpose of paying pensions. The Fund is separately managed by the Authority, acting as trustee, and its Accounts are separate from those of the Authority.

Review of the Year 2016/17

The four year Local Government Financial Settlement covering the period 2016/17 to 2019/20 provided greater clarity over the reducing trend in government funding and was confirmed via the 2017/18 settlement. However the future of local government funding under the proposed business rates retention regime and the Fair Funding review remains to be clarified over the next year. This makes robust financial management and the maintenance of prudent reserves and provisions even more important going into the second year of the Settlement.

The Authority is experiencing increasing financial pressures and growing demand upon its services, particularly in relation to support for the most vulnerable in the community. Despite these pressures, the Authority successfully delivered its financial outturn within its approved budget during 2016/17. In doing so the following issues are particularly worthy of note:

- Despite significant reductions in grant funding from Central Government the Authority has continued to manage its service delivery objectives whilst facing growing demand for its services. In particular, the Authority faces demographic pressures in relation to delivering Childrens and Adults services and homelessness.
- There is a commitment to managing and mitigating budget pressures to work within the approved budget envelope for the council. Throughout the year management tracked those pressures and took mitigating actions to contain them.
- The wholly owned subsidiary, Mercury Land Holdings Ltd, commenced in 2016/17 to develop and deliver plans for its investments in the borough. The establishment of the 12 Estates housing regeneration programme during the year will deliver much needed regeneration of the council's housing estates over the medium term.

Overall Policy Direction and Strategy

The Authority's budget and Medium Term Financial Strategy reflects the key priorities as set out in its new Corporate Plan which reflects the views of residents, the business community and stakeholder groups through consultation. . The Authority's vision 'Havering – Making a Greater London' is focused on four cross cutting priorities: Communities, Places, Opportunities and Connections and over the medium term the Authority will seek to align financial resources to focus on delivering key outcomes within each of these priorities. The budget also reflects the level of funding allocated by the Government, and is in line with the Authority's long term financial strategy to manage the implications of funding reductions and cost pressures. The budget is balanced for 2017/18, but further action will be required to close the remaining funding gap in 2018/19 onwards.

The Authority's financial strategy and budget takes into account:

- Responding to the difficult and volatile financial climate;
- Ensuring that the Authority's policy priorities drive resource allocations;
- Ensuring there remain clear links between revenue and capital budgets;
- Continuing to ensure that all budgets have defined outputs;
- Continuing to seek greater efficiencies – including through working in partnership and prioritising effectively;
- Seeking funding from external agencies and/or partners;
- Continuing to benchmark and deliver value for money.

The Authority's financial strategy has to:

- Reflect the economic climate and the need for financial prudence;
- Ensure the level of reserves are appropriate;
- Link service planning with financial planning;
- Identify service delivery trends, changes in legislation etc. that will have a financial impact;
- Accurately predict levels of spend in the future to avoid further overspends;
- Identify revenue costs resulting from capital expenditure,
- Match resources to priorities;
- Cost areas of new or increased priority;
- Provide savings to balance the books;
- Provide savings to fund new investment and areas of increased priority;
- Cost new investment and estimates any subsequent payback;
- Increase value for money;
- Manage risk and uses risk assessment to inform decision making;
- Ensure all projects are adequately funded and resourced

Revenue Outturn

The revenue outturn for 2016-17 was balanced after accounting for transfers to earmarked reserves.

The Authority's budget and how it was financed is set out in the table below.

Directorate	Revised Budget £m	Actual Outturn £m	Variance £m	Variance %
Public Health	2.442	2.445	0.003	0.12
Children's Services	44.890	48.547	3.657	8.15
Adult Services	56.380	57.625	1.245	2.21
Neighbourhoods	26.662	27.334	0.672	2.52
Housing Services	2.573	3.603	1.030	40.03
oneSource Non-Shared	9.090	7.787	(1.303)	-14.33
Chief Operating Officer	9.786	8.953	(0.833)	-8.51
oneSource Shared	4.133	4.127	(0.006)	-0.15
Service Total	**155.956**	**160.421**	**4.465**	**2.863**
Corporate budget	10.824	7.509	(3.315)	-30.63
Contingency	1.150	-	(1.150)	-100
Total Operating Expenses	**167.930**	**167.930**	**-**	
Levies	14.428	14.428	-	
Total Expenditure		**182.358**		
Financed by:				
Government grants and contributions		(45.704)		
Business Rates		(24.393)		
Council Tax		(112.261)		
Net underspend		-	**-**	**-**

The major outturn variances affected the Adults, Children, Housing and Neighbourhood Directorate:

Adults:

The pressure in the Adult Directorate was as a result of increase in the demographic pressure and complexity of needs within the Adult service. Intensive strategies are in place to curtail this pressure within the available budget.

Children's:

The main areas of additional expenditure were the additional costs of provision for looked after children, and children with special educational needs and disabilities. The most significant movements were in Early Help, looked after children and care leavers.

Mitigating plans combined with funding for demographic growth included in the 2017-18 budget means that the Directorate should eliminate most of the 2016/17 pressure in 2017-18 with a balanced budget position for 2018-19. Innovation funding from the DfE provides further opportunities to enhance practice and contribute towards management of future demand, thus helping to address the sustainability of the Children's budget in future years.

Neighbourhoods:

The main area of pressure was in Public Space Protection Orders in areas surrounding Schools sites. Mitigating plan action is in place for 2017/18 to curtail this pressure.

Housing:

There has been an increase in housing demand, homeless prevention and out of borough placements in 2016/17. Housing Services are working on strategies to meet action plan targets to contain Housing general fund expenditure within the budgets for 2017/18.

Housing Revenue Account: The Statement of Accounts also includes the Housing Revenue Account (HRA), a ring-fenced account to which expenditure incurred and income received in relation to the Authority's housing stock is charged. The HRA made a deficit of £4.326m and reduced its working balance to £2.830m.The main reasons for the overspend on the Housing Revenue Accounts were the additional costs incurred for Hostel improvements, the cost of meeting revised rent arrears targets, an increase in demand led ASB legal action and the settlement of the previous repairs contract. The balance on the HRA reserve is now £2.830m. The full details of the Housing Revenue Account and the movements on that account are set out on pages 98 to 102

Schools Accounting: Academies are state maintained independent schools set up, usually, with help from outside sponsors and Government contributions. The schools are run outside of the local authority's funding control and are not included in the Authority's accounts; although still operate within all the national requirements for curriculum and standards. As at 31 March 2017, there were 52 maintained schools (58 at 31 March 2016) on the balance sheet, and 29 academies within the Borough (24 at 31 March 2016).

Capital Outturn

Capital expenditure is expenditure on acquiring or enhancing tangible or intangible fixed assets. This includes land, buildings, plant, equipment and in some instances software.

Capital Budget Strategy

The Asset Management Plan sets out the Authority's approach to capital investment. These documents set out the use of capital resources and areas of funding, and discuss how this investment has contributed to the achievement of the Authority's goals and vision and how this is planned to develop over the medium term. Among these key activities is the management of existing assets. Without this it is likely that revenue maintenance costs would increase as assets deteriorate. Capital resources are also required to facilitate investment in projects seen to be a priority by our local community, e.g. Streetcare.

The capital budget strategy sets out the Authority's approach to capital investment over the medium term. It has been developed in consultation between senior officers, Members and the Authority's key strategic partners.

The Authority seeks to continue to improve efficiency and value for money, in particular to:

- maximise asset utilisation;
- ensure assets are fit for purpose and health and safety compliant;
- facilitate and promote community use;
- explore alternative management arrangements e.g. leases to community groups;
- explore opportunities for innovative ways to procure and deliver capital projects to maximise the resources available;
- consider the wider aspects of capital projects, for example whole life asset costs, equality and diversity, and environmental implications;
- investigate shared usage/ownership arrangement with other local authorities, partners and stakeholders.

The capital programme is reviewed on an annual basis, taking into consideration new funding opportunities and Member priorities. In year changes e.g. the availability of additional external funding, are made on an on-going basis as part of routine programme management and implemented with regard to the Authority's Constitution and agreed procedures.

Capital Expenditure 2016/17

Capital expenditure for the year can be analysed as follows:

Service	2016/17 Original Budget £m	2016/17 Actual Outturn £m	2016/17 (Slippage) / Overspend £
Policy & Performance Management	0.058	-	(0.058)
Culture & Leisure	4.816	0.524	(4.292)
Chief Operating Officer	**4.874**	**0.524**	**(4.350)**
Streetcare	5.554	10.343	4.789
Economic Development	2.661	4.674	2.013
Regulatory Services	1.252	0.809	(0.443)
Neighbourhoods	**9.467**	**15.826**	**6.359**
Mercury Land Holdings	**17.230**	**16.606**	**(0.624)**
Adult Services	**0.026**	**0.772**	**0.746**
Children's Services	**-**	**0.011**	**0.011**
Learning & Achievement	**0.354**	**0.297**	**(0.057)**
Asset Management	33.542	28.695	(4.847)
Finance	-	-	-
Legal & Governance	-	-	-
ICT Services	2.111	1.397	(0.714)
oneSource	**35.653**	**30.092**	**(5.561)**
General Fund Total (excluding Schools)	**67.604**	**64.128**	**(3.476)**
Schools	**-**	**3.231**	**3.231**
General Fund Total	**67.604**	**67.359**	**(0.245)**
Housing Revenue Account	**27.330**	**20.755**	**(6.575)**
Total	**94.934**	**88.114**	**(6.820)**

Capital expenditure is financed through a combination of resources both internal and externally generated. Each funding stream is considered in terms of risk and affordability in the short and longer term. The current and future economic climate has a significant influence on capital funding decisions. As a result planned disposals are kept under regular review to ensure the timing maximises the potential receipt.

Every effort is made to maximise external funding sources such as grants and S106 developer contributions. The Council is also continuing to attract private investment into the Council facilities through exploration of potential partnerships and outsourcing arrangements.

Source of Funding	2016/17 £m
Capital Receipts	26.014
Grants & S106 Developer contributions	25.032
GF Revenue Contributions to Capital	4.239
HRA Revenue Contributions to Capital	16.223
Borrowing	16.606
Total	88.114

For 2017/18, the core programme remains reliant on funding through the generation of capital receipts, although a gradual move towards the use of prudential borrowing will be required to meet future capital investment aspirations associated with potential developments aimed at generating income and improving infrastructure in the borough.

The internally funded core programme for 2016/17 consists of £8.4m split between the following block allocations:

Capital Programmes	£m
Parks, Libraries, Leisure and Cemeteries	£1.0
Street Environment	£2.0
Protection of Assets and Health and Safety	£0.5
IT Infrastructure	£1.0
Regeneration	£0.1
Disabled Facilities Grant (Council element)	£0.3
Efficiency Programme	£5.0
Capital Contingency	£2.0
Total	**£11.9**

The 2017/18 capital programme also includes capital grant funded items, including £3.381m from Transport for London (TfL), and the cost of £63m for the phase 4 Schools expansion programme to be £63m of which £49m relates to 2017/18 and beyond.

There is also a budget allocation of £100m for regeneration and development projects to be funded from prudential borrowing. The capital cashflows are likely to be spread over a number of years, and in the short term it is anticipated that this increase in the borrowing requirement will be met internally, i.e. by utilising internal cash balances by reducing the level of Council investments. However, it is expected that it will be necessary to borrow externally to fund capital expenditure of this level by 2020.Work is being undertaken during 2017/18 to develop a capital strategy and 5 year capital programme from 2018/19 to ensure robust financial and treasury planning over the medium to long term.

At present the Council is committed to two projects, Mercury Land Holdings Oldchurch development (£17m) and Havering College (£10m) totalling £27m, to be met from the £100m regeneration and development budget. It is expected that further projects associated with Mercury Land Holdings will be brought forward for consideration during 2017/18 which will increase the level of commitment to approximately £50m. Development of the Capital Strategy will provide a comprehensive framework within which to evaluate and prioritise further investment within an affordable financial envelope.

Treasury Management

The Authority held approximately £236 million in cash on average during the course of 2016/17 (2015/16 £208m) representing the value of the Authority's revenue reserves, net current assets, unapplied grants and unapplied capital reserves. Other than reserves, these funds are committed to expenditure which meets the authority's objectives and liabilities. Gross expenditure being in the region of £583 million, the future cash balances represents around three months of expenditure.

The Authority's Treasury Management Strategy Statement (TMSS), prudential indicators, investment and borrowing strategy are approved by Full Council annually in February. This set the framework within which it will manage its investments and cash flows, its banking, money market and capital market transactions. The effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks is also set out in the TMSS. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code.

The primary objective of the Authority's investment strategy is to minimise risk. The credit ratings of the banks and market information are monitored regularly by officers who are involved in the investment process while deposits are restricted to a limited number of institutions meeting the Authority's lending criteria. The Authority complied with its treasury limits and Prudential Indicators during 2016/17. Performance is reported regularly to the Audit Committee in addition to the annual report.

Total cash, cash equivalents and deposits held by the Authority at 31 March 2017 amounted to £217m (£216m at 31 March 2015). The average yield from the Authority's cash investments for 2016/17 was 0.71 per cent (0.69 per cent for 2015/16). This reflects the conservative nature of the Authority's investment strategy and historically low interest rates. The impact of Brexit continues with uncertainty around its impact on borrowing and investment rates as well as general inflation. The Council will however continue to take steps within its Treasury Management Strategy to mitigate associated risks.

Long-term borrowing stood at £211.6m as at 31 March 2017 (£212m as at 31 March 2016). Short term borrowing was £3m. Further details are shown in Financial Instruments note to the accounts (Note 18).

Pension Fund

The Pension Fund's net assets rose by £98.5m in 2016/17. Asset values now stand at £671.4m compared with £572.9m as at 31 March 2016. This mainly reflects the strong equity performance in the volatile market conditions.

The last triennial valuation of pension fund assets and liabilities was completed in March 2017. In common with the vast majority of Local Government Pension Schemes, the Authority's fund is in deficit; the deficit being valued at £284.4m as at 31 March 2016. The next valuation is due to be completed in March 2020, based on a valuation date of 31 March 2019. The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the inter-valuation period.

The Authority's current share of the net pension fund liability is disclosed in the accounts at a higher level of £488m (£388m at 31 March 2016) based on the requirements of IAS19 rather than on the triennial valuation. The balance sheet position has worsened over 2016/17 as a result of a significant decrease in the net discount rate (much lower discount rate, net of slightly higher inflation) over this period. The effect of this will have been at least partially offset by much greater than expected asset returns.

The projected 2017/18 charge to Profit & Loss is likely to be higher than the 2016/17 charge. The reasons for this are as follows;

- A lower net discount rate, leading to a higher current service cost.
- The effect of the change in assumptions and 2016/17 asset experience on the 2017/18 net interest cost will vary for each employer. The figures will be different depending on the employer's funding level, and (for English & Welsh employers) how much impact the 2016 valuation had. However, for a 'typical' employer, the 2017/18 net interest cost calculation would be based on a combination of a likely higher deficit figure but using the lower discount rate from 31 March 2017.

However, interest rates remain at historically low levels and represent a significant influence of the valuation of pension fund liabilities. Further information on the basis of the IAS19 disclosure is included at note 42.

Prospects and Outlook

The London Borough of Havering prides itself on its record of creating balanced budgets, delivering challenging savings programmes and carefully managing its finances within each financial year. It is this track record which has helped to build the foundations for the 2017/18 budget and will need to continue via the MTFS through to 2019/20.

The current four year financial settlement will result in substantial reductions to Havering's allocation of Government funding. The failure of the funding formula to acknowledge the significant financial pressures associated with rapid population growth particularly in relation to its impact on social care services for children and adults results in significant financial pressures for the Council to manage the delivery of services in the forthcoming years. This is exacerbated by the effects of the 2016/17 settlement introduction of the 'core spending power' calculation, which removes government funding from those authorities which are considered able to raise proportionately more council tax, without regard for the need to spend to meet escalating demand for services As a consequence, Havering continues to receive lower than the average level of funding for London despite having the highest proportion of older people within its population, which is a key driver of adult social care expenditure.

In light of the substantial savings made in recent years (£38.2m over the period 2014/15 to 2016/17), the challenge in preparing the budget for 2017/18 and the MTFS has been to identify proposals which minimise the impact of budget reductions upon delivering the Council's priority services.

However, the future financial position for Havering is very challenging. Whilst the proposal contained within the 2017/18 budget will achieve a balanced budget in 2017/18, a gap of £2.895m is forecast in 2018/19 and a further £6.325m in 2019/20. The Council will need to develop further savings and income generation plans during 2017/18 and to consider its future Council Tax strategy as part of developing the 2018/19 Medium Term Financial Strategy within the context of further pressures and funding opportunities that may arise during 2017/18.

The budget reinforces the need for on-going robust financial management, strict budgetary control and the on-going monitoring of savings delivery plans with effective processes in place to promote these.

Earmarked reserves, as detailed in Note 10 of the accounts, have been established to meet planned projects or budgetary pressures and are considered adequate at this time. The sums earmarked for these purposes were agreed as part of the annual approval of accounts process and the use and application of those reserves are reviewed quarterly as part of the budget monitoring process. The General Fund Balance at 31st March 2017 has been maintained at the 2016 level of £11.766m and is planned to be retained at this level.

A Corporate Risk Budget of £8.9m has been established within the base budget for 2017/18 to support the management of budgetary pressures through 2017/18. Commitments of £5m have been made against this budget thereby protecting services from further budgetary reductions. The Corporate Risk Budget is forecast to reduce to approximately £3m by 2018/19 and therefore it will become more difficult for the Council to respond in a similar manner to future adverse financial pressures. Therefore robust financial monitoring and delivery of planned savings will be critical during 2017/18.

The Corporate Contingency budget remains at £2m which is adequate for the risks that it is expected to cover. Whilst it is currently planned to reduce to £1m in 2018/19, this will be kept under review during 2017/18 and in preparing the 2018/19 Strategy.

The budget does not provide specific funding for any unforeseeable, extraordinary items of major expenditure, for example, the implications of flooding. If such an event were to occur, it would need to be funding from the existing general reserves and balances, if the general contingency were exhausted.

Against such a challenging financial background, it will therefore be crucial that reserves, both general and earmarked, continue to be managed in the medium term in a way that gives due regard to the need to set a legally balanced budget.

Further information

Further information about the accounts is available from:

Section 151 Officer

For the attention of Mark Jarvis

Town Hall

Romford

RM1 3BD

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. For 2016/17 the inspection period takes place between 3 July 2017 and 11 August 2017. These dates are advertised on the London Borough of Havering's website.

Debbie Middleton BA (Hons), CPFA

SECTION 151 OFFICER

28 September 2017

E mail corporatefinance@havering.gov.uk

Website www.havering.gov.uk

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Executive.

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- Approve the statement of accounts.

The Section 151 Officer's Responsibilities

The Section 151 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 (the Code).

In preparing this statement of accounts the Section 151 Officer has:

- Selected suitable accounting policies and then applied them consistently.

- Made judgements and estimates that were reasonable and prudent.

- Complied with the Code.

The Section 151 Officer has also:

- Kept proper accounting records which were up to date.

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the statement of accounts presents a true and fair view of the financial position of the Council as at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

Councillor Viddy Persaud
CHAIRMAN, AUDIT COMMITTEE
28 September 2017

Debbie Middleton
SECTION 151 OFFICER
28 September 2017

Independent auditors' report to the Members of the London Borough of Havering

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

Opinion on the Authority's financial statements

We have audited the financial statements of the London Borough of Havering for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement;
- Authority and Group Comprehensive Income and Expenditure Statement;
- Authority and Group Balance Sheet;
- Authority and Group Cash Flow Statement;
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement;
- the Collection Fund; and
- the related notes 1 to 45 of the Authority financial statements, the related notes 1 to 5 of the Housing Revenue Account Income and Expenditure Account, the related notes 1 to 3 of the Collection Fund, and the related notes 1 to 5 of the Group financial statements

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the London Borough of Havering, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Section 151 Officer and External Auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities as set out on page 11, the Section 151 Officer is responsible for the preparation of the Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts for the financial year 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Havering and Group as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts for the financial year 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on the London Borough of Havering'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 20(1)(c) of the Local Audit and Accountability Act 2014 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 National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the London Borough of Havering had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Havering put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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 London Borough of Havering 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 issued by the C&AG in November 2016, we are satisfied that, in all significant respects, the London Borough of Havering had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of the London Borough of Havering in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Debbie Hanson (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Luton
29th September 2017

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the London Borough of Havering Council in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities as set out on page 11, the Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts for the financial year 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.
Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts for the financial year 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Melissa Hargreaves (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Manchester
29th September 2017

Movement in Reserves Statement 2016/17

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2015	**11,766**	**63,239**	**8,670**	**55,203**	**17,267**	**15,311**	**171,456**	**153,979**	**325,435**
Movement in reserves during 2015/16									
(Deficit)/surplus on provision of services	48,827	-	3,154	-	-	-	51,981	-	51,981
Other comprehensive expenditure and income	-	-	-	-	-	-	-	210,863	210,863
Total comprehensive expenditure and income	**48,827**	**-**	**3,154**	**-**	**-**	**-**	**51,981**	**210,863**	**262,844**
Adjustments between accounting basis and funding basis under regulations (Note 9)	(45,787)	-	(4,669)	18,071	7,304	8,473	(16,608)	16,608	-
Net (decrease)/increase before transfers to earmarked reserves	**3,040**	**-**	**(1,515)**	**18,071**	**7,304**	**8,473**	**35,373**	**227,471**	**262,844**
Transfers to/(from) Earmarked Reserves (Note 10)	(3,040)	3,040	-	-	-	-	-	-	-
(Decrease)increase in Year	**-**	**3,040**	**(1,515)**	**18,071**	**7,304**	**8,473**	**35,373**	**227,471**	**262,844**
Balance at 31 March 2016	**11,766**	**66,279**	**7,155**	**73,274**	**24,571**	**23,784**	**206,829**	**381,450**	**588,279**
Movement in reserves during 2016/17									
(Deficit)/surplus on provision of services	(17,323)	-	27,943	-	-	-	10,620	-	10,620
Other comprehensive expenditure and income	-	-	-	-	-	-	-	(72,074)	(72,074)
Total comprehensive expenditure and income	**(17,323)**	**-**	**27,943**	**-**	**-**	**-**	**10,620**	**(72,074)**	**(61,454)**
Adjustments between accounting basis and funding basis under regulations (Note 9)	13,797	-	(31,864)	(11,103)	8,962	11,515	(8,693)	8,693	-
Net (decrease)/increase before transfers to earmarked reserves	**(3,526)**	**-**	**(3,921)**	**(11,103)**	**8,962**	**11,515**	**1,927**	**(63,381)**	**(61,454)**
Transfers to/(from) Earmarked Reserves (Note 10)	3,526	(3,122)	(404)	-	-	-	-	-	-
(Decrease)increase in Year	**-**	**(3,122)**	**(4,325)**	**(11,103)**	**8,962**	**11,515**	**1,927**	**(63,381)**	**(61,454)**
Balance at 31 March 2017	**11,766**	**63,157**	**2,830**	**62,171**	**33,533**	**35,299**	**208,756**	**318,069**	**526,825**

Comprehensive Income and Expenditure Statement 2016/17

The Comprehensive Income and Expenditure 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 (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

1 April 2015 – 31 March 2016					1 April 2016 – 31 March 2017		
£000 Gross Expenditure	£000 Gross Income	£000 Net		Notes	£000 Gross Expenditure	£000 Gross Income	£000 Net
			Gross expenditure, gross income and net expenditure of continuing operations				
9,997	(405)	9,592	Section 151		7,610	(174)	7,436
17,115	(2,457)	14,658	Chief Operating Officer		13,338	(2,236)	11,102
121,668	(88,788)	32,880	Neighbourhoods		97,649	(90,800)	6,849
75,342	(16,473)	58,869	Adult Services		77,974	(17,552)	60,422
174,262	(145,084)	29,178	Children's Services		200,253	(145,806)	54,447
14,081	(10,346)	3,735	Public Health		13,660	(11,550)	2,110
98,421	(100,337)	(1,916)	oneSource Non -Shared		109,492	(98,430)	11,062
5,684	(1,476)	4,208	oneSource Shared		7,061	(2,250)	4,811
516,570	**(365,366)**	**151,204**	**Cost of services**		**527,037**	**(368,798)**	**158,239**
		(3,575)	Other operating expenditure	11			30,737
		12,160	Financing and investment income and expenditure	12			15,347
		(211,770)	Taxation and non-specific grant income	13			(214,943)
		(51,981)	**Surplus on provision of services**				**(10,620)**
		(170,984)	Surplus on revaluation of property, plant and equipment assets	25a			(19,150)
		(39,879)	Actuarial losses/(gains) on pension assets / liabilities	25e			91,224
		(210,863)	**Other comprehensive income and expenditure**				**72,074**
		(262,844)	**Total comprehensive income and expenditure**				**61,454**

Balance Sheet as at 31 March 2017

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.

31 March 2016 £000		Notes	31 March 2017 £000
962,666	**Property, plant and equipment**	14	997,552
105	**Heritage assets**	15	104
38,596	**Investment property**	16b	39,404
1,413	**Intangible assets**	17	2,353
10,000	**Long Term Investments**	18	48,615
457	**Long Term debtors**	19	8,596
1,013,237	**Long-term assets**		**1,096,624**
152,399	**Short-term investments**	18	122,593
308	**Inventories**		277
40,128	**Short-term debtors**	19	50,750
53,511	**Cash and cash equivalents**	20	46,735
3,833	**Assets held for sale**	21	3,833
250,179	**Current assets**		**224,188**
(694)	**Short-term borrowing**	18	(2,998)
(61,046)	**Short-term creditors**	22	(73,513)
(61,740)	**Current liabilities**		**(76,511)**
(386)	**Long-term creditors**		(1,202)
(5,086)	**Provisions**	23	(6,133)
(212,116)	**Long-term borrowing**	18	(211,573)
(388,109)	**Other long-term liabilities**	42	(487,970)
(7,700)	**Capital grants receipts in advance**	35b	(10,599)
(613,397)	**Long-term liabilities**		**(717,477)**
588,279	**Net assets**		**526,824**
206,829	**Usable reserves**	24	208,756
381,450	**Unusable reserves**	25	318,068
588,279	**Total Reserves**		**526,824**

I certify that the statement of accounts gives a true and fair view of the financial position of the authority at 31 March 2017 and its income and expenditure for the year ended 31 March 2017. These financial statements replace the unaudited financial statements signed by the Section 151 officer on the 28th of June 2017.

Cash Flow Statement as at 31 March 2017

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 recipients 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.

2015/16 £000		**Note**	**2016/17 £000**
51,981	Net surplus on the provision of services		10,620
40,673	Adjust net surplus or deficit on the provision of services for non-cash movements	26	55,056
(65,160)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(37,202)
27,494	Net cash flows from Operating Activities		28,474
(5,553)	Investing activities	27	(37,011)
1,129	Financing activities	28	1,761
23,070	Net (increase) /decrease in cash and cash equivalents		(6,776)
30,441	Cash and cash equivalents at the beginning of the reporting period	20	53,511
53,511	**Cash and cash equivalents at the end of the reporting period**	**20**	**46,735**

Notes to the Core Financial Statements

1. Accounting Policies

Going Concern

The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Where this is not the case, particular care will be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept can have a fundamental impact on the financial statements.

Accounts drawn up under the Code assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of Central Government). If an authority was in financial difficulty, the prospects are thus that alternative arrangements might be made by Central Government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by 30 June 2016, which the Accounts and Audit (England) Regulations 2015 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* and the *Service Reporting Code of Practice 2016/17*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

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

ii. 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 Authority 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 Authority;
- revenue from the provision of services is recognised when the Authority 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 Authority;
- 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. Outstanding creditors are written out of the accounts if they have not been billed for by the supplier after a period of one year, however a sample of outstanding balances will be sampled and adjusted for if required;
- 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.
- 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; and
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. The de minimis for 2016/17 remains at £50,000.

iii. 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 highly liquid investments that mature in one month or less from the date of acquisition or notice accounts of no more than 3 months 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.

iv. 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.

v. 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;
- 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; and

- amortisation of intangible non-current assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance (the Minimum Revenue Provision). Depreciation, revaluation and impairment losses, and amortisations are therefore replaced by an adjusting transfer to the General Fund Balance from the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi. Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including Central Government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and Central Government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, 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 Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexitime) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the relevant service line or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the

Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

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

Post-Employment Benefits

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

- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- the National Health Service Pension Scheme, administered by the National Health Service; and
- the Local Government Pension Scheme, administered by the Authority.

All three schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority. However, the arrangements for the Teachers' and National Health Service schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. Those schemes are therefore accounted for as if they were defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education and Public Health Services lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to the Teachers' and National Health Service Pensions Scheme in the year.

The Local Government Pension Scheme

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

- The liabilities of the London Borough of Havering Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% based on the indicative rate of return on high quality corporate bonds.
- The assets of the London Borough of Havering Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price;
    - unquoted securities – professional estimate;
    - unitised securities – current bid price; and
    - property – market value.

The change in the net pension liability is analysed into the following components:

- Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as other comprehensive income and expenditure;
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as other comprehensive income and expenditure;
  - contributions paid to the London Borough of Havering pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

viii. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

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

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

ix. Financial Instruments

Financial Liabilities

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

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

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

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

Loans and Receivables

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

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

x. Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. 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 Authority when there is reasonable assurance that:

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

Amounts recognised as due to the Authority 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 in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

All Town and Country Planning Act 1990 (as amended) Section 106 contributions, because of their complex nature and numerous legal conditions, are only recognised through the Comprehensive Income and Expenditure Statement once they have been spent. Only then are we certain all conditions have been met and there is no return obligation.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund and Housing Revenue Account balances 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. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Non Ring-fenced Grants

These are allocated by Central Government directly to local authorities as additional revenue funding. They are not ring-fenced and are credited to the Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Business Improvement Districts

The Authority is the billing authority for the London Riverside Business Improvement District (BID) managed by Ferry Lane Action Group, which provides a cleaner, safer, more secure business environment and promotes the interests of the business community within the BID. The Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) on the balance sheet.

xii. Heritage Assets

The Authority's Heritage Assets are split into two categories

- Civic Regalia; and
- Heritage Buildings.

Civic Regalia

The collection of civic regalia includes the Mayor's and the Deputy Mayor's chains, which are worn on ceremonial duties and various items with civic insignia. They are valued based on manufacturing costs and do not include any element for rarity or collectable value, retail mark-up or VAT.

Heritage Buildings

The Authority owns one building that meets the definition of a heritage asset and this is Upminster Windmill. The building has been valued by professional valuers who have stated that the most appropriate means of valuing this building is by its historic cost.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment.

xiii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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.

xiv. Interests in Companies and Other Entities

The Authority has material interests in companies that have the nature of subsidiaries that require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

xv. Inventories

The Authority has a small number of inventories. These are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned predominantly using the first in first out (FIFO) costing formula.

xvi. 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.

xvii. Interest in Joint Committee

oneSource is a participative arrangement created by the Authority, the London Borough of Newham and the London Borough of Bexley to share back office operations. It is governed by a joint committee and is not deemed to meet the definition of joint control; hence the assets, liabilities, income, expenditure and cash flows of the joint committee are not consolidated into the Authority's group accounts. Instead, the Authority accounts for its own transactions arising within the agreement, including the assets, liabilities, income, expenditure and cash flows, in its single entity financial statements. Cost and savings are shared between the three authorities on the basis of an agreed formula and are allocated on an annual basis.

xviii. Leases

All current leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease, but convey a right to use an asset in return for payment, are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting 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 Authority as Lessor

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained on 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.

xix. 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 SeRCOP 2016/17. 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 multifunctional, 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 the SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

xx. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority 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.

Finance costs are excluded in valuations for all assets.

Havering has applied the following de minimis criteria for the capitalisation of expenditure, so that schemes which cost less than this are classified as revenue rather than capital: -

- works to buildings £5,000
- infrastructure £5,000
- office and information technology £5,000
- other furniture and equipment £5,000

There are no de minimis limits for the following categories: land acquisition, vehicles and plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled.

These de minimis rules may be waived where grant or borrowing consent is made available for items of capital expenditure below £5,000.

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUVSH);
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective;
- all other assets – current 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 that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued as a minimum every five years, with high value assets being re-valued annually, to ensure their carrying amount is not materially different from their fair value at the year end. In addition, an independent review is carried out annually. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service 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 as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service 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 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 not charged in the year of acquisition but is charged in full during the year of disposal.

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;
- vehicles, plant, furniture and equipment – straight-line allocation over a five year period unless a suitably qualified officer determines a more appropriate period; and
- infrastructure – straight-line allocation over 20 years.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the Code requires that these components are depreciated separately.

Major components which have materially different asset lives will be identified in respect of:

- new capital expenditure as it arises; and
- existing assets as they become subject to revaluation.

Assets will not be valued on a componentised basis in the following circumstances on the basis that the impact upon asset valuation and depreciation is not material to the accounting disclosures:

- capital expenditure of less than £300,000 per scheme; and
- assets valued at less than £3,000,000.

As a consequence of the application of this policy the Authority has not identified any major components with materially different asset lives. However, the application of this policy will be reviewed on an on-going basis to ensure that the carrying value of assets is not materially affected.

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.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to noncurrent assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (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 Authority's underlying need to borrow (the capital financing requirement). 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.

Annual Minimum Revenue Provision Statement

Where the Council finances capital expenditure by borrowing, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum provision since 2008. The Local

Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's (DCLG) Guidance on Minimum Revenue Provision issued in 2012.

The broad aim of the DCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments, starting in the year after the asset becomes operational.

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Third party loans – Under statutory requirements the payment of the loan will normally be treated as capital expenditure. The subsequent loan repayments, (which are treated as capital receipts under statutory requirements), will be used to reduce the long term liability and consequently the CFR. As a result MRP will not generally be charged on the loan as it is not appropriate to do so.

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority 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. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the 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 – where it becomes less than 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 Authority 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.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the Accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxiii. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves 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 to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

xxiii 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 Authority 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.

xxiv. Schools

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Schools' transactions, cash flows and balances are therefore recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

xxv. 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.

xxvi. Fair Value Measurement

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

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

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

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

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Authority is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. For 2016/17, the following accounting policy changes that need to be reported relate to:

(a) Amendment to the reporting of pension fund scheme transaction costs

(b) Amendment to the reporting of investment concentration

It is anticipated that these amendments will not have a material impact on the information provided in the 2016/17 financial statements.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies, the Authority 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 Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision; and
- the statement of accounting policies incorporates a number of de mimimis thresholds below which certain low value transactions are not recognised in strict accordance with the Code of Practice. These thresholds have been selected for the purpose of reducing the volume and complexity of financial transactions without materially altering the accounting disclosures. The areas most affected by this policy relate to the recognition of pensions liabilities, fixed assets, leases and accruals.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
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 Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. Assets have been valued by the Authority's external valuers on the basis of a five year rolling valuation programme. In the current economic climate, the Balance Sheet valuation of £997m may be subject to fluctuations.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.010m for every year that useful lives had to be reduced. If the asset valuation of all property plant and equipment were to fall by 1% a reduction in value of £9.97m would arise. This would normally be reversed to the Revaluation Reserve. Where revaluation losses exceed unrealised gains, the net loss would be charged to the Consolidated Income and Expenditure Statement and subsequently written off to the Capital Adjustment Account.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for *similar* assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's	The authority uses the discounted cash flow (DCF) model [*describe other relevant techniques*] to measure the fair value of some of its investment properties and financial assets [*describe other relevant financial assets/liabilities*]. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets) [*describe other unobservable inputs used and/ or other financial instruments*]. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment

Item	Uncertainties	Effect if actual results differ from assumptions
	assets and liabilities. Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's chief valuation officer and external valuer). Information about the valuation techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in notes 14 and 16 below.	properties and financial assets**.**
Provisions	The Authority has made a provision of £3.9m for the settlement of insurance claims based upon an actuarial assessment of the current level of liability.	An increase over the forthcoming year of 10% in the value of claims to be settled would have the effect of adding £0.4m to the provision required.
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in a decrease in the pension liability of £93m. However, the assumptions interact in complex ways. During 2016/17, the Authority's actuary advised that changes in actuarial assumptions gave rise to a loss of £174.9m (as compared to a gain of £44.2m in 2015/16) to the Consolidated Income and Expenditure Statement.
Arrears	At 31 March 2017, the Authority had a gross debtors balance of £76.3m. A review of significant balances suggested that an impairment of doubtful debts of 31% (£24.0m) was appropriate. However, in the current economic climate it may not be certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a 50% increase in the amount of the impairment of doubtful debts would require an additional £12.0m to be set aside as an allowance.
NNDR Appeals	At 31 March 2017, the Authority made a provision for £2.0m in respect of appeals which are still outstanding, based on the previous success rate on appeals.	In the event that the outcome of appeals increase by 25% than the anticipated percentages this would result in additional cost of £0.5m.

5. Material Items of Income and Expense

A net revaluation gain of £5.0m has been credited to the Consolidated Income and Expenditure Account (CI&ES) in 2016/17. Revaluation gains are normally credited to the Revaluation Reserve except where, as in this case, the revaluation gain reverses a previous loss charged to the CI&ES. By way of comparison, the revaluation gain charged to the CI&ES in 2015/16 was £24.3m. Further information is provided at note 39.

The Authority set up a wholly owned company to contribute to the delivery of the Authority's regeneration priorities. Mercury Land Holdings Ltd was incorporated on 18 November 2015 and a model for the first regeneration project commenced during June 2016. The Authority has included in its accounts:

- the equity investment of £8.615m, and
- the loan balance comprising Long Term Loans of £7.991m and working capital of £1.1m.
- some further minor transactions with the Company in order to charge for services provided by the Authority to the Company.

The Company's accounts are consolidated into the Authority, group accounts on page 105.

6. Events after the Balance Sheet Date

Academies

Marshalls Park Foundation School adopted sponsored academy status from 1 April 2017.

Scargill Infant, Scargill Junior and Whybridge Junior Schools are pursuing academy status as part of the Hornchurch Academy Trust with a proposed date of 1 July 2017.

Ending of the UK's Membership of the European Union

Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. The Treasury Strategy, as outlined in note 18, means the Authority's surplus and net assets have little exposure to currency fluctuations in the short to medium term and we have no short-term debt maturities. There is likely to be an impact on our property valuations if confidence in the wider UK property market falls; and the valuation of the Authority's net defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations. For the purposes of these financial statements, the Referendum is considered a non-adjusting event. There have been no other events occurring after the reporting date that would have a material impact on these financial statements.

Authorisation of Accounts for Issue

The Accounts were authorised for issue by Debbie Middleton, Statutory Section 151 Officer Finance (interim) on 28 September 2017. No material post Balance Sheet events were identified at that date other than the matters disclosed above.

Expenditure and Funding Analysis 2016/17

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. This is a new requirement as per the 2016/17 code of practice to compare the council's internal management structure to that required for the Comprehensive Income and Expenditure Statement.

1 April 2015 – 31 March 2016					1 April 2016 – 31 March 2017			
Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Other Adjustment £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000	Service	Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Other Adjustments £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
29,686	(44,250)	24,156	9,592	Section 151	7,509	(24,832)	24,759	7,436
13,081	(18)	1,595	14,658	Chief Operating Officer	8,954	(19)	2,167	11,102
33,853	(3,275)	2,302	32,880	Neighbourhoods	35,261	(31,881)	3,469	6,849
58,111	(11)	769	58,869	Adult Services	57,625	-	2,797	60,422
28,559	(3,426)	4,045	29,178	Children's Services	48,547	17	5,883	54,447
2,223	(4)	1,516	3,735	Public Health	2,445	(2)	(333)	2,110
(4,014)	(9)	2,107	(1,916)	oneSource Non-Shared	7,787	(3)	3,278	11,062
4,631	(25)	(398)	4,208	oneSource Shared	4,127	(12)	696	4,811
166,130	**(51,018)**	**36,092**	**151,204**	**Net Cost of services**	**172,255**	**(56,732)**	**42,716**	**158,239**
(164,615)	**562**	(39,132)	(203,185)	Other Income and Expenditure	**(167,930)**	**38,665**	(39,554)	(168,859)
1,515	**(50,456)**	**** (3,040)**	**(51,981)**	**(Surplus) / Deficit on provision of services**	**4,325**	**(18,067)**	**** 3,122**	**(10,620)**

20,436	Opening General Fund and HRA Balance	18,921
(1,515)	Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year *	(4,325)
18,921	**Closing General Fund and HRA Balance at 31 March**	**14,596**

* For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement.
** This represents the movement in Earmarked Reserves. See Note 10.

7a. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2016/17

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes (Note 1)** £000	**Net change for the Pensions Adjustments (Note 2)** £000	**Other Differences (Note 3)** £000	**Total Adjustments** **£000**
Section 151	(33,380)	8,528	20	(24,832)
Chief Operating Officer	-	-	(19)	(19)
Neighbourhoods	(31,964)	109	(26)	(31,881)
Children's Services	(1,564)	-	1,581	17
Public Health			(2)	(2)
oneSource Non-Shared			(3)	(3)
oneSource Shared			(12)	(12)
Net Cost of Services	**(66,908)**	**8,637**	**1,539**	**(56,732)**
Other income and expenditure from the Expenditure and Funding Analysis	38,701	-	(36)	38,665
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(28,207)**	**8,637**	**1,503**	**(18,067)**

Adjustments between Funding and Accounting Basis 2015/16

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes (Note 1)** £000	**Net change for the Pensions Adjustments (Note 2)** £000	**Other Differences (Note 3)** £000	**Total Adjustments** **£000**
Section 151	(51,988)	6,534	1,204	(44,250)
Chief Operating Officer	-	-	(18)	(18)
Neighbourhoods	(3,475)	245	(45)	(3,275)
Adult Services	-	-	(11)	(11)
Children's Services	(2,732)	-	(694)	(3,426)
Public Health	-	-	(4)	(4)
oneSource Non-Shared	-	-	(9)	(9)
oneSource Shared	-	-	(25)	(25)
Net Cost of Services	**(58,195)**	**6,779**	**398**	**(51,018)**
Other income and expenditure from the Expenditure and Funding Analysis	584	-	(22)	562
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(57,611)**	**6,779**	**376**	**(50,456)**

Note 1 Adjustments for Capital Purposes

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from

other income and expenditure as these are not chargeable under generally accepted accounting practices.

- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note 2 Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

- For **Financing and investment income and expenditure –**- the net interest on the defined benefit liability is charged to the CIES.

Note 3 Other Differences

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

- For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

- The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

7b. Segmental Income

Income received on a segmental basis is analysed below:

2015/16 **£000**	**Income from Services**	**2016/17** **£000**
591	Section 151	174
2,672	Chief Operating Officer	2,236
90,609	Neighbourhoods	92,017
30,114	Adult Services	17,552
145,545	Children's Services	145,789
10,402	Public Health	11,551
1,700	oneSource Shared	2,250
103,443	oneSource Non -Shared	102,234
385,076	**Total income analysed on a segmental basis Net Cost of Services**	**373,803**

8. Expenditure and Income Analysed by Nature

The authority's expenditure and income is analysed as follows:

2015/16 £000	Expenditure/Income	2016/17 £000
	Expenditure	
203,035	Employee benefits expenses	212,817
287,884	Other services expenses	293,813
25,651	Depreciation, amortisation, impairment	20,032
20,671	Interest payments	20,823
13,783	Precepts and levies	14,428
1,221	Payments to Housing Capital Receipts Pool	1,138
(18,579)	(Gain) loss on the disposal of assets	15,546
533,666	**Total expenditure**	**578,597**
	Income	
(128,305)	Fees, charges and other service income	(130,063)
(8,630)	Interest and investment income	(5,607)
(134,098)	Income from council tax, non-domestic rates,	(132,692)
(314,614)	Government grants and contributions	(320,855)
(585,647)	**Total income**	**(589,217)**
(51,981)	**Surplus or Deficit on the Provision of Services**	**(10,620)**

9. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. The following sets out a description of the reserves against which the adjustments are made.

General Fund Balance: The General Fund is the statutory fund into which all the receipts of an Authority are required to be paid and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Authority is required to recover) at the end of the financial year. (For housing authorities, however, the balance is not available to be applied to funding HRA services).

Housing Revenue Account Balance: The Housing Revenue Account (HRA) balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Authority's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Major Repairs Reserve: The Authority maintains a Major Repairs Reserve (MRR), through which depreciation on HRA assets is reversed out and applied to the financing of capital expenditure. The MRR is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the extent to which the MRR has yet to be applied at the year end.

Capital Receipts Reserve: The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

Capital Grants Unapplied: The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Authority has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

	Usable Reserves					
2016/17	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred from the Pensions Reserve)	(8,528)	(109)	-	-	-	8,637
Financial instruments (transferred to the Financial Instruments Adjustments Account)	95	-	-	-	-	(95)
Available for sale financial instruments (transferred to the Available for Sale Financial Instruments Account)	36	-	-	-	-	(36)
Council tax and NNDR (transfers to or from Collection Fund)	(101)	-	-	-	-	101
Holiday pay (transferred to the Accumulated Absences Reserve)	(1,541)	8	-	-	-	1,533
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	(10,045)	(8,559)	-	-	(35,276)	53,880
Total Adjustments to Revenue Resources	**(20,084)**	**(8,660)**	**-**	**-**	**(35,276)**	**64,020**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	710	15,724	(16,434)	-	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	(385)	385	-	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,138)	-	1,138	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	8,962	-	(8,962)	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,259	-	-	-	-	(1,259)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	4,239	16,223	-	-	-	(20,462)
Total Adjustments between Revenue and Capital Resources	**5,070**	**40,524**	**(14,911)**	**(8,962)**	**-**	**(21,721)**
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	26,014	-	-	(26,014)
Application of capital grants to finance capital expenditure	1,271	-	-	-	23,761	(25,032)
Cash payments in relation to deferred capital receipts	(54)	-	-	-	-	54
Total Adjustments to Capital Resources	**1,217**	**-**	**26,014**	**-**	**23,761**	**(50,992)**
Total Adjustments	**(13,797)**	**31,864**	**11,103**	**(8,962)**	**(11,515)**	**(8,693)**

Comparative figures for 2015/16 are as follows:

	Usable Reserves					
2015/16	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred from the Pensions Reserve)	(6,534)	(245)	-	-	-	6,779
Financial instruments (transferred to the Financial Instruments Adjustments Account)	97	-	-	-	-	(97)
Available for sale financial instruments (transferred to the Available for Sale Financial Instruments Account)	22	-	-	-	-	(22)
Council tax and NNDR (transfers to or from Collection Fund)	(1,302)	-	-	-	-	1,302
Holiday pay (transferred to the Accumulated Absences Reserve)	792	16	-	-	-	(808)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	24,612	(30,894)	-	-	(30,593)	36,875
Total Adjustments to Revenue Resources	**17,687**	**(31,123)**	**-**	**-**	**(30,593)**	**44,029**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	22,157	10,054	(32,211)	-	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	(305)	305	-	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,221)	-	1,221	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	7,324	-	(7,324)	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,293	-	-	-	-	(1,293)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	3,209	18,719	-	-	-	(21,928)
Total Adjustments between Revenue and Capital Resources	**25,438**	**35,792**	**(30,685)**	**(7,324)**	**-**	**(23,221)**
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	12,614	-	-	(12,614)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	20	-	(20)
Application of capital grants to finance capital expenditure	2,780	-	-	-	22,120	(24,900)
Cash payments in relation to deferred capital receipts	(118)	-	-	-	-	118
Total Adjustments to Capital Resources	**2,662**	**-**	**12,614**	**20**	**22,120**	**(37,416)**
Total Adjustments	**45,787**	**4,669**	**(18,071)**	**(7,304)**	**(8,473)**	**(16,608)**

10. Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance as earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17.

	Balance as at 31 3 2015 £000	Transfers (from)/to Revenue £000	Transfers between reserves £000	Balance as at 31 3 2016 £000	Transfers (from)/to Revenue £000	Transfers between reserves £000	Balance as at 31 3 2017 £000
General Fund Earmarked Reserves							
Corporate Transformation reserve	**23,240**	3,324	1,000	**27,564**	(9,979)	(111)	**17,474**
Corporate Risk reserve	**-**	-	-	**-**	9,262	2,365	**11,627**
oneSource reserve	**1,257**	(61)	-	**1,196**	(138)	-	**1,058**
Insurance reserve	**4,736**	2,196	-	**6,932**	(487)	-	**6,445**
Reserves for future capital schemes	**8,930**	1,353	-	**10,283**	2,666	(184)	**12,765**
Legal reserve	**256**	-	-	**256**	(161)	-	**95**
Crematorium and Cemetery reserves	**431**	109	-	**540**	128	-	**668**
Social Care reserve	**5,733**	(2,425)	(1,000)	**2,308**	(2,281)	-	**27**
Troubled Families reserve	**-**	-	-	**-**	1,344	-	**1,344**
Public Health reserve	**1,761**	(1,471)	-	**290**	473	-	**763**
Whole life costing Transport Fleet reserve	**434**	128	-	**562**	-	-	**562**
Ordinary Place of Residence reserve	**-**	1,400	-	**1,400**	-	(1,400)	**-**
Other reserves	**1,835**	910	-	**2,745**	(1,656)	(670)	**419**
Total General Fund Earmarked Reserves	**48,613**	**5,463**	**-**	**54,076**	**(829)**	**-**	**53,247**
Schools Balances							
General Balances	**2,748**	163	-	**2,911**	140	-	**3,051**
Schools Balances	**10,214**	(3,046)	-	**7,168**	(2,726)	-	**4,442**
Centrally held schools balances (Note 34)	**1,664**	460	-	**2,124**	293	-	**2,417**
Total Schools Balances	**14,626**	**(2,423)**	**-**	**12,203**	**(2,293)**		**9,910**
Total Earmarked Reserves	**63,239**	**3,040**	**-**	**66,279**	**(3,122)**		**63,157**

General Fund Earmarked Reserves

Corporate Transformation and oneSource Reserves – These reserves will continue to be used to fund strategic projects and the transformation agenda.

Corporate Risk Reserve – after a strategic review of the earmarked reserves, the Senior Leadership Team de-committed various other earmarked reserves and reprioritised the funds to the Corporate Risk Reserve.

Insurance Reserve – In accordance with the Accounting Code of Practice, the Authority's insurance fund has been split between a provision for liabilities which are likely to be incurred and a reserve for possible future liabilities that are "incurred but not reported" at this stage.

Reserves for future Capital Schemes – These reserves are set aside for capital schemes where expenditure has yet to be incurred. The reserves are a mixture of revenue contributions, internal leasing arrangements and various invest to save schemes.

Legal Reserve – This reserve provides funding for legal cases.

Crematorium and Cemetery Funds – These funds have existed for many years to maintain cemeteries and to help finance improvements at the crematorium. They consist of a fund created by fees, and a Cemetery Memorial Fund.

Social Care Funding – This is support for Social Care funding which local authorities receive from the NHS; it was agreed to carry forward unspent monies to be spent on the programmes jointly agreed by both parties as part of the S256 agreement.

Troubled Families – This is to contribute towards the funding of the current Troubled Families programme until 2020.

Public Health Reserve – This reserve arose out of a transfer of Primary Care Trust funding for Drugs and Alcohol Action Team services and underspends against the Public Health grant. The intention is to use the reserve for Public Health initiatives.

Whole Life Costing Vehicle Fleet Reserve – This reserve funds whole life costing in the vehicle and plant system.

Ordinary Place of Residence Reserve – This reserve was set aside to fund potential liability that may arise in regards to the Secretary of State determination in respect of the challenge around ordinary residence of an Adult Social Services client. If any costs do arise in the future, they will now be funded corporately.

Other Reserves – This encompasses a range of several smaller reserves including LSC Further Education, Library Book Fund, Hornchurch sports track, and provision to fund potential claims arising from building works.

Schools Balances

General Balances – This is income that has accumulated over a number of years from schools buying back services from the Authority. The funds are being reinvested back into the development of support services provided to schools.

Schools Balances – These are balances that have been allocated to schools and are carried forward to the following financial year.

Centrally Held Schools Balances – The Authority's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). Details of the deployment of DSG receivable for 2016/17 are shown at Note 34.

11. Other Operating Expenditure

2015/16 £000		2016/17 £000
13,783	Levies	14,428
1,221	Payments to the Government Housing Capital Receipts Pool	817
(18,579)	(Gain) / Loss on the disposal of non-current assets	15,492
(3,575)	**Total**	**30,737**

12. Financing and Investment Income and Expenditure

2015/16 £000		2016/17 £000
7,710	Interest payable and similar charges	7,727
12,961	Pensions Net interest on the net defined benefit liability (asset)	13,096
(2,051)	Interest receivable and similar income	(1,864)
(2,701)	Income and expenditure in relation to investment properties	(2,768)
(3,737)	Changes in the fair value of investment properties	(808)
(22)	Other investment income	(36)
12,160	**Total**	**15,347**

13. Taxation and Non Specific Grant Income

2015/16 £000		2016/17 £000
(104,851)	Council tax income	(110,162)
(29,247)	National non-domestic rates income	(22,530)
(44,300)	Non ring-fenced government grants	(45,704)
(33,372)	Capital grants and contributions	(36,547)
(211,770)	**Total**	**(214,943)**

14. Property, Plant and Equipment

Movements in Balances 2016/17

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
Gross Book Value	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 31 March 2016	**488,301**	**365,416**	**40,009**	**152,696**	**3,260**	**10,280**	**1,059,962**
Additions	17,251	12,456	2,482	11,060	684	22,802	**66,735**
Revaluation increases/(decreases) to:							
Revaluation Reserve	(1,438)	13,469	-	-	8	-	**12,039**
Revaluation gains to the CI&ES	1,682	(4,873)	-	-		-	**(3,191)**
De-recognition – disposals	(7,374)	(23,456)	-	-		(838)	**(31,668)**
De-recognition – other	-	-	-	-	-	-	**-**
Reclassification & Transfers	-	3,524	-	479	190	(4,193)	**-**
At 31 March 2017	**498,422**	**366,536**	**42,491**	**164,235**	**4,142**	**28,051**	**1,103,877**
Accumulated Depreciation and Impairment							
At 31 March 2016	**-**	**1,803**	**32,712**	**62,406**	**375**	**-**	**97,296**
Depreciation charge	8,263	6,474	2,555	6,301	58	-	**23,651**
Depreciation written out upon Revaluation:							
Revaluation Reserve	(1,390)	(5,684)	-	-	(36)	-	**(7,110)**
CI&ES	(6,873)	(512)	-	-	-	-	**(7,385)**
De-recognition – disposals	-	(127)	-	-	-	-	**(127)**
Reclassifications	-	-	-	-	-	-	**-**
At 31 March 2017	**-**	**1,954**	**35,267**	**68,707**	**397**	**-**	**106,325**
Net book value at 31 March 2017	**498,422**	**364,582**	**7,224**	**95,528**	**3,745**	**28,051**	**997,552**
Net book value at 31 March 2016	**488,301**	**363,613**	**7,297**	**90,290**	**2,885**	**10,280**	**962,666**

Movements in Balances 2015/16

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
Gross Book Value	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 31 March 2015	**387,197**	**309,120**	**38,714**	**140,739**	**4,245**	**6,804**	**886,819**
Adjustments		(31)	1	1	(3)		**(32)**
Reclassifications	-	6,783	-	-	(982)	(3,187)	**2,614**
Additions	20,557	16,288	1,294	11,956	-	6,663	**56,758**
Revaluation increases/(decreases) to:							
Revaluation Reserve	105,250	43,285	-	-	-	-	**148,535**
Revaluation gains to the CI&ES	-	3,183	-	-	-	-	**3,183**
De-recognition – disposals	(4,146)	(9,484)	-	-	-	-	**(13,630)**
De-recognition – other	(20,557)	(3,728)	-	-	-	-	**(24,285)**
At 31 March 2016	**488,301**	**365,416**	**40,009**	**152,696**	**3,260**	**10,280**	**1,059,962**
Accumulated Depreciation and Impairment							
At 31 March 2015	**6,572**	**20,650**	**30,415**	**56,406**	**326**	**-**	**114,369**
Adjustments to opening balance		(34)	1	1	(3)		**(35)**
Reclassifications	-	(15)	-	-	(6)	-	**(21)**
Depreciation charge	6,423	6,307	2,296	5,999	58	-	**21,083**
Depreciation written out upon Revaluation:							
Revaluation Reserve	(8,008)	(12,202)	-	-	-	-	**(20,210)**
CI&ES	(4,987)	(12,482)	-	-	-	-	**(17,469)**
De-recognition – disposals	-	(421)	-	-	-	-	**(421)**
At 31 March 2016	**-**	**1,803**	**32,712**	**62,406**	**375**	**-**	**97,296**
Net book value at 31 March 2016	**488,301**	**363,613**	**7,297**	**90,290**	**2,885**	**10,280**	**962,666**
Net book value at 31 March 2015	**380,625**	**288,470**	**8,299**	**84,333**	**3,919**	**6,804**	**772,450**

Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in 2017/18.

31 March 2016 £000		31 March 2017 £000
	General Fund	
15,565	Arts, culture, sport and leisure	9,519
570	Roads, footways and bridges	3,318
30,049	Education capital schemes	28,614
2,029	Town centre and environmental Improvements	4,007
2,394	Office accommodation, equipment, ICT and vehicles	2,598
817	Other smaller General Fund schemes	1,769
51,424	**Total General Fund commitments**	**49,825**
19,273	Housing HRA	26,509
70,697	**Total commitments**	**76,334**

Revaluations

The following statement shows the progress of the Authority's rolling programme for the revaluation of fixed assets. The valuations are certified by G.K. Green, FRICS, the Authority's Property Strategy Manager, in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Assets Valuation Standards Committee of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies. Valuations are carried out by our external valuers, Wilks Head and Eve, and by the Authority's Property Strategy Manager on the basis of a five year rolling programme; the most recent of which was carried out on 31 March 2017.

	Council Dwellings £000	**Other Land and Buildings £000**	**Vehicles, Plant, Furniture and Equipment £000**	**Infrastructure Assets £000**	**Community Assets £000**	**Assets Under Construction £000**	**Total Property, Plant and Equipment £000**
Carried at historical cost	-	-	7,224	95,528	3,004	28,051	**133,807**
Valued at fair value as at:							
31 March 2017	498,422	315,897			701		**815,020**
31 March 2016		17,425	-	-	-	-	**17,425**

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
31 March 2015	-	18,577	-	-	40	-	**18,617**
31 March 2014	-	4,915	-	-	-	-	**4,915**
31 March 2013	-	7,768	-	-	-	-	**7,768**
Total cost or valuation	**498,422**	**364,582**	**7,224**	**95,528**	**3,745**	**28,051**	**997,552**

15. Heritage Assets

Carrying value of heritage assets held by the Authority:

Cost or Valuation	Civic Regalia £000	Heritage Buildings £000	Total Assets £000
31 March 2015	**80**	**25**	**105**
Depreciation	-	-	-
31 March 2016	**80**	**25**	**105**
Depreciation	-	(1)	(1)
31 March 2017	**80**	**24**	**104**

16. Investment Properties

a) 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.

2015/16 £000		2016/17 £000
2,966	Rental income from investment property	3,019
(264)	Direct operating expenses arising from investment property	(251)
2,702	**Net gain**	**2,768**

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct, develop, repair, maintain or enhance investment property.

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

2015/16 £000		2016/17 £000
37,581	**Opening Balance**	**38,596**
3,737	Revaluation gains from fair value adjustments	808
-	Additions	-
(2,722)	Assets reclassified	-
-	Disposal of investment properties	-
38,596	**Balance at end of the year**	**39,404**

Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy as at 31 March 2017 and 2016 are as follows:

Recurring fair value measurements using:	**Quoted prices in active markets for identical assets (Level 1)** £000	**Other significant observable inputs (Level 2)** £000	**Significant unobservable inputs (Level 3)** £000	**Fair value as at 31 March 2017** £000
Office units	-	4,385	-	4,385
Commercial units	-	35,019	-	35,019
Total	**-**	**39,404**	**-**	**39,404**

2016 Comparative Figures

Recurring fair value measurements using:	**Quoted prices in active markets for identical assets (Level 1)** £000	**Other significant observable inputs (Level 2)** £000	**Significant unobservable inputs (Level 3)** £000	**Fair value as at 31 March 2017** £000
Office units	-	3,918	-	3,918
Commercial units	-	34,678	-	34,678
Total	**-**	**38,596**	**-**	**38,596**

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels during the year

Highest and Best Use of Investment Properties

In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use

Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

Valuation Process for Investment Properties

The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The authority's valuation experts work closely with property services and the capital strategy manager reporting directly to the chief financial officer on a regular basis regarding all valuation matters.

17. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets represent the value of purchased licences only.

The maximum life attributed to software assets is currently five years on the grounds that it is a reasonable estimate of the life of computer systems and is the life applied to computer hardware for depreciation purposes.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.575m charged to revenue in 2016/17 was charged to Central Support Services and then absorbed as an overhead across all the service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

2015/16 £000	Intangible fixed assets software and system development	2016/17 £000
13,685	Gross carrying amounts	14,637
(12,152)	Less accumulated amortisation	(13,224)
1,533	**Net carrying amount at start of year**	**1,413**
952	Additions – purchases	1,514
(1,072)	Less amortisation for the period	(574)
1,413	**Net carrying amount at end of year**	**2,353**
	Comprising:	
14,637	Gross carrying amounts	16,152
(13,224)	Less accumulated amortisation	(13,799)

18. Financial Instruments

(a) Financial Instruments - Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Authority.

The Authority's non-derivative financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board and commercial lenders
- short-term loans from other local authorities or public sector bodies
- overdraft with Natwest bank
- trade payables for goods and services received

Financial Assets

A financial asset is a right to future economic benefits controlled by the Authority that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Authority during the year are held under the following classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- cash in hand
- bank current and deposit accounts
- fixed term deposits and reverse repurchase agreements with banks and building societies
- loans to other local authorities
- trade receivables for goods and services delivered

Available for sale financial assets (those that are quoted in an active market) comprising:

- covered bonds issued by banks and building societies

(b) Financial Instruments - Balances

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

31 March 2016		Financial Liabilities	31 March 2017	
Long-Term £000	Short-Term £000		Long-Term £000	Short-Term £000
		Loans at amortised cost:		
		PWLB		
203,234	-	- Principal borrowed	203,234	-
-	439	- Accrued interest	-	393
		Market Loan		
7,000	-	- Principal borrowed	7,000	-
-	93	- Accrued interest	-	93
		Other Loans		
1,882	161	- Principal borrowed	1,339	2,511
	1	- Accrued interest		1
212,116	**694**	**Total borrowing ***	**211,573**	**2,998**
		Liabilities at amortised cost:		
		Trade payables		
306	31,771	- Trade Creditors	157	42,362
306	**31,771**	**Included in creditors ****	**157**	**42,362**
212,422	**32,465**	**Total financial liabilities**	**211,730**	**45,360**

* The total short-term borrowing includes £0.486m (2016: £0.532m) representing the short-term portion of long-term borrowing.

** The creditors lines on the Balance Sheet include £31.151m (2016: £29.275m) short-term and £1.045m (2016: £0.080m) long-term creditors that do not meet the definition of a financial liability. See note 22 for further information on short-term creditors; the long-term creditors consist of £1.045m for the Mayoral Community Infrastructure Levy for Crossrail.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

31 March 2016		**Fixed Assets**	**31 March 2017**	
Long-Term £000	Short-Term £000		Long-Term £000	Short-Term £000
		Loans and receivables:		
10,000	152,000	- Principal at amortised cost	40,000	122,000
-	399	- Accrued interest	-	593
10,000	**152,399**	**Total investments**	**40,000**	**122,593**
		Loans and receivables:		
-	12,550	- Cash (including bank accounts)	-	7,963
-	35,328	- Cash equivalents at amortised cost	-	29,521
-	7	- Accrued interest	-	9
		Available for sale investments		
-	5,596	- Cash equivalents at fair value	-	9,242
-	30	- Accrued interest	-	-
-	**53,511**	**Total cash and cash equivalents**	**-**	**46,735**
		Loans and receivables		
457	24,455	- Trade receivables	8,596	32,469
457	**24,455**	**Included in debtors**	**8,596**	**32,469**
10,457	**230,365**	**Total financial assets**	**48,596**	**201,797**

* The total short-term investments includes £0.593m representing the short-term portion of long-term investments.

** The debtors lines on the Balance Sheet include £18.281m (2015/16: £15.673m) short-term that do not meet the definition of a financial asset. See note 19 for further information.

(c) Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

	Financial Liabilities		Financial Assets				2016/17
	Amortised Cost	Fair Value though CI&ES	Loans and Receivables	Available for Sale Assets	Fair Value though CI&ES	Unquoted Equity at Cost	Total
	£000	£000	£000	£000	£000	£000	£000
Interest expense	7,727	-	-	-	-	-	7,727
Interest payable and similar charges	**7,727**	**-**	**-**	**-**	**-**	**-**	**7,727**
Interest income	-	-	(1,794)	(70)	-	-	(1,864)
Increases in fair value	-	-	-	(36)	-	-	(36)
Interest and investment income	**-**	**-**	**(1,794)**	**(106)**	**-**	**-**	**(1,900)**
Changes in value of investment properties	-	-	-	-	(808)	-	(808)
Income and expenditure relating to investment properties	-	-	-	-	(2,768)	-	(2,768)
Pensions Net Interest	-	13,096	-	-	-	-	13,096
Impact in Other Comprehensive Income	**-**	**13,096**	**-**	**-**	**(3,576)**	**-**	**9,520**
Net gain (loss) for the year	**7,727**	**13,096**	**(1,794)**	**(106)**	**(3,576)**	**-**	**15,347**

Gains and losses in 2015/16 were as follows:

	Financial Liabilities		Financial Assets				2015/16
	Amortised Cost	Fair Value though CI&ES	Loans and Receivables	Available for Sale Assets	Fair Value though CI&ES	Unquoted Equity at Cost	Total
	£000	£000	£000	£000	£000	£000	£000
Interest expense	7,710	-	-	-	-	-	7,710
Interest payable and similar charges	**7,710**	**-**	**-**	**-**	**-**	**-**	**7,710**
Interest income	-	-	(1,988)	(63)	-	-	(2,051)
Increases in fair value	-	-	-	(22)	-	-	(22)
Interest and investment income	**-**	**-**	**(1,988)**	**(85)**	**-**	**-**	**(2,073)**
Changes in value of investment properties	-	-	-	-	(3,737)	-	(3,737)
Income and expenditure relating to investment properties	-	-	-	-	(2,701)	-	(2,701)
Pensions Net Interest	-	12,961	-	-	-	-	12,961
Impact in Other Comprehensive Income	**-**	**12,961**	**-**	**-**	**(6,438)**	**-**	**6,523**
Net gain (loss) for the year	**7,710**	**12,961**	**(1,988)**	**(85)**	**(6,438)**	**-**	**12,160**

(d) Financial Instruments - Fair Values

Financial assets classified as available for use are carried in the Balance Sheet at fair value. For most assets, including bonds the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows as at 31 March 2017.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following methods and assumptions:

- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options;
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March;
- No early repayment or impairment is recognised for any financial instrument;
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices;
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments;
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness;

31 March 2016			**Fair Value Level**	**31 March 2017**	
Balance Sheet £000	**Fair Value £000**			**Balance Sheet £000**	**Fair Value £000**
		Financial liabilities held at amortised cost:			
203,234	265,928	- Long-term loans from PWLB	2	203,234	260,017
7,000	10,238	- Long-term LOBO loans	2	7,000	11,790
1,882	1,881	- Other long-term loans	2	1,339	1,339
162	162	- Other Short-term loans	2	2,511	2,511
532	532	- Accrued interest		487	487
212,810	**278,741**	**Total**		**214,571**	**276,144**
32,077	32,077	Liabilities for which fair value is not disclosed *		42,519	42,519
244,887	**310,818**	**Total Financial Liabilities**		**257,090**	**318,663**

31 March 2016			Fair Value Level	31 March 2017	
Balance Sheet £000	Fair Value £000			Balance Sheet £000	Fair Value £000
		Recorded on balance sheet as:			
31,771	31,771	- Short-term creditors		42,362	42,362
694	694	- Short-term borrowing		2,998	2,998
306	306	- Long-term creditors		157	157
212,116	278,047	- Long-term borrowing		211,573	273,146
244,887	**310,818**	**Total Financial Liabilities**		**257,090**	**318,663**

The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the Authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

31 March 2016			Fair Value Level	31 March 2017	
Balance Sheet £000	Fair Value £000			Balance Sheet £000	Fair Value £000
		Financial assets held at amortised cost:			
10,000	10,105	- Long-term loans to local authorities	2	40,000	40,921
152,000	151,543	- Short-term bank deposits	2	122,000	122,634
399	399	- Accrued interest	2	593	593
		Loans & Receivables			
47,878	47,878	- Cash equivalents at amortised cost	2	37,475	37,475
7	7	- Accrued interest	2	9	9
		Available for Sale investments			
5,596	5,596	- Covered Bond	2	9,251	9,251
-	-	- Equity Shares – Mercury Land holdings	2	8,615	8,615
30	30	- Accrued interest	2	-	-
215,910	**215,558**	**Total**		**217,943**	**219,498**
24,912	24,912	Assets for which fair value is not disclosed *		41,065	41,065
240,822	**240,470**	**Total Financial Assets**		**259,008**	**260,563**
		Recorded on balance sheet as:			
457	457	- Long-term debtors		8,596	8,596
10,000	10,105	- Long-term investments		48,615	49,536
24,455	24,455	- Short-term debtors		32,469	32,469
152,399	151,942	- Short-term investments		122,593	123,227
53,511	53,511	- Cash and cash equivalents		46,735	46,735
240,822	**240,470**	**Total Financial Assets**		**259,008**	**260,563**

The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

Equity shares with no quoted market prices are valued at cost

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

(e) Financial Instruments - Risks

The Authority has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the Authority approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Authority also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Authority's Treasury Management Strategy and its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

- *Credit Risk:* The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Authority.
- *Liquidity Risk:* The possibility that the Authority might not have the cash available to make contracted payments on time.
- *Market Risk:* The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

Credit Risk: Investments

The Authority manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Authority has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Authority has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of 10% of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). The Authority also sets limits on investments in certain sectors.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £122m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise.

The credit quality of £8.8m of the Authority's investments is enhanced by collateral held in the form of covered bonds collateralised by UK residential mortgages Floating Rate Notes. The collateral significantly reduces the likelihood of the Authority suffering a credit loss on these investments.

The table below summarises the credit risk exposures of the Authority's investment portfolio by credit rating:

31 March 2016		Credit Rating	31 March 2017	
Long-term	**Short-term**		**Long-term**	**Short-term**
£000	**£000**		**£000**	**£000**
-	-	AAA	-	-
-	-	AA+	-	-
-	-	AA	-	-
-	51,000	AA-	-	67,000
-	20,000	A+	-	13,000
-	48,000	A	-	20,000
-	2,000	A-	-	0
10,000	31,000	Unrated local authorities	40,000	22,000
10,000	**152,000**	**Total Investments**	**40,000**	**122,000**

Credit Risk: Receivables

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 Authority 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 Authority;
- revenue from the provision of services is recognised when the Authority 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 Authority;
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. The de minimis for 2016/17 is £50,000.

The Authority's credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

The following analysis summarises the Authority's potential maximum exposure credit risk, based on the experience gathered over the last five financial years on the level of default on trade debtors, adjusted for current market conditions. Only those receivables meeting the definition of a financial asset are included.

Credit risk exposure 31 March 2015 £000		Gross balance of debtors £000	Average % default based on past experience %	Average % default based on current experience %	Credit risk exposure 31 March 2015 £000
-	Capital	6,929	-	-	-
4,056	Housing	6,463	69	69	4,428
1,043	Social Services	6,382	17	15	984
1,468	Parking	3,371	72	70	2,367
-	Other local authorities	299	-	-	-
-	Health authorities	644	-	-	-
2,024	Other sundry debtors	17,097	15	12	2,037
8,591	**Total**	**41,185**	**26**	**24**	**9,816**

Liquidity Risk

The Authority has ready access to borrowings from the Public Works Loan Board, other local authorities, banks and corporates There is no perceived significant risk that the Authority will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourable interest rates.

The maturity analysis of the principal sums borrowed is as follows:

31 March 2016 £000	Time to maturity (years)	31 March 2017 £000
161	Not over 1	2,511
-	Over 1 but not over 2	
1,883	Over 2 but not over 5	2,449
2,089	Over 5 but not over 10	20,554
136,912	Over 10 but not over 20	118,611
30,000	Over 20 but not over 30	30,000
11,642	Over 30 but not over 40	21,308
22,591	Over 40	11,651
7,000	Uncertain date	7,000
212,278	**Total**	**214,084**

* The Authority has £7m of “Lender’s option, borrower’s option” (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Authority will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Authority is likely repay these loans. The maturity date is therefore uncertain.

Market Risks: Interest Rate Risk

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

- borrowings at variable rates – the interest expense will rise

- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in other comprehensive income and expenditure.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	2016/17 £000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	1
Impact on comprehensive income and expenditure	**1**
Decrease in fair value of loans and receivables *	(1,491)
Decrease in fair value of fixed rate borrowing liabilities	(35,994)

* No impact on comprehensive income and expenditure. The Authority has no investments in call accounts with falling interest rates at 31 March 2017.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

19. Debtors

Short-Term Debtors

31 March 2016 £000			31 March 2017 £000	31 March 2017 £000		
Gross	**Impairment Allowance**	**Net**		**Gross**	**Impairment Allowance**	**Net**
			Collection Fund Debtors			
14,606	(7,425)	* 7,181	Council tax payers	14,603	(6,958)	* 7,645
1,135	(621)	* 514	Business rate Payers	734	(545)	* 189
			Other Debtors			
3,722	-	* 3,722	Government departments	5,941	-	* 5,941
4,980	-	4,980	Capital	6,929	-	6,929
5,871	(4,056)	1,815	Housing	6,463	(4,428)	2,035
11,389	(7,133)	* 4,256	Housing benefit	11,192	(6,686)	* 4,506
6,256	(1,043)	5,213	Social Services	6,382	(984)	5,398
2,035	(1,468)	567	Parking Enforcement	3,371	(2,367)	1,004
367	-	367	Other local authorities	299	-	299
282	-	282	Health authorities	644	-	644
-	-	-	Mercury Land Holdings	1,100	-	1,100
13,255	(2,024)	11,231	Other sundry debtors	17,097	(2,037)	15,060
63,898	**(23,770)**	**40,128**	**Total short-term debtors**	**74,755**	**(24,005)**	**50,750**

* These debtors are not included in Note 18(b), Financial Instruments (balances), as they do not meet the definition of a financial asset.

Government departments, capital, and other local authorities do not have an impairment allowance applied.

Long-Term Debtors

31 March 2016 £000		31 March 2017 £000
-	Mercury Land Holdings	8,184
457	Other	412
457	**Total cash and cash equivalents**	**8,596**

20. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2016 £000		31 March 2017 £000
4,510	Bank current accounts	2,379
35,335	Short-term deposits with banks – call accounts	29,521
5,626	Available for Sale Investments	9,250
8,040	Schools – under the LMS cheque book scheme	5,585
53,511	**Total cash and cash equivalents**	**46,735**

21. Assets Held for Sale

The following table summarises the movement in the fair value of assets held for sale over the year.

2015/16 £000		2016/17 £000
1,508	**Opening Balance**	**3,833**
2,239	Revaluation gains from fair value adjustments	-
86	Assets reclassified	-
3,833	**Balance at end of the year**	**3,833**

22. Short-Term Creditors

31 March 2016 £000		31 March 2017 £000
	Collection Fund creditors	
* 5,829	Council tax payers	* 6,438
* 817	NNDR payers	* 1,114
* 1,341	GLA	* 2,277
* 1,751	Central Government (NNDR)	* 5,165
	Other Creditors	
* 2,250	Central Government	* 3,335
* 4,692	HMRC	-
* 12,595	Pension Fund	* 12,822
2,212	Capital creditors	3,585
25,233	Other sundry creditors	32,934
4,326	Income in advance	5,843
61,046	**Total**	**73,513**

* These creditors are not included in Note 18(b), Financial Instruments (balances), as they do not meet the definition of a financial asset.

23. Provisions

	Self-Insurance £000	Collection Fund £,000	Other Provisions £000	Total £000
Balance at 31 March 2016	**2,812**	**2,269**	**5**	**5,086**
Additional provisions made in year	1,675	-	250	**1,925**
Amounts used in year	(633)	(85)	-	**(718)**
Transfers to revenue	-	(160)	-	**(160)**
Balance at 31 March 2017	**3,854**	**2,024**	**255**	**6,133**

Self-Insurance Provision

The Authority’s insurance cover is arranged with Zurich Municipal with substantial excesses for which a self-insurance provision is maintained. The self-insurance provision has been set up to meet the excesses on the Authority’s public and employer’s liability, property and motor vehicle insurance policies. It is not possible to determine the precise timing of the settlement of claims relating to this provision. The excess levels at 1 January 2017 were public and employer's liability (£168,900.00), motor vehicles (£162,764) and property (£50,000).

The Authority's insurers have advised the level of provision required to meet known claims and a transfer from the Insurance Reserve has been made to meet the potential cost of these claims.

Collection Fund Provision

As part of the changes in business rate retention, the Authority is required to create a provision in respect of outstanding appeals. These appeals are currently with the Valuation Office Agency for review and, as a result, it is not possible to determine the precise timing of the settlement of claims relating to this provision. Only the Authority's share of the appeals is recorded within the note.

Other Provisions

The remaining provisions allow for £5,000 (£5,000 31 March 2016) to fund pay equalisation responsibilities for staff formerly based at Purfleet Depot, and for £250,000 (nil at 31 March 2016) to fund the remaining balance of a fine of £500,000 imposed by Southwark Crown Court on the London borough of Havering in respect of HSE Breaches, payable by 1st May 2018.

24. Usable Reserves

31 March 2016 £000		31 March 2017 £000
11,766	General Fund balance	11,766
66,279	Earmarked reserves	63,157
7,155	Housing Revenue Account balance	2,830
23,784	Capital Grants Unapplied	35,299
73,274	Capital Receipts Reserve	62,171
24,571	Major Repairs Reserve	33,533
206,829	**Total usable reserves**	**208,756**

25. Unusable Reserves

31 March 2016 £000		31 March 2017 £000
344,798	Revaluation Reserve	346,712
22	Financial Instruments Available for Sale Reserve	58
426,133	Capital Adjustment Account	462,256
(918)	Financial Instruments Adjustment Account	(823)
(388,109)	Pensions Reserve	(487,970)
344	Deferred Capital Receipts Reserve	289
2,188	Collection Fund Adjustment Account	2,087
(3,008)	Accumulated Absences Account	(4,541)
381,450	**Total unusable reserves**	**318,068**

a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. 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.

31 March 2016 £000		31 March 2017 £000
192,301	**Balance at 1 April**	**344,798**
170,984	Net gain on revaluation of fixed assets	19,150
(4,079)	Excess of Fair Value Depreciation over Historical cost depreciation	(6,305)
(6,327)	Removal of Revaluation balance upon sale	(10,931)
(8,081)	Other Adjustments	-
344,798	**Balance at 31 March**	**346,712**

b) Financial Instruments Available for Sale Reserve

This reserve is used for the accounting entries for a covered bond and Floating Rate Notes that were purchased in 2015/16 and 2016/17 respectively which were valued on the balance sheet at fair value with the difference in 2016/17 of £58,000 (£22,000 for 2015/16) being credited to the Comprehensive Income and Expenditure Statement. This sum is subsequently transferred through the movement in reserves statement and recorded in the Financial Instruments Available for Sale Reserve in accordance with statutory requirements.

c) 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 Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. 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.

Note 9 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2015/16 £000		**2016/17 £000**
383,766	**Balance at 1 April**	**426,133**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(21,083)	Net charges for depreciation of non-current assets	(23,652)
20,653	Net charges for impairment of non-current assets	4,194
(24,285)	Net charges for de-recognition of non-current assets	-
136	Mitigation of PPP Capitalised	143
(1,072)	Amortisation of intangible assets	(574)
(13,209)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(31,542)
	Adjusting amounts written out of the Revaluation Reserve	
4,079	Depreciation	6,305
6,327	Asset Disposal	10,931
8,081	Other	-
(20,373)	**Net written out amount of the cost of non-current assets consumed in the year**	**(34,195)**

2015/16 £000		2016/17 £000
	Capital financing applied in the year:	
12,614	Use of the Capital Receipts Reserve to finance new capital expenditure	26,014
20	Use of the Major Repairs Reserve to finance new capital expenditure	-
24,900	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	25,032
1,293	Statutory provision for the repayment of debt	1,259
21,928	Capital expenditure charged against the General Fund and HRA balances	20,462
60,755	**Capital financing applied in year**	**72,767**
(1,752)	**Revenue expenditure funded from capital under statute**	**(3,257)**
3,737	**Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement**	**808**
426,133	**Balance at 31 March**	**462,256**

d) 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 Authority 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 Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

2015/16 £000		2016/17 £000
(1,015)	**Balance at 1 April**	(918)
97	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	95
(918)	**Balance at 31 March**	**(823)**

e) 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 Authority 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 Authority 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 Authority 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.

2015/16 £000		2016/17 £000
(421,209)	**Balance at 1 April**	**(388,109)**
39,879	Actuarial gains or (losses) on pensions assets and liabilities	(91,224)
(35,707)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(34,556)
28,928	Employer's pensions contributions and direct payments to pensioners payable in the year	25,919
(388,109)	**Balance at 31 March**	**(487,970)**

f) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2015/16 £000		2016/17 £000
462	**Balance at 1 April**	**344**
(118)	Transfer to the Capital Receipts Reserve upon receipt of cash	(55)
344	**Balance at 31 March**	**289**

g) Collection Fund Adjustment Account

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

2015/16 £000		2016/17 £000
3,490	**Balance at 1 April**	**2,188**
(1,302)	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(101)
2,188	**Balance at 31 March**	**2,087**

h) Accumulated Absences Account

The Accumulated Absences 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.

2015/16 £000		2016/17 £000
(3,816)	**Balance at 1 April**	**(3,008)**
3,816	Settlement or cancellation of accrual made at the end of the preceding year	3,008
(3,008)	Amounts accrued at the end of the current year	(4,541)
808	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,533)
(3,008)	**Balance at 31 March**	**(4,541)**

26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2015/16 £000		2016/17 £000
24,715	Depreciation, impairment and downward revaluation	19,458
1,072	Amortisation	574
(2,578)	(Increase) / decrease in creditors	7,315
(129)	Decrease in long-term creditors	816
14	Increase / (decrease) in debtors	(8,673)
150	Decrease in long-term debtors	(8,139)
(40)	(Decrease) / increase in inventories	31
6,779	Movement in pension liability	8,637
(527)	Decrease in provisions	1,047
13,209	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	31,542
(1,992)	Other non-cash items charged to the net surplus or deficit on the provision of services	2,448
40,673	**Net cash flows from operating activities**	**(55,056)**

Adjustment for items included in the net surplus or deficit on the provisions of services that are investing and financing activities:

2015/16 £000		2016/17 £000
(33,372)	Capital grants credited to the Consolidated Income and Expenditure Statement	(36,547)
(31,788)	Proceeds from sale of fixed assets	(655)
(65,160)	**Adjustment for items included in the net surplus or deficit on the provisions of services that are investing and financing activities**	**(37,202)**

27. Cash Flow Statement – Investing Activities

2015/16 £000		2016/17 £000
(59,462)	Purchase of property, plant and equipment, investment property and intangible assets	(71,507)
(379,399)	Purchase of short-term and long-term investments	(483,621)
31,788	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	655
40,256	Capital grants received	37,498
361,500	Proceeds from short-term and long-term investments	474,812
(236)	Other receipts from investing activities	5,152
(5,553)	**Net cash flows from investing activities**	**(37,011)**

28. Cash Flow Statement – Financing Activities

2015/16 £000		2016/17 £000
40,251	Cash receipts of short-term and long-term borrowing	49,974
(39,122)	Repayments of short-term and long-term borrowing	(48,213)
1,129	**Net cash flows from financing activities**	**1,761**

29. Trading Operations

2015/16 (Surplus)/ Deficit £000		2016/17 Income £000	2016/17 Expenditure £000	2016/17 (Surplus)/ Deficit £000
	a) Open Air Market			
252	The Authority operates an open air market three days a week	(436)	689	253
	b) Other Trading Accounts			
(685)	Highways	(4,243)	3,904	(339)
204	Schools/Welfare Catering	(6,905)	6,579	(326)

The Market trading results remained at virtually the same level in 2016-17.

Highways – The reduction in trading surplus was due to:

(1) The service absorbing inflation related to running cost whilst charge out rates remained the same as 2015/16.

(2) Increased agency staff cost and vehicle hire fees associated with a sub-contractor ceasing trading.

Catering - The Service has a £593,000 surplus before overheads in 2016-17, the surplus once overheads are applied is £326,000. Income reduced by £298,000 and expenditure (excluding RCCO) by £349,000 mostly due to the cessation of Meals on Wheels Service, resulting in a net increase in trading surplus of £20,000. This surplus is attributable to continued improvements in Business processes. The surplus would have been higher, but considerable investment has been made to retain current contracts by the upgrade of non-capital items in kitchens. The overheads decreased in 16-17 by £509,000 to £267,000 due to inter-year anomalies with calculation of recharges.

30. Pooled Budgets

Mental Health

Under the National Health Services Act 2006 & Local Government Acts 1972 & 2000, a partnership arrangement was established with the North East London Foundation Trust (NELFT). The agreement provides for The London Borough of Havering (LBH) to host a pooled budget between the two partners (although NELFT became the host partner from January 2011). This includes integrated services and joint commissioning in relation to the provision of Health & Social Care Services, for Adults with Mental Health (MH) issues who qualify for such provision.

2015/16 £000		**2016/17 £000**
	Funding	
1,668	Section 75 Joint Pooled Budget between London Borough of Havering and North East London Foundation Trust	1,369
528	Recharges (excluded from the Pooled Budget)	120
1,207	Non Pooled Budget codes	1,460
3,403	**Total funding**	**2,949**
3,462	**Final outturn**	**2,867**

Adult Services – Better Care Fund

Under the National Health Services Act 2006 section 13Z (2) and 14Z (3) & Local Government Acts 1972 & 2000, a partnership arrangement was established with NHS Havering Clinical Commissioning Group (CCG).

The agreement provides for The London Borough of Havering (LBH) to host a pooled budget between the two partners, out of which payment was made towards expenditure incurred in the exercise of prescribed local authority functions and prescribed NHS functions through joint commissioning arrangements

The agreed Pooled budget between LBH and the CCG is split into three main parts which are activities relating to Capital, Commissioned services and items charged with LBH revenue.

Expenditure in 2016/17 was as follows:

Section 75 Joint Pooled Budget between LBH and CCG	**Budget 2016/17 £000**	**Actual 2016/17 £000**	**BCF Funding Outturn 16-17 £000**
LBH Funding - Capital			
Disability Facility Grant Allocation	1,426	1,393	-33
Net Pooled Capital	**1,426**	**1,393**	**-33**
LBH Funding Revenue - CCG Commissioned Services			
Minimum CCG Contribution - Expenditure	**10,020**	**10,020**	**-**
Revenue - CCG/ LBH			
Minimum CCG Contribution - Expenditure	**7,173**	**7,173**	**-**
CCG Minimum contribution representing ex256 monies	*4,689*		
CCG minimum contribution element for services commissioned on behalf of CCG - Reablement	*850*		
CCG minimum contribution element for services commissioned on behalf of CCG - Riverside	*172*		
CCG contribution to Care Act	*621*		
LBH Additional Contribution	*841*		
Net Pooled Revenue	**17,193**	**17,193**	**-**
Total Pooled	**18,619**	**18,586**	**-33**

Underspend on capital has been carried forward into the following financial year (2017/18).

Comparative figures for 2015/16 are as follows:

Section 75 Joint Pooled Budget between LBH and CCG	**Budget 2016/17 £000**	**Actual 2016/17 £000**	**BCF Funding Outturn 16-17 £000**
LBH Funding - Capital			
Disability Facility Grant Allocation	1,389	1,389	-
Net Pooled Capital	**1,389**	**1,389**	**-**
LBH Funding Revenue - CCG Commissioned Services			
Minimum CCG Contribution - Expenditure	**10,017**	**10,017**	**-**
Revenue - CCG/ LBH			
Minimum CCG Contribution - Expenditure	**7,508**	**7,508**	**-**
CCG Minimum contribution representing ex256 monies	*4,609*		
CCG minimum contribution element for services commissioned on behalf of CCG - Reablement	*850*		
CCG minimum contribution element for services commissioned on behalf of CCG - Riverside	*590*		
CCG contribution to Care Act	*609*		
LBH Additional Contribution	*850*		
Net Pooled Revenue	**17,525**	**17,193**	**-**
Total Pooled	**18,914**	**18,914**	**-**

31. Members' Allowances

Payments in year were £994,128 including expenses (£982,553 in 2015/16). Additionally, payments to co-opted members totalled £3,439 (£2,058 in 2015/16).

32. Officers' Remuneration

The number of employees (including teaching staff) whose remuneration, excluding employer pension contributions, was £50,000 or more, in bands of £5,000 was:

			2016/17			2015/16		
Lower Band		Upper Band	Schools	Other	**Total**	Schools	Other	**Total**
£50,000	-	£55,000	47	32	**79**	53	27	**80**
£55,000	-	£60,000	22	19	**41**	22	24	**46**
£60,000	-	£65,000	18	12	**30**	15	8	**23**
£65,000	-	£70,000	20	13	**43**	27	14	**41**
£70,000	-	£75,000	14	6	**20**	12	6	**18**
£75,000	-	£80,000	3	6	**9**	4	1	**5**
£80,000	-	£85,000	4	5	**9**	3	4	**7**
£85,000	-	£90,000	4	1	**5**	3	4	**7**
£90,000	-	£95,000	2	1	**3**	2	3	**5**
£95,000	-	£100,000	-	-	**-**	1	1	**2**
£100,000	-	£105,000	-	2	**2**	-	5	**5**
£105,000	-	£110,000	-	2	**2**	-	-	**-**
£110,000	-	£115,000	-	3	**3**	1	1	**2**
£115,000	-	£120,000	-	1	**1**	-	-	**-**
£120,000	-	£125,000	-	-	**-**	-	-	**-**
£125,000	-	£130,000	-	2	**2**	-	-	**-**
£130,000	-	£135,000	-	-	**-**	-	1	**1**
£135,000	-	£140,000	-	-	**-**	-	-	**-**
£140,000	-	£145,000	-	1	**1**	-	1	**1**
£145,000	-	£150,000	-	-	**-**	-	-	**-**
£150,000	-	£155,000	-	1	**1**	-	-	**-**
			134	**109**	**241**	**143**	**100**	**243**

The table includes staff for whom additional disclosures are required, as set out below (Senior Officers Remuneration).

Senior Officers Remuneration

The following table sets out the remuneration disclosures for Senior Officers whose salaries are more than £50,000 per annum in accordance with regulation 7 of the Accounts and Audit (England) Regulations 2011. Under the revised regulations, the definitions of Senior Officers which are relevant to the Authority are:

a) the designated head of paid service, a statutory chief officer or non-statutory chief officer of a relevant body as defined under the Local Government Act 1989; or

b) any person having responsibility for the management of the relevant body, to the extent that the person has the power to direct or control the major activities of the body, in particular activities involving the expenditure of money whether solely or collectively with other persons.

This has been determined to mean the Authority's Chief Executive and Corporate Leadership Team.

The relevant proportion of the Authority's contribution to the Local Government Pension Scheme which can be related to the Senior Officer is included in the table as required by the regulations.

Post Holder Information	**Notes**	**Salary** £	**Other payments** £	**Total Remuneration excluding pension contributions 2016/17** £	**Employer's pension contribution** £	**Total Remuneration including pension contributions 2016/17** £
Chief Executive – Andrew Blake-Herbert	1	144,877	8,348	**153,225**	31,873	**185,098**
Chief Executive – Cheryl Coppell	1	18,012		**18,012**		**18,012**
Group Director of Communities and Resources	2	17,685		**17,685**	3,891	**21,576**
Group Director of Childrens, Adults and Housing	2					
Statutory Section 151 Officer	3	-	-	**-**	-	**-**
Chief Operating Officer	4	-	-	**-**	-	**-**
Director of Neighbourhoods	5	43,767	-	**43,767**	9,629	**53,396**
Director of children's Service	6	21,884	-	**21,884**	4,814	**26,698**
Director Adult Social Care and Health	7	71,836	-	**71,836**	15,804	**87,640**
Director of Public Health	8	-	-	**-**	-	
Deputy Director of Legal and Governance	9	65,041		**65,041**	**14,309**	**79,350**
Total		**383,102**	**8,348**	**391,450**	**80,320**	**471,770**

Note 1 On the 19 of May 2016 the Chief Executive (Andrew Blake-Herbert) was appointed to the Chief Executive Position replacing Cheryl Coppell; his full time equivalent salary being between £165,561 and £170,000 excluding on costs.

In his role as counting Officer, the Chief Executive received a sum of £8,348 for the European Union referendum

Note 2 In May 2016, a restructure of the Corporate Leadership Team took place. The role of Group Director of Resources and Group Director of Children, Adults and Children's was removed. During a transition period to November 2016 the Group Director of Childrens, Adults and Housing was covered by interim resources at a cost of £73,449 including agency fees.

Note 3 The Statutory Section 151 officer was covered by interim resources from November 2016 to 31 March 2017 at a cost of £56,060 including agency costs

Note 4 The Chief Operating Officer was covered by interim resources at a cost of £207,127 including agency costs from June 2016 to 31 March 2017. The salary range for the established post would have been between £114,888 and £131,301 excluding on costs.

Note 5 The Director of Neighbourhoods started his position on the 1st of December 2016. The annual salary for the position is £131,301 excluding on costs. Prior to this, the post was covered by interim resources from April to 30 November 2016 at a cost of £130,400 including agency fees.

Note 6 The Director of Children's Services was appointed on the 1st February 2017. The annual equivalent for the position is £131,301 excluding on costs.

Note 7 The Director of Adult Social Care and Health was appointed on the 1st September 2016. The annual equivalent salary is £131,301 excluding on costs.

Note 8 The Director of Public Health position was covered by interim resources during the year at a cost of £257,400 including agency fees. The annual equivalent salary range would have £142,251 excluding on costs.

Note 9 The Deputy Director of Legal and Governance commenced employment on the 26th of June 2016. The full time equivalent is £85,455 excluding on costs.

The comparative figures for 2015/16 are as follows:

Post Holder Information	Notes	Salary £	Other payments £	Total Remuneration excluding pension contributions 2015/16 £	Employer's pension contribution £	Total Remuneration including pension contributions 2015/16 £
Chief Executive – C Coppell	1	88,517	7,363	**95,880**	-	**95,880**
Group Director of Communities and Resources	2	28,315	-	**28,315**	4,417	**32,732**
Deputy Chief Executive – Communities and Resources	2	112,315	-	**112,315**	17,521	**129,836**
Group Director of Children, Adults and Housing – J Hollister	3	54,462	-	**54,462**	8,496	**62,958**
Total		**283,609**	**7,363**	**290,972**	**30,434**	**321,406**

Note 1 During 2015/16 the Chief Executive (Cheryl Coppell) was employed on a contract of three days per week by the Authority; her full time equivalent salary being £165,000.

In her role as the Acting Returning Officer, the Chief Executive received a sum of £7,363 for the Parliamentary Elections in 2015.

Note 2 The Group Director of Communities and Resources (FTE Salary being £138,000) was appointed to the role of Deputy Chief Executive, Communities and Resources on the 15 June 2015 (FTE Salary being £141,000).

Note 3 The Group Director of Children, Adults & Housing (Joy Hollister) left the Authority on the 9th August 2015. The full time equivalent salary for the role was £150,000. The post is being covered on an agency basis until the recruitment process has been completed.

33. External Audit Costs

The following fees relating to external audit and inspection were included in the 2016/17 accounts:

2015/16 £000		2016/17 £000
152	Fees payable with regard to external audit services carried out by appointed auditor	110
15	Certification of housing benefit subsidy claim	16
	Previous audits (PricewaterhouseCoopers)	
6	Main Audit	-
10	Teachers Pension return certification	-
(10)	Audit fees refunded by the Audit Commission	-
173	**Total for year**	**126**

34. Dedicated Schools Grant

The Authority's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2016/17 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	**Individual Schools Budget £000**	**Totals £000**
Final DSG for 2016/17 before academy recoupment			199,173
Less academy figure recouped for 2016/17			(79,675)
Total DSG after academy recoupment for 2016/17			**119,498**
Plus: brought forward from 2015/16			2,124
Agreed initial budgeted distribution for 2016/17	**24,138**	**97,484**	**121,622**
In year adjustments	(4,117)	4,117	-
Final budgeted distribution for 2016/17	**20,021**	**101,601**	**121,622**
Actual central expenditure	(17,604)	-	(17,604)
Actual ISB deployed to schools		(101,601)	(101,601)
Carry forward to 2017/18	**2,417**	**-**	**2,417**

Comparative figures for 2015/16 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	**Individual Schools Budget £000**	**Totals £000**
Final DSG for 2015/16 before academy recoupment			195,984
Less academy figure recouped for 2015/16			(77,264)
Total DSG after academy recoupment for 2015/16			**118,720**
Plus: brought forward from 2014/15			1,664
Agreed initial budgeted distribution for 2015/16	**22,798**	**97,586**	**120,384**
In year adjustments	(1,502)	1,502	-
Final budgeted distribution for 2015/16	**21,296**	**99,088**	**120,384**
Actual central expenditure	(19,172)	-	(19,172)
Actual ISB deployed to schools	-	(99,088)	(99,088)
Carry forward to 2016/17	**2,124**	**-**	**2,124**

35. Grant Income

a) The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17:

2015/16 £000		2016/17 £000
Credited to Taxation and Non Specific Grant Income		
30,443	Revenue Support Grant	20,890
9,384	Redistributed Business Rates	9,462
13,857	Non ring-fenced Grant	15,352
33,372	Capital Grants	36,547
87,056	**Total**	**82,251**
Credited to Services		
57,858	Rent Allowances	57,273
37,580	HRA Rent Rebates	37,072
10,402	Public Health Grant	11,508
118,811	Dedicated Schools Grant	119,818
1,953	Schools Funding Agency / Education Funding Agency	796
6,784	Pupil Premium Grant	6,757
2,427	Universal Free School Meals	2,964
504	Additional Funding For Schools –Primary School Sports Funding	489
2,947	Other	2,281
239,266	**Total**	**238,958**

<u>Current Liabilities</u>

b) Capital Grants – receipts in advance:

2015/16 £000		2016/17 £000
9,169	Brought forward	7,700
1,319	Amounts received in year	4,170
(2,788)	Amounts applied to meet new capital investment	(1,271)
7,700	**Carried forward**	**10,599**

36. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority 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 Authority.

Members

Members of The Authority have direct control over its financial and operating policies. The total of Members' allowances paid in 2016-17 is shown in Note 31.

The table below shows the Related Party interests in other entities as disclosed by Members and the transactions that took place between the Authority and the Related Party.

Organisations	Member	Payments to Organisations by the Authority £000	Balance Outstanding £000	Income £000	Income Outstanding £000
East London Waste Authority	Cllr S Kelly Cllr R Benham	14,189	-	1,091	-
Tapestry (Formerly Age Concern Havering)	Cllr J Alexander	860	36	2	-
Havering Theatre Trust	Cllr P Rumble Cllr G Ford	355	-	-	-
BT Global Services[1]	Cllr M White	170	-	4	4
First Step	Cllr L Van den Hende	85	21	2	1
Havering Association for People with Disabilities	Cllr N Dodin	73	-	1	-
Local Government Association	Cllr G Ford Cllr C Barrett	52	-	-	-
Veolia North Thames Trust	Cllr R Benham	138	-	-	-
Havering Museum Ltd	Cllr F Thompson Cllr W Brice-Thompson	6	-	1	-
Mardyke Youth and Community Centre	Cllr M Deon Burton	-	-	4	-
Kenneth Elliot and Rowe Solicitor	Cllr K Darvill	15	-	-	-
Havering Arts Council	Cllr J Chapman Cllr D White Cllr L Hawthorn Cllr J Ganly	4	-	-	-

Notes

1. Payments disclosed represent all transactions with British Telecom plc; however Cllr M White is the Partnership Director Local Government at BT Global Services.

Central Government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits).

Transactions between the London Borough of Havering and the UK Government; its department, agencies, NHS bodies and other authorities are disclosed elsewhere in the Accounts, most notably:

Note 11 Other operating expenditure: levies;

Note 13 Taxation and Non-specific Grant Income;

Note 30 Pooled budgets;

Note 34 Dedicated Schools Grant; and

Note 35 Grant Income

Entity controlled or significantly influenced by the Authority

Joint Committee with London Borough of Newham and Bexley (oneSource)

oneSource is a public sector shared back-office support service which is supported by members through a joint committee arrangement. The joint committee receive key reports and make strategic decisions about OneSource's operation. oneSource was set up with a view to making savings by eliminating duplication, reducing senior management costs and introducing more efficient processes. oneSource started on 1 April 2014, when the London Boroughs of Havering and Newham contributed almost all their support services for the two authorities including HR, ICT, Finance, Legal services, Exchequer and Transactional services, Asset Management and Business services (Newham's Exchequer service was subsequently removed during the course of 2016/17). On the 1st April 2016 the London Borough of Bexley joined the joint committee arrangement. Bexley joined in a more limited capacity than Havering and Newham with oneSource providing Finance (excluding procurement) and Exchequer and Financial Transactional services to the London Borough of Bexley.

The oneSource net controllable expenditure for 2016/17 is disclosed below indicating the share falling to each of the authorities. The LBH share is charged against the Consolidated Income and Expenditure Statement.

2015/16 £000	oneSource	2016/17 £000
	Net Expenditure	
17,472	Exchequer and Transactional Services	8,780
7,727	Finance	9,250
1,421	Business Services	790
3,879	Legal and Governance	3,781
8,439	ICT	8,448
1,712	Asset Management	3,467
3,266	Strategic and Operational HR	3,170
43,916	**Total Net Expenditure**	**37,686**
	Cost Sharing:	
27,091	London Borough of Newham	18,626
16,825	London Borough of Havering	16,273
-	London Borough of Bexley	2,787

As at 31 March 2017, the Authority owed £0.999m to the London Borough of Newham.

The joint committee council members from Havering Council are Councillors Ower, Wallace and D. White, from Newham Council, Councillors Wilson, Hudson and Hussain and from Bexley Council, Councillor Massey.

The following oneSource Chief Officers have joint managerial responsibility for services across authorities and as such have significant influence over operational effectiveness and decision making of the related parties. These roles are set out below.

Shared OneSource role	Employing organisation	Period
Managing Director	London Borough of Newham	April 2016 to March 2017
Director of Asset Management	London Borough of Havering	April 2016 to March 2017
Director of Exchequer and Transactional	London Borough of Havering	April 2016 to March 2017
Director of Legal and Governance	London Borough of Newham	April 2016 to March 2017
Director of Human Resources	London Borough of Havering	April 2016 to March 2017
Director of Finance	London Borough of Newham	April 2016 to March 2017
Director of ICT	London Borough of Newham	April 2016 to March 2017

Mercury Land Holdings Ltd

The Authority controls Mercury Land Holdings Ltd through its ownership of 100% of the shares in the company. Further details are included as part of the Group Accounts section in the Statement of Accounts.

Pension Fund

As the administrator of the Pension Fund, the Authority has direct control of the fund. The transactions between the Authority and the Pension Fund are detailed within Note 24 of the Pension Fund Accounts.

37. Capital Expenditure and Capital Financing

The following statement shows how the Authority's capital expenditure was financed and the consequent change in underlying borrowing:

2015/16 £000	Capital Expenditure	2016/17 £000
56,758	Property, plant and equipment	66,736
952	Intangible fixed assets	1,515
1,752	Revenue expenditure funded from capital under statute	3,257
-	Long Term Investments	7,991
-	Long Term Loan	8,615
59,462	**Total capital expenditure**	**88,114**
	Less financed from	
(12,614)	Capital receipts	(26,015)
(20)	Major repairs	-
(21,928)	Revenue funds	(20,462)
(24,900)	Grants and contributions	(25,032)
-	**Increase in need to borrow**	**16,605**
(1,293)	Minimum Revenue Provision	(1,259)
(1,293)	**Change in Capital Financing Requirement**	**15,346**

The following statement shows the make-up of the Authority's Capital Financing Requirement under the Prudential Code:

31 March 2016 £000	Capital Financing Requirement	31 March 2017 £000
960,809	Tangible fixed assets	1,040,893
-	Mercury Land Holdings	16,606
1,413	Intangible assets	2,353
(300,407)	Revaluation Reserve	(346,712)
(426,133)	Capital Adjustment Account	(462,256)
(449)	Finance lease and other long-term liabilities	(306)
235,233	**Net requirement**	**250,578**

38. Leases

Operating Leases

The Authority has acquired vehicles, plant and equipment by entering into operating leases.

The minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases were as follows:

2015/16 £000		2016/17 £000
156	Children's and Education Services	166
6	Highways, Roads and Transport Services	31
162	**Minimum lease payments**	**197**

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

31 March 2016 £000		31 March 2017 £000
216	Not later than one year	129
343	Later than one year and not later than five years	254
559	**Minimum Lease Payments**	**383**

The Authority has acquired a number of properties by entering into operating leases.

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

31 March 2016 £000		31 March 2017 £000
131	Not later than one year	114
133	Later than one year and not later than five years	19
264	**Minimum lease payments**	**133**

The minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.13m (£0.385m in 2015/16). In most cases these rents are charged to Central Support Services and subsequently recharged to the appropriate Service in accordance with the *SeRCOP*.

39. Revaluation Gains and Impairment Losses

During 2016/17, the Authority has recognised a net revaluation gain of £5.0m (a net revaluation gain of £24.4m in 2015/16) in the Comprehensive Income and Expenditure Statement in relation to its revaluation of assets. A breakdown of the revaluations and impairments by asset class can be found in the table below:

Asset Class	Revaluation Gains Credited to the CI&ES £ 000	Impairment Loss Charged to the CI&ES £ 000
Council dwellings	(25,806)	17,251
Other land and buildings	(5,901)	10,262
Total PPE	**(31,707)**	**27,513**
Investment Properties	(5,121)	4,313
Total (gain) or loss to the CI&ES	**(36,828)**	**31,826**

40. Termination Benefits

The numbers of exit packages with total cost per band, and total costs of compulsory and other redundancies, are set out in the table below:

Exit Package cost band (including special payments	**Number of Compulsory Redundancies**		**Number of Departures Agreed**		**Total Number of exit packages by Cost Band**		**Total Cost of exit packages in each band**	
	2015/16	**2016/17**	**2015/16**	**2016/17**	**2015/16**	**2016/17**	**2015/16**	**2016/17**
£0 - £20,000	14	65	10	19	24	84	203,904	619,307
£20,001 - £40,000	3	8	4	6	7	14	202,813	384,162
£40,001 - £60,000	-	7	-	2	-	9	-	450,801
£60,001 - £80,000	-	1	2	1	2	2	143,620	141,265
£80,001 - £100,000	-	-	-	1	-	1	-	94,621
£100,001 - £150,000	1	3	-	-	1	3	117,878	364,762
Total	**18**	**84**	**16**	**29**	**34**	**113**	**668,215**	**2,054,918**

Note: The Authority terminated the contracts of a number of employees in 2016/17, incurring costs of £2,054,918 (£668,215 in 2015/16). The majority of the redundancies are as a result of the Havering transformation programme. The note includes redundancy as well as the strain cost to the pension fund

41. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers Pensions

Teachers employed by the Authority are members of the Teachers Pension scheme administered by the Teachers Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employer's contribution rates paid by Local Education Authorities (LEAs). However, it is not possible for the Authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of the Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme.

In 2016/17 the Authority paid £6.73m (£6.59m 2015/16) to Teachers Pensions in respect of teachers pension contributions. This represented a contribution rate of 16.5% from 1 September 2016 (rising from 14.1% from 1 April 2015). There were no contributions remaining payable at the end of the period.

The Authority is responsible for the costs of any additional benefits awarded upon early retirements outside the terms of the Teachers' scheme.

NHS Pension Scheme

The Health and Social Care Act 2012, makes provision for the transfer of public health services and staff from primary care trusts (PCTs) to local authorities.

In a letter dated 17 May 2012 Local Government Association and the Department of Health outlined the treatment of pensions as part of the Public Health Transfer.

It was confirmed that all staff performing public health functions transferring to local authorities (LAs), who have access to the NHS Pension Scheme on 31 March 2013 will retain access to the NHSPS on transfer from PCTs to local authorities at 1 April 2013.

In 2016/17 the Authority paid £36,000 (£38,000 in 2015/16) to NHS Pensions in respect of public health pension contributions. This represented 14.3% of pensionable pay (14.3% in 2015/16). There were no contributions remaining payable at the end of the period.

42. Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Authority participates in two post-employment schemes:

- the Local Government Pension Scheme, administered locally by London Borough of Havering. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The London Borough of Havering pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of the Authority. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Chief Executive for Havering and the below listed Investment Fund Managers.

1. State Street (SSgA)
2. Baillie Gifford – via the London CIV (Collective Investment Vehicle)
3. Royal London Asset Management
4. UBS
5. Ruffer - via the London CIV (Collective Investment Vehicle)
6. GMO

The principal risks to the Authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Discretionary Post-retirement Benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

Transactions Relating to Post-employment Benefits

We recognise 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 we are 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 and the Housing Revenue Account 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:

2015/16 £000		**2016/17 £000**
	Comprehensive Income and Expenditure Statement	
	Cost of services:	
	Service Cost Comprising:	
23,161	Current service cost	20,666
167	Past service costs	2,955
(582)	Gain from settlements	(2,161)
	Financing and Investment Income and Expenditure	
12,961	Net interest expense	13,096
35,707	**Total post-employment benefits charged to the surplus or deficit on the provision of services**	**34,556**
	Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	
	Re-measurement of the net defined benefit liability comprising:	
15,693	Return on plan assets (excluding the amount included in the net interest expense)	(63,137)
(44,206)	Actuarial gains and losses arising on changes in financial assumptions	174,877
(11,366)	Other	(20,516)
(39,879)	**Total post-employment Benefits charges to the Comprehensive Income and Expenditure Statement**	**(91,224)**
	Movements in Reserves Statement	
(35,707)	Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(34,556)

2015/16 £000		2016/17 £000
	Actual amount charged against the General Fund Balance for pensions in the year:	
28,928	Employers' contributions payable to scheme	25,919
(6,779)	**Net movement in Pensions Reserve**	**(8,637)**

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

2015/16 £000		2016/17 £000
	Local Government Pension Scheme	
(879,476)	Present value of the defined benefit obligation	(1,053,340)
491,367	Fair value of plan assets	565,370
(388,109)	**Net liability arising from defined benefit obligation**	**(487,970)**

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

2015/16 £000		2016/17 £000
	Local Government Pension Scheme	
490,033	Opening fair value of scheme assets	491,367
15,218	Interest income	16,584
	Re-measurement gain (loss):	
(15,693)	The return on plan assets, excluding the amount included in the net interest expense	63,137
28,928	Contributions from employer	25,919
5,479	Contributions from employees into the scheme	5,325
(32,060)	Benefits paid	(34,171)
(538)	Other – effect of settlements	(2,791)
491,367	**Closing fair values of scheme assets**	**565,370**

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):

2015/16 £000		2016/17 £000
	Funded liabilities: Local Government Pension Scheme	
911,242	Opening balance at 1 April	879,476
23,161	Current service cost	20,666
28,179	Interest cost	29,680
5,479	Contributions from scheme participants	5,325
	Re-measurement (gains) and losses:	
(44,206)	Actuarial gains/ losses arising from changes in financial assumptions	174,877
(11,366)	Other	(20,516)
167	Past service cost (Including curtailments)	2,955
(32,060)	Benefits paid	(34,171)
(1,120)	Liabilities extinguished on settlements	(4,952)
879,476	**Closing balance at 31 March**	**1,053,340**

Local Government Pension Scheme assets comprised:

2015/16					2016/17			
Quoted Prices in Active Markets £000	**Quoted Prices not in Active Markets £000**	**Total £000**	**Percentage of Total assets %**	**Asset Category**	**Quoted Prices in Active Markets £000**	**Quoted Prices not in Active Markets £000**	**Total £000**	**Percentage of Total assets %**
				Equity Securities				
1,827.6	-	**1,827.6**	0	Consumer	-	-	**-**	0
4,431.6	-	**4,431.6**	1	Manufacturing	-	-	**-**	0
1,545.2	-	**1,545.2**	0	Energy and utilities	-	-	**-**	0
9,118.2	-	**9,118.2**	2	Financial institutions	-	-	**-**	0
657.6	-	**657.6**	0	Health and Care	-	-	**-**	0
3,222.1	-	**3,222.1**	1	Information technology	-	-	**-**	0
-	17.2	**17.2**	0	Other	-	1.6	**1.6**	0
				Debt Securities				
53,714.3	-	**53,714.3**	11	Corporate bonds (investment grade)	61,635.2	-	**61,635.2**	11
11,870.0	-	**11,870.0**	2	UK Government	16,471.2	-	**16,471.2**	3
50,319.5	-	**50,319.5**	10	Other	31,632.7	-	**31,632.7**	6
				Real Estate				
24,486.4	-	**24,486.4**	5	UK Property	28,882.0	-	**28,882.0**	5

				Investment Funds and Unit Trusts				
302,704.9	-	**302,704.9**	62	Equities	408,286.3	-	**408,286.3**	72
				Cash and Cash Equivalents				
27,452.4	-	**27,452.4**	6	All	18,461.0	-	**18,461.0**	3
491,349.8	**17.2**	**491,367.0**	**100**	**Totals**	**565,368.4**	**1.6**	**565,370.0**	**100**

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.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Authority Fund being based on the latest full valuation of the scheme as at 31 March 2013.

2015/16 £000		2016/17 £000
	Local Government Pension Scheme	
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.1 years	Men	22.0 years
24.1 years	Women	24.2 years
	Longevity at 65 for future pensioners:	
24.2 years	Men	23.9 years
26.7 years	Women	26.3 years
3.1%	Rate of inflation	3.4%
3.1%	Rate of increase in salaries	2.7%
2.1%	Rate of increase in pensions	2.4%
3.4%	Rate for discounting scheme liabilities	2.5%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Change in assumptions at 31 March 2017	Approximate % increase to Employer Liability	Approximate Monetary amount £000
0.5% decrease in Real Discount Rate	9%	92,547
0.5% Increase in the Salary Increase Rate	1%	11,658
0.5% Increase in the Pension Increase Rate	8%	79,678

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2017.

The Authority anticipated to pay £21.6m expected contributions to the scheme in 2017/18.

The weighted average duration of the defined benefit obligation for scheme members is 16.2 years, 2016/17 (16.2 years 2015/16).

43. Contingent Liabilities

MMI Scheme of Arrangement

Municipal Mutual Insurance Limited (MMI), a company limited by guarantee formed by Local Authorities, is subject to a contingent scheme of arrangement which became effective on 21 January 1994. The company has been the subject of an orderly run off since that time. However, the schemes administrators, Ernst and Young, triggered the scheme of arrangement during 2012/13. A 15% levy was imposed based upon the result of an actuarial valuation of claims as at 31 December 2012. In accordance with the Scheme of Arrangement, the Levy Notice was received dated 1 January 2014 and a payment made of £338,000 in respect of the 15% levy due. Outstanding claims continue to be paid with a 15% contribution from the Authority in respect of the ongoing levy under the terms of the scheme of arrangement. The total paid to 31 March 2015 is £427,000. Following a further review of assets and liabilities a further levy of 10% was made and an additional £285,000 paid by 12 May 2016. This brings the total levy to 25% for past and future claims. Outstanding claims will continue to be paid with a 25% contribution from the Authority in respect of the ongoing levy under the terms of the scheme of arrangement. Additional demands for further levy contributions above the 25% may be made. The Authority has made provision for the levy within the Insurance Earmarked Reserve.

VAT on Romford Leisure Development

Havering is in the process of incurring significant expenditure in regards to leisure development. In essence the majority of this expenditure will be in relation to exempt supply and therefore impact Havering partial exemption calculation. An application has been sent to HMRC to opt the sites which will result in any VAT incurred on the site to be reclaimed through the normal VAT procedures. There is a risk however that the application to HMRC will not be approved and therefore Havering will exceed its partial exemption limit.

44. Heritage Assets: Five-year Summary of Transactions

There were no acquisitions or disposals of heritage assets within the last five years.

45. Trust Funds

The Authority acts as sole trustee for the following trust funds, which are not included in the Comprehensive Income and Expenditure Statement or Balance Sheet and are not subject to separate audit.

	Richard Ballard Charity £	Lucas Children's Play site Charity £
Balance 31 March 2016	6,500	142,921
Receipts	24	553
Payments	(24)	(553)
Balance 31 March 2017	**6,500**	**142,921**

The Richard Ballard Charity

Interest on the capital from the sale of two properties sold for a street widening scheme is used for highway repairs.

The Lucas Children's Play Charity

The income from this charity may be applied towards the provision, maintenance and improvements of children's playgrounds and equipment in the borough.

Housing Revenue Account
Income and Expenditure Statement 2016/17

The Housing Revenue Account (HRA) includes all transactions relating to the provision, management and maintenance of the Authority's housing stock. 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 Account is "ring-fenced" in accordance with the Local Government and Housing Act 1989. Transfers to and from the General Fund are only permitted in certain specified circumstances.

2015/16 £000		Notes	2016/17 £000
	Income		
(49,672)	Dwelling rents		(48,573)
(399)	Non-dwelling rents		(385)
(7,186)	Charges for services and facilities		(6,728)
(1,385)	Contributions towards expenditure		(1,739)
(58,642)	**Total Income**		**(57,425)**
	Expenditure		
7,744	Repairs and maintenance		7,948
19,950	Supervision and management		21,978
346	Rents, rates, taxes and other charges		345
405	Increased provision for bad/doubtful debts		218
26,750	Depreciation and Impairment of tangible fixed assets	4	347
47	Debt management		-
55,242	**Total Expenditure**		**30,836**
(3,400)	**Net expenditure or income of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(26,589)**
250	**HRA Services' share of Corporate and Democratic Core**		**250**
(3,150)	**Net Expenditure of HRA Services**		**(26,339)**
	HRA Share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement		
(5,603)	Net gain on disposal of HRA assets		(7,127)
5,853	Interest payable and similar charges		5,854
(254)	Interest and investment income		(331)
(3,154)	**Deficit/(Surplus) for the year on HRA Services**		**(27,943)**

Movement on the Housing Revenue Account Balance during 2016/17

2015/16 £000		2016/17 £000
(8,670)	**Housing Revenue Account balance brought forward**	**(7,155)**
(3,154)	(Surplus)/deficit for the year on the HRA Income and Expenditure Account	(27,943)
4,669	Adjustments between accounting basis and funding basis under regulations	31,864
(7,155)	**HRA balance before transfer to earmarked reserves**	**(3,234)**
-	Transfers to earmarked reserves	404
(7,155)	**Housing Revenue Account balance carried forward**	**(2,830)**

Note to the Statement of Movement on the Housing Revenue Account Balance 2016/17

2015/16 £000	Notes	2015/16 £000
Items included in the HRA Income and Expenditure Account but excluded from the movement in the HRA balance		
Adjustments to the Revenue Resources		
(245)	Pensions costs (transferred from the Pensions Reserve)	(109)
16	Holiday pay (transferred to the Accumulated Absences Reserve)	8
(30,894)	Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	(8,559)
(31,123)	**Total Adjustments to Revenue Resources**	**(8,660)**
Adjustments between Revenue and Capital Resources		
10,054	Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	15,724
(305)	Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(385)
7,324	Posting of HRA resources from revenue to the Major Repairs Reserve	8,962
18,719	Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	16,223
35,792	**Total Adjustments between Revenue and Capital Resources**	**40,524**
4,669	**Adjustments between accounting basis and funding basis under regulations**	**31,864**

1. Information on Housing Fixed Assets

a) Number of Dwellings

31 March 2016 Number		31 March 2017 Number
	Flats	
2,914	1 bedroom	2,870
2,301	2 bedrooms	2,259
380	3 bedrooms	380
18	4 or more bedrooms	17
	Houses	
329	1 bedroom	324
1,143	2 bedrooms	1,140
2,388	3 bedrooms	2,352
156	4 or more bedrooms	155
9,629	**Total Number of Dwellings**	**9,497**

b) Balance Sheet Value of HRA Tangible Fixed Assets

31 March 2016 £000		31 March 2017 £000
	Operational	
488,301	Dwellings	498,421
18,936	Other land and buildings	17,644
230	Vehicles, plant and equipment	143
2,199	Infrastructure	1,930
509,666		518,138
	Non-operational	
1,127	Investment properties	-
-	Held for sale	-
1,127		-
510,793	**Total Tangible Fixed Assets**	**518,138**

c) Valuation of Council Dwellings at Year End

31 March 2016 £m		31 March 2017 £m
1,953	Vacant possession value	1,994
1,465	Excess of vacant possession value over Balance Sheet value	1,495

The difference between the vacant possession value of HRA dwellings shown here and the balance sheet value of the dwellings shown in note 1(b) is a measure of the cost to Government of providing council housing at less than market rents.

2. Movement on Major Repairs Reserve

2015/16 £000		2016/17 £000
17,267	**Balance brought forward at start of year**	**24,571**
7,324	Total depreciation from Capital Adjustment Account	8,961
(20)	Less MRR used to fund Capital Expenditure on HRA dwellings	-
24,571	**Balance carried forward at end of year**	**33,532**

3. a) Total Capital Expenditure and Funding

2015/16 £000		2016/17 £000
	Capital expenditure on HRA property and other assets:	
19,228	Dwellings	17,251
369	Other land and buildings	-
-	Assets Under Construction	2,575
19,597	**Total expenditure**	**19,826**
	Financed from:	
20	Major Repairs Reserve	-
-	Grants and contributions	1,815
18,720	Revenue contributions	16,223
857	Capital receipts	1,788
19,597	**Total funding**	**19,826**

b) HRA Capital Receipts

2015/16 £000		2016/17 £000
8,177	Right to Buy sales	13,622
1,572	Other property sales	1,716
9,749	Total cash receipts	15,338
(1,221)	Transferred for Pooling	(1,138)
8,528	**Total new usable Capital Receipts**	**14,200**

4. Depreciation and Impairment Charge

The depreciation charged to the HRA breaks down as follows:

2015/16 £000		2016/17 £000
6,423	Dwellings	8,263
496	Other buildings	337
87	Equipment	87
318	Infrastructure	275
7,324	**Total HRA depreciation**	**8,962**
19,426	Impairment charge	**(8,615)**
26,750	**Total HRA depreciation and impairment charge**	**347**

5. Rent Income, Arrears and Bad Debts

2015/16		2016/17
£103.44	Average weekly rent (including service charges unpooled)	£102.71

The average weekly rent reduced by 0.7%.

31 March 2016 £000		31 March 2017 £000
2,417	Rent arrears at 31 March	2,907
(2,171)	Bad debts provision at 31 March	(2,328)
246	**Total**	**579**

Collection Fund 2016/17

These Accounts represent the transactions of the Collection Fund and have been consolidated with the Authority's main Accounts. The Accounts have been prepared on an accruals basis except in respect of sums due to or from the General Fund and the Greater London Authority (GLA) for their share of the Collection Fund surplus and deficit.

Income and Expenditure Statement 2016/17

2015/16			2016/17	
Business Rates	**Council Tax**		**Business Rates**	**Council Tax**
£000	**£000**		**£000**	**£000**
		Income		
-	(129,930)	Income from Council Tax	-	(134,316)
(73,818)		Income from Business Rates	(75,137)	-
-	(55)	Prompt payment discounts	-	(57)
325	-	Transitional relief	87	
(2,061)	-	Income collectable from Business Rate Supplement	(2,020)	-
		Previous Year Deficit recognised in the CI&ES		
-	-	London Borough of Havering	(1,863)	-
-	-	Central Government	(3,106)	-
-	-	Greater London Authority	(1,242)	-
(75,554)	**(129,985)**	**Total Income**	**(83,281)**	**(134,373)**
		Expenditure		
		Previous Year Surplus recognised in the CI&ES		
196	2,678	London Borough of Havering	-	3,793
326	-	Central Government	-	-
131	670	Greater London Authority	-	918
		Precepts		
21,831	101,311	London Borough of Havering	22,513	108,350
36,385	-	Central Government	37,521	-
14,554	24,517	Greater London Authority	15,009	23,591
		Charges to Collection Fund		
3,000	463	Write-offs	749	869
(1,479)	(386)	Increase/(decrease) in bad debt provision	(252)	(606)
4,579	-	Increase in provision for appeals	(817)	-
271	-	Cost of collection	271	-
		Business Rate supplement		
2,054	-	Payment to Greater London Authority	2,014	-
7	-	Cost of Collection	6	-
81,855	**129,253**	**Total Expenditure**	**77,014**	**136,915**
6,301	(732)	Movement in fund balance	**(6,267)**	2,542
259	(4,459)	Net deficit/(surplus) at start of year	6,560	(5,191)
6,560	**(5,191)**	**Net deficit/(surplus) carried forward notes 3a and 3b)**	**293**	**(2,649)**

Notes to the Collection Fund Accounts

1. Income from Council Tax

Council Tax is based partly on the valuation of domestic properties and is partly a Personal Tax with discounts for single occupiers. The Authority set the level of council tax in 2016/17 at £1,543.64 for band D properties. The number of band D equivalent properties in each band making up the council tax base was as follows:

Band	**Number of Band D Equivalent Properties**
A1	2
A	1,909
B	5,244
C	18,667
D	30,548
E	16,520
F	8,553
G	4,769
H	563
Allowance for losses in collection 1.5%	(1,301)
Tax Base	**85,474**

2. Income from Business Rates

Under the arrangements for uniform business rates, the Authority collects Non-Domestic Rates (NNDR) for its area. These are based on local rateable values of £180.5m at 31 March 2017 (£182.4m at 31 March 2016) multiplied by uniform rates for large and small businesses. In 2016/17 the rate was 49.7p for large businesses (49.3p in 2015/16) and 48.4p for small (48p in 2015/16). The total amount, less certain reliefs and other deductions, are shared between Central Government, Havering and The Greater London Authority (GLA). In addition to the multiplier used to calculate business rates, all London local authorities are required to collect from businesses with a rateable value in excess of £55,000 an additional 2p supplement, which is payable to the GLA. Under these arrangements the amounts included in these Accounts can be analysed as follows:

2a) Income collectable from Non Domestic Rates

2015/16 £000		**2016/17 £000**
85,376	Gross NNDR due in year	85,449
(11,559)	Less: allowances and other adjustments	(10,311)
73,817		**75,137**

2b) Income collectable from Business Rate Supplement

2015/16 £000		2016/17 £000
2,285	Gross Supplement due in year	2,236
(224)	Less: allowances and other adjustments	(216)
2,061		**2,020**

In 2013 The London Borough of Havering agreed to enter into a pooling arrangement with the London Borough of Barking and Dagenham, Thurrock Council and Basildon Council. As part of the agreement, a memorandum of understanding was produced to determine how the pools resources would be allocated.

3. Collection Fund Surplus / Deficit

The deficit on the Collection Fund will be met by the precepting authority and the billing authority in the following proportions and will be recovered by adjusting the level of precepts and demands the following financial year.

3a) Council Tax

2015/16 £000		2016/17 £000
(4,156)	London Borough of Havering	(2,176)
(1,035)	Greater London Authority	(473)
(5,191)	**(Surplus) / Deficit**	**(2,649)**

3b) Business Rates

2015/16 £000		2016/17 £000
1,968	London Borough of Havering	88
3,280	Central Government	146
1,312	Greater London Authority	59
6,560	**Deficit**	**293**

London Borough of Havering Group Accounts

Introduction

The Council has determined that for the financial year ended 31 March 2017, it has a material interest in one of its subsidiaries, Mercury Land Holdings (MLH)

Details of the Council's other subsidiaries and external bodies together with the associated accounting treatment are disclosed within Note 36.

MLH is a wholly-owned subsidiary company that was formed in 2016 to facilitate the Authority's construction and investment in private rental properties within the Borough

.A copy of the MLH financial statements can be obtained by writing to:

Chief Executive

c/o Debbie Middleton

Town Hall

Main Road

Romford

RM1 3AR

MLH directors who have held office since 1st April 2016 are as follows:

- Andrew Blake-Herbert
- Anthony Huff
- Tom Dobrashian
- Garry Green
- Ian Rhodes

Group Movement in Reserves Statement 2016/17

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the group reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Authority's Share of Reserves of Subsidiaries £000	Total inc Group Reserves £000
Balance at 31 March 2016	**11,766**	**66,279**	**7,155**	**73,274**	**24,571**	**23,784**	**206,829**	**381,450**	**0**	**588,279**
Movement in reserves during 2016/17										
(Deficit)/surplus on provision of services	(17,323)	-	27,943	-	-	-	10,620	-	(430)	10,190
Other comprehensive expenditure and income	-	-	-	-	-	-	-	(72,074)		(72,074)
Total comprehensive expenditure and income	**(17,323)**	**-**	**27,943**	**-**	**-**	**-**	**10,620**	**(72,074)**	**(430)**	**(61,884)**
Adjustments between accounting basis and funding basis under regulations	13,796	-	(31,864)	(11,103)	8,962	11,515	(8,693)	8,693	-	-
Net (decrease)/increase before transfers to earmarked reserves	**(3,526)**	**-**	**(3,921)**	**(11,103)**	**8,962**	**11,515**	**1,927**	**(63,381)**	**(430)**	**(61,884)**
Transfers to/(from) Earmarked Reserves	3,526	(3,122)	(404)	-	-	-	-	-	-	-
(Decrease)increase in Year	**-**	**(3,122)**	**(4,325)**	**(11,103)**	**8,962**	**11,515**	**1,927**	**(63,381)**	**(430)**	**(61,884)**
Balance at 31 March 2017	**11,766**	**63,157**	**2,830**	**62,171**	**33,533**	**35,299**	**208,756**	**318,069**	**(430)**	**526,395**

Group Comprehensive Income and Expenditure Statement 2016/17

The Group Comprehensive Income and Expenditure 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 (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

1 April 2015 – 31 March 2016					1 April 2016 – 31 March 2017		
£000	**£000**	**£000**			**£000**	**£000**	**£000**
Gross Expenditure	**Gross Income**	**Net**		**Notes**	**Gross Expenditure**	**Gross Income**	**Net**
			Gross expenditure, gross income and net expenditure of continuing operations				
9,997	(405)	9,592	Section 151		7,610	(31)	7,579
17,115	(2,457)	14,658	Chief Operating Officer		13,338	(2,236)	11,102
121,668	(88,788)	32,880	Neighbourhoods		97,822	(90,752)	7,070
75,342	(16,473)	58,869	Adult Services		77,974	(17,552)	60,422
174,262	(145,084)	29,178	Children's Services		200,253	(145,806)	54,447
14,081	(10,346)	3,735	Public Health		13,660	(11,550)	2,110
98,421	(100,337)	(1,916)	oneSource Non -Shared		109,492	(98,430)	11,062
5,684	(1,476)	4,208	oneSource Shared		7,061	(2,224)	4,837
516,570	**(365,366)**	**151,204**	**Cost of services**		**527,210**	**(368,581)**	**158,629**
		(3,575)	Other operating expenditure				30,737
		12,160	Financing and investment income and expenditure				15,388
		(211,770)	Taxation and non-specific grant income				(214,943)
		(51,981)	**Deficit on provision of services**				**(10,189)**
		(170,984)	Surplus on revaluation of property, plant and equipment assets				(19,150)
		(39,879)	Actuarial losses/(gains) on pension assets / liabilities				91,224
		(210,863)	**Other comprehensive income and expenditure**				**72,074**
		(262,844)	**Total comprehensive income and expenditure**				**61,885**

Group Cash Flow Statement as at 31 March 2017

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 recipients 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.

	Note	2016/17 £000
Net deficit on the provision of services		10,190
Adjust net surplus or deficit on the provision of services for non-cash movements	3	64,335
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(37,202)
Net cash flows from Operating Activities		37,323
Investing activities	4	(45,336)
Financing activities	5	1,761
Net (increase) /decrease in cash and cash equivalents		(6,282)
Cash and cash equivalents at the beginning of the reporting period		53,511
Cash and cash equivalents at the end of the reporting period		**47,229**

Group Balance Sheet as at 31 March 2017

The Group 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'.

	Notes	31 March 2017 £000
Property, plant and equipment		997,552
Heritage assets		104
Investment property	1	56,374
Intangible assets		2,353
Long Term Investments	2	40,000
Long Term debtors	2	422
Long-term assets		**1,096,805**
Short-term investments		122,593
Inventories		277
Short-term debtors		50,072
Cash and cash equivalents	2	47,229
Assets held for sale		3,833
Current assets		**224,004**
Short-term borrowing		(2,998)
Short-term creditors		(74,048)
Current liabilities		**(77,046)**
Long-term creditors		(1,094)
Provisions		(6,133)
Long-term borrowing		(211,573)
Other long-term liabilities		(487,970)
Capital grants receipts in advance		(10,599)
Long-term liabilities		**(717,369)**
Net assets		**526,394**
Usable reserves		208,326
Unusable reserves		318,068
Total Reserves		**526,394**

Notes to the Group Financial Statements

1. Group Fixed Assets

During 2016/17 Mercury Land Holding purchase properties which are accounted for under the historic cost accounting rules as they are in the course of construction. The value is reflected at cost to the value of £16.970m.

2. Group Financial Instruments

The financial assets disclosed in the Group Balance Sheet are analysed across the following categories:

Fixed Assets	**31 March 2017**	
	Long-Term £000	Short-Term £000
Loans and receivables:		
- Principal at amortised cost	40,000	122,000
- Accrued interest	-	593
Total investments	**40,000**	**122,593**
Loans and receivables:		
- Cash (including bank accounts)	-	8,457
- Cash equivalents at amortised cost	-	29,521
- Accrued interest	-	9
Available for sale investments		
- Cash equivalents at fair value	-	9,242
- Accrued interest	-	-
Total cash and cash equivalents	**-**	**47,229**
Loans and receivables		
- Trade receivables	422	31,757
Included in debtors	**422**	**34,408**
Total financial assets	**40,422**	**204,239**

3. Group Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2016/17 £000
Depreciation, impairment and downward revaluation	19,458
Amortisation	574
(Increase) / decrease in creditors	9,357
Decrease in long-term creditors	708
Increase / (decrease) in debtors	(897)
Decrease in long-term debtors	(8,570)
(Decrease) / increase in inventories	32
Movement in pension liability	8,637
Decrease in provisions	1,047
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	31,542
Other non-cash items charged to the net surplus or deficit on the provision of services	2,447
Net cash flows from operating activities	**(64,335)**

4. Cash Flow Statement – Investing Activities

	2016/17 £000
Purchase of property, plant and equipment, investment property and intangible assets	(88,477)
Purchase of short-term and long-term investments	(475,006)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	655
Capital grants received	37,498
Proceeds from short-term and long-term investments	474,812
Other receipts from investing activities	5,152
Net cash flows from investing activities	**(45,336)**

5. Cash Flow Statement – Financing Activities

	2016/17 £000
Cash receipts of short-term and long-term borrowing	(49,974)
Repayments of short-term and long-term borrowing	48,213
Net cash flows from financing activities	**(1,761)**

Pension Fund

Pension Fund Account for the year ended 31March 2017

2015/16 £000		Notes	2016/17 £000
	Dealings with members, employers and others directly involved in the fund		
41,065	Contributions	7	39,293
1,390	Transfers in from other pension funds	8	1,623
42,455			40,916
(34,973)	Benefits	9	(36,409)
(1,982)	Payments to and on account of leavers	10	(3,856)
(36,955)			(40,265)
5,500	**Net additions (withdrawals) from dealings with members**		**651**
(3,663)	Management expenses	11	(3,925)
1,837	Net additions/(withdrawals) including fund management expenses		**(3,274)**
	Returns on investments		
4,796	Investment income	12	6,480
(25)	Taxes on Income	13	(22)
(8,336)	Profit and losses on disposal of investments and changes in the market value of investments	14a	95,254
(3,565)	**Net returns on investments**		**101,712**
(1,728)	**Net increase (decrease) in the net assets available for benefits during the year**		**98,438**
574,669	Opening net assets of the Fund at start of year		572,941
572,941	**Closing net assets of the Fund at end of year**		**671,379**

Net Asset Statement for the year ended 31 March 2017

2015/16 £000		Notes	2016/17 £000
562,102	Investment Assets	14	658,621
(1,387)	Investment Liabilities	14	(113)
560,715	**Total net investments**		**658,508**
13,707	Current Assets	21	13,136
(1,481)	Current Liabilities	22	(265)
572,941	**Net assets of the Fund available to fund benefits at end of the reporting period**		**671,379**

The financial statements summarise the transactions of the Fund and the net assets of the Fund. They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard IAS19 basis is disclosed at Note 19 of these accounts.

Notes to the Pension Fund

1. Description of the Fund

The Havering Pension Fund is part of the Local Government Pension Scheme and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Deputy Chief Executive Communities and Resources for the months of April to November 2016 and the Statutory Section 151 officer from November 2016 to March 2017.

The following description of the scheme is a summary only. For more details on the operation of the Pension Fund, reference should be made to the Havering Pension Fund Annual Report 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

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

The Pension Fund is a contributory defined benefits scheme which provides pensions and other benefits for pensionable employees of Havering Council and a range of other scheduled and admitted bodies. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Local Pension Board and the London Borough of Havering Pensions Committee, which is a committee of the Havering Council.

b) Membership

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

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.
- Designated bodies, which are non-community schools, whose employer has changed from the Authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non community schools.

During 2016/17 six new employers joined the fund and one ceased.

There are 39 employer organisations with active members within the Havering Pension Fund including the

Authority. The membership profile is detailed below.

31 March 2016		31 March 2017
35	**Number of employers with active members**	**39**
	Number of employees in scheme	
4,845	Havering	4,521
1,570	Scheduled bodies	1,596
111	Admitted bodies	100
6,526	**Total**	**6,217**
	Number of pensioners and dependants	
5,486	Havering	5,659
320	Scheduled bodies	403
78	Admitted bodies	39
5,884	**Total**	**6,101**
	Deferred pensioners	
4,796	Havering	5,129
846	Scheduled bodies	1,005
67	Admitted bodies	62
5,709	**Total**	**6,196**
18,119	**Total number of members in pension scheme**	**18,514**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2017. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Current employer contribution rates range from 20.2% to 37.9% of pensionable pay. The 2016 valuation has been completed but does not impact the 2016/17 accounts.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table:

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

From1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is adjusted annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirements, disability pensions and death benefits. For more details please refer to the pension website www.yourpension.org.uk.

2. Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2016/17 financial year and its position at year end as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting* in *the United Kingdom* 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. Summary of Significant Accounting Policies

Fund Account – revenue recognition

(a) Contribution income

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

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

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises.

(b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013 (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

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

(c) Investment Income

i) Interest Income

Interest income is recognised in the Fund as it accrues.

ii) Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distribution from Pooled Funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Property- Related Income

Property related income consists primarily of rental income and is recognised at the date of issue.

v) Movement in the Net Market Value of Investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – Expense Items

(d) Benefits payable

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

(e) Taxation

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

(f) Management Expenses

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

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. The majority of staff costs of the Pensions Administration team have been charged to the scheme. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight is charged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

Investment Management Expenses

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

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

The cost of obtaining investment advice from external consultants is included in investment management charges.

For officers' time spent on investment management functions a proportion of the relevant officers' salary costs have also been charged to the Fund.

Net Assets Statement

(g) Financial Assets

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the code and IFRS13 (see Note 16). For the purposes of disclosing levels of fir value hierarchy, the fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).*

(h) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

(i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities.

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

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

(j) Cash and Cash Equivalents

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

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

(k) Financial Liabilities

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

(l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

(m) Additional Voluntary Contributions

The Havering Pension Fund provides an additional voluntary contributions (AVC) scheme for it members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Standard Life as their AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

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

(n) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

4. Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates provided to the admitted and scheduled bodies in the Fund, as requested, in the intervening years. The methodology used in the annual updates is in line with accepted guidelines.

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

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short term yield/return.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

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

Item	Uncertainties	Effect if Actual Results differ from Assumptions	Approximate monetary amount (£m)
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied	The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows: • 0.5% decrease in the real discount rate could result in an increase of 9% • 0.5% increase in salary increase rate could result in an increase of 1% • 0.5% increase in the pension increase rate could result in an increase of 8%	93 12 80

6. Events after the Reporting Date

Ending of the UK's Membership of the European Union

Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016, there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations. For the purposes of these financial statements, the Referendum is considered a non-adjusting event.

7. Contributions Receivable

By category

2015/16 £000		**2016/17 £000**
	Employees' contributions	
	Normal:	
5,450	Havering	5,325
1,388	Scheduled Bodies	1,425
127	Admitted Bodies	117
	Additional contributions:	
28	Havering	24
25	Scheduled bodies	19
1	Admitted bodies	-
7,019	**Total Employees' Contribution**	**6,910**
	Employers' contributions	
	Normal:	
12,681	Havering	10,840
5,412	Scheduled bodies	5,675
440	Admitted bodies	334
	Deficit funding:	
15,117	Havering	*14,157
	Augmentation	
326	Havering	1,130
29	Scheduled bodies	247
41	Admitted bodies	-
34,046	**Total Employers' Contributions**	**32,383**
41,065	**Total Contributions Receivable**	**39,293**

*The £14.15m deficit funding reflects additional contributions made by the Authority to the Pension Fund. It consists of £8.15m secondary contributions and £6m in voluntary planned contributions.

By authority

2015/16 £000		**2016/17 £000**
33,602	Havering	31,476
6,854	Scheduled bodies	7,366
609	Admitted Bodies	451
41,065	**Total Contributions Receivable**	**39,293**

8. Transfers in from Other Pension Funds

2015/16 £000		2016/17 £000
1,390	**Individual transfers**	1,623
1,390	**Transfers In from Other Pension Funds**	**1,623**

9. Benefits Payable

By category

2015/16 £000		2016/17 £000
	Pensions	
26,757	Havering	27,487
887	Scheduled Bodies	1,091
546	Admitted Bodies	588
28,190	**Pension Total**	**29,166**
	Commutation and Lump Sum Retirements	
5,151	Havering	5,968
645	Scheduled Bodies	939
375	Admitted Bodies	164
6,171	**Commutation and Lump Sum Retirements Total**	**7,071**
	Lump Sum Death Benefits	
506	Havering	143
106	Scheduled Bodies	29
-	Admitted Bodies	-
612	**Lump Sum Death Benefits Total**	**172**
34,973	**Total Benefits Payable**	**36,409**

By authority

2015/16 £000		2016/17 £000
32,414	Havering	33,598
1,638	Scheduled bodies	2,059
921	Admitted Bodies	752
34,973	**Total Benefits Payable**	**36,409**

10. Payments To and On Account of Leavers

2015/16 £000		2016/17 £000
76	Refunds to members leaving service	81
1,673	Individual transfers	3,775
233	Group Transfers (Elutec)	-
1,982	**Payments to and on Account of Leavers**	**3,856**

At the year end there are potential liabilities of a further £0.7m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (See Note 26).

11a. Management Expenses

2015/16 £000		2016/17 £000
512	Administrative Costs	562
2,796	Investment Management Expenses	3,003
344	Oversight and Governance Costs	352
11	Local Pension Board	8
3,663	**Management Expenses**	**3,925**

This analysis of the costs of managing the Havering Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above includes £0.084m (2015/16: £0) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.144m in respect of transaction costs (2015/16: £0.289m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note14).

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

11b. Investment Management Expenses

2015/16 £000		2016/17 £000
2,454	Management Fees	2,814
13	Performance measurement fees	11
40	Custody fees	34
289	Transaction costs	144
2,796	**Investment Management Expenses**	**3,003**

12. Investment Income

2015/16 £000		2016/17 £000
642	Income from equities	2,444
*3,960	Income from Bonds	*3,572
1,145	Pooled Property Investments	1,387
(1,398)	Foreign Exchange Gains/(losses)	(1,070)
67	Interest on Cash Deposits	95
380	Other Income	52
4,796	**Investment Income**	**6,480**

***** Income includes Index linked Interest of £0.182m (2015/16 £0.199m).

13. Taxes on Income

2015/16 £000		2016/17 £000
(25)	Withholding Tax	(22)
(25)	**Taxes on Income**	**(22)**

14. Analysis of Investments

2015/16 £000		2016/17 £000
	Investment Assets	
	Equities	
1,273	UK Quoted	-
19,114	Overseas Quoted	-
20,387		**-**
	Bonds - Fixed Interest Securities	
11,827	UK Public Sector	11,863
62,191	UK Private (Corporate)	65,845
-	Overseas Public Sector	1,264
74,018		**78,972**
	Bond - Index-Linked Securities	
52,374	UK Public Sector	35,774
722	UK Private (Corporate)	777
13,094	Overseas Public Sector	389
66,190		**36,940**
	Derivative Contracts	
65	Forward Currency Contracts	63
65		**63**
	Pooled Investment	
357,428	UK Unit trusts - Quoted	500,444
169	UK Unit Trusts - Unquoted	152
273	Overseas unit trusts	-
33,449	Pooled property investments	38,641
391,319		**539,237**
7,188	Cash deposits Managers	2,039
1,616	Amounts receivable for sales	-
1,155	Investment income due	1,009
164	Outstanding Dividend and Recoverable Withholding Tax	361
10,123		**3,409**
562,102	**Total Investment Assets**	**658,621**
	Investment Liabilities	
(295)	Derivatives - Forward Currency Contracts	**-**
(1,092)	Amount payable for purchases	(113)
(1,387)	**Total Investment Liabilities**	**(113)**
560,715	**Total Net Investments**	**658,508**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2017
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Equities	20,387	1,409	(648)	119	(21,267)	-
Fixed Interest Securities	74,018	47,204	(48,228)	7,115	(1,137)	78,972
Index-linked Securities	66,190	111,794	(120,909)	9,437	(29,572)	36,940
Pooled Investment Vehicles	391,319	95,275	(166,094)	78,290	140,447	539,237
Derivatives – forward currency contracts	(230)	2,727	(2,727)	293	-	63
Cash Deposits (fund managers)	7,188	-	-	(1)	(5,148)	2,039
	558,872	**258,409**	**(338,606)**	**95,253**	**83,323**	**657,251**
Other Investment Balances	1,843	-	-	1	(587)	1,257
	560,715	**258,409**	**(338,606)**	**95,254**	**82,736**	**658,508**

	Market Value at 31 March 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2016
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Equities	24,391	11,210	(13,925)	(1,289)	-	20,387
Fixed Interest Securities	81,916	48,854	(53,785)	(2,967)	-	74,018
Index-linked Securities	63,591	127,502	(126,772)	1,869	-	66,190
Pooled Investment Vehicles	387,542	128,240	(118,209)	(6,254)	-	391,319
Derivatives – forward currency contracts	(529)	244,977	(244,977)	299	-	(230)
Cash Deposits (fund managers)	9,044	-	-	1	(1,857)	7,188
	565,955	**560,783**	**(557,668)**	**(8,341)**	**(1,857)**	**558,872**
Other Investment Balances	1,134	-	-	5	704	1,843
	567,089	**560,783**	**(557,668)**	**(8,336)**	**(1,153)**	**560,715**

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.

Purchases and Sales of derivatives (forward current contracts) are recognised in Note 14a above for contracts settled during the period are reported on a gross basis as gross receipts and payments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £0.144m, including transition costs (2015/16 £0.289m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2017 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2016		Manager	Mandate	Value 31 March 2017	
£000	**%**			**£000**	**%**
121,510	21.67	Royal London	Investment Grade Bonds	127,458	19.36
33,942	6.05	UBS	Property	39,274	5.96
71,006	12.66	Ruffer	Absolute Return	-	-
72,130	12.87	State Street Global Assets	Passive UK/Global Equities	97,009	14.73
6,239	1.11	State Street Global Assets	Sterling Liquidity Fund	-	-
83,794	14.94	Baillie Gifford	Pooled Global Equities	-	-
96,197	17.16	GMO	Multi Asset	102,489	15.56
75,874	13.53	London CIV	Pooled Global Equities	292,267	44.38
23	0.01	Other	Other	11	0.01
560,715	**100.00**	**Total Fund**		**658,508**	**100.00**

All of the above companies are registered in the United Kingdom

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

Market Value 31 March 2016	% of total fund	Security	Market Value 31 March 2017	% of total fund
£000	**%**		**£000**	%
96,197	17	GMO Global Real Return (UCITS) Fund	102,486	16
83,794	15	Baillie Gifford Global Alpha Pension Fund	-	-
75,724	14	London CIV Diversified Growth Fund	292,267	44
72,130	13	SSGA MPF All World Equity Index	97,009	15
33,449	6	UBS Property	39,274	6
-	-	Baillie Gifford Diversified Growth Fund	-	-

14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, State Street Global Assets, who carry out stock lending as part of the Fund's activities. It is not possible to allocate a share of the stock lending activity to individual fund members. The lending programme is managed by State Street Securities Finance (SSSF), a division of State Street's Global Markets area. At present, lending is collateralised by non-cash collateral and marked to market on a daily basis. Revenue generated from securities is allocated 60% to the pooled fund in respect of investors and 40% to State Street, which pays all costs associated with the lending programme.

15. Analysis of derivatives

Objectives and policies for holding derivatives

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

Forward foreign currency

The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Royal London and Ruffer. A breakdown of forward contracts held by the Fund as at 31 March 2017 is given below:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value (Unrealised Gain)	Liability Value (Unrealised Loss)
		000		000	£000	£000
Up to three months	GBP	817	AUD	1,315	17	-
Up to three months	GBP	466	CAD	761	9	-
Up to three months	GBP	1,445	USD	1,763	37	-
Gross open forward currency contracts at 31 March 2017					**63**	**-**
Net forward currency contracts at 31 March 2017					**63**	
Prior year comparative						
Gross open forward currency contracts at 31 March 2016					**65**	**(295)**
Net forward currency contracts at 31 March 2016						**(230)**

16. Fair Value Basis of Valuation

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

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled instruments property funds	Level 3	Valuations carried out by the property funds external valuers, CBRE Ltd	Market value in accordance with the “RICS” Appraisal and Valuation standards	Valuations could be affected by significant differences in rental value and rent growth

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017

	Assessed valuation range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Investments – Property funds	3.05	38,641	39,820	37,462

16a. Fair Value Hierarchy

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

Level 1

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

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

Level 2

Assets and Liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and Liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	616,419	152	38,641	655,212
Loans and receivables	16,545	-	-	16,545
Total Financial Assets	**632,964**	**152**	**38,641**	**671,757**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	(378)	-	-	(378)
Total Financial Liabilities	**(378)**	**-**	**-**	**(378)**
Net Financial Assets	**632,586**	**152**	**38,641**	**671,379**

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	518,361	169	33,449	551,979
Loans and receivables	23,830	-	-	23,830
Total financial Assets	**542,191**	**169**	**33,449**	**575,809**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(295)	-	-	(295)
Financial liabilities at amortised cost	(2,573)	-		(2,573)
Total Financial Liabilities	**(2,868)**	**-**	**-**	**(2,868)**
Net Financial Assets	**539,323**	**169**	**33,449**	**572,941**

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

17. Financial Instruments

(a) Classification of financial instruments

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

31 March 2016				31 March 2017		
Fair value through profit and loss	**Loans and receivables**	**Financial liabilities at amortised cost**		**Fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
20,387	-	-	Equities	-	-	-
74,018	-	-	Bonds -Fixed Interest Securities	78,972	-	-
66,190	-	-	Bonds - Index linked securities	36,940	-	-
65	-	-	Derivative contracts	63	-	-
357,870	-	-	Pooled investment Vehicles	500,596	-	-
33,449	-	-	Property	38,641	-	-
-	7,187	-	Cash	-	2,039	-
-	2,935	-	Other Investment Balances	-	1,370	-
-	13,708	-	Debtors	-	13,136	-
551,979	**23,830**	**-**	**Financial Assets Total**	**655,212**	**16,545**	**-**
			Financial Liabilities			
(295)	-	-	Derivative contracts	-	-	-
-	-	(1,092)	Other Investment Balances	-	-	(113)
-	-	(1,481)	Creditors	-	-	(265)
(295)		**(2,573)**	**Financial Liabilities Total**	**-**	**-**	**(378)**
551,684	**23,830**	**(2,573)**	**Grand total**	**655,212**	**16,545**	**(378)**
572,941				**671,379**		

(b) Net Gains and Losses on Financial Instruments

2015/16 £000		2016/17 £000
	Financial assets	
(8,336)	Fair value through fund account	95,254
-	Loans and receivables	-
	Financial liabilities	
-	Fair value through fund account	-
-	Loans and receivables	**-**
(8,336)	**Total**	**95,254**

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

18. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

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

Responsibility for the Fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the authorities' pensions operations. Polices are reviewed regularly to reflect changes in activity and in market conditions.

(a) Market Risk

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

The objective is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

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

Other Price Risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held for the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the administering authority to ensure it is within limits specified in the investment strategy.

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movements during the financial year, in consultation with the Fund's performance monitoring service, it has been determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period:

Asset Type	31 March 2017 Potential market movements (+/-) %	31 March 2016 Potential market movements (+/-) %
Global Equities inc. UK	9.68	11.30
Fixed Interest Bonds	9.25	8.18
Index Linked Bonds	14.29	10.82
Multi Asset	4.93	4,78
Property	3.05	2.69
Cash	0.01	0.01

The potential price changes disclosed above are determined based on the observed historical volatility of asset class returns. ‘Riskier’ assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend on the Funds asset allocations. The potential volatilities are consistent with a one-standard deviation movement in the value of assets over the last three years. This can be applied to the period end asset mix.

If the market price of the Fund’s investments had increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2017 £000	Change %	Value on Increase £000	Value on Decrease £000
Global Equities inc.UK	-	-	-	-
Fixed Interest Bonds	78,972	9.25%	86,277	71,667
Index linked Bonds	36,940	14.29%	42,219	31,662
Global Pooled inc.UK	500,596	4.93%	525,276	475,917
Property	38,641	3.05%	39,820	37,462
Cash	2,039	0.01%	2,039	2,039
Total	**657,188**		**695,631**	**618,747**

Asset Type	Value as at 31 March 2016 £000	Change %	Value on Increase £000	Value on Decrease £000
Global Equities inc.UK	20,387	11.30%	22,690	18,083
Fixed Interest Bonds	74,018	8.18%	80,073	67,964
Index linked Bonds	66,190	10.82%	73,352	59,028
Global Pooled inc.UK	357,870	4.78%	374,976	340,764
Property	33,449	2.69%	34,349	32,549
Cash	7,187	0.01%	7,188	7,186
Total	**559,101**		**592,628**	**525,574**

Interest Rate Risk

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

The Fund’s direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis

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

The council recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates

Assets exposed to interest rate risk	**Value as at 31 March 2017**	**Potential movement on 1% change in interest rates**	**Value on increase**	**Value on Decrease**
	£000		**£000**	**£000**
Bond Securities	115,912	1,159	117,071	114,753
Cash and Cash Equivalents	2,039	20	2,060	2,019
Cash Balances	12,822	128	12,950	12,694
Total Change in Asset Value	**130,773**	**1,307**	**132,081**	**129,466**

Assets exposed to interest rate risk	**Value as at 31 March 2016**	**Potential movement on 1% change in interest rates**	**Value on increase**	**Value on Decrease**
	£000		**£000**	**£000**
Bond Securities	140,208	1,402	141,610	138,806
Cash and Cash Equivalents	7,188	72	7,260	7,116
Total Change in Asset Value	**147,396**	**1,474**	**148,870**	**145,922**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

Currency risk represents the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund, i.e. pounds sterling.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's performance measurement service it has been determined that a likely volatility associated with foreign exchange rate movements is 20% over a rolling 36 month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 20% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Value as at 31 March 2017 £000	Potential Market movement 9.20%	Value on increase £000	Value on Decrease £000
Overseas Equities	-	-	-	-
Overseas Pooled				
Overseas Index Linked Bonds	389	36	425	353
Overseas Fixed Interests	1,264	116	1,380	1,148
Overseas Cash	5	-	5	5
Total change in assets available to pay benefits	**1,658**	**152**	**1,810**	**1,506**

Assets exposed to currency risk	Value as at 31 March 2016 £000	Potential Market movement 7.80%	Value on increase £000	Value on Decrease £000
Overseas Equities	19,113	1,491	20,604	17,622
Overseas Pooled	1,901	148	2,049	1,753
Overseas Index Linked Bonds	13,094	1,021	14,115	12,073
Overseas Cash	26	2	28	24
Total change in assets available to pay benefits	**34,134**	**2,662**	**36,796**	**31,472**

(b) Credit Risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash not needed to settle immediate financial obligations are invested by the Authority in accordance with the Treasury Investment Strategy. The Treasury Investment Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk.

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Administering Authority therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Pension Fund has immediate access to its cash holdings that are invested by the Authority and periodic cash flow forecasts are prepared to manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's cash management policy and in line with the Fund's investment strategy holds assets that are considered readily realised.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2016 the value of liquid assets was £522m, which represented 93% of the total Fund (31 March 2015 £540m, which represented 95% of the total fund assets).

(d) Refinancing Risk

The key risk is that the Authority will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its investment strategies.

19. Funding Arrangements

Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The Funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS) dated March 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by council tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £573 million, were sufficient to meet 67% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £284 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016 %
Discount Rate for Period	4.0
Salary increases assumption	2.4
Benefit increase assumption (CPI)	2.1

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.0 years	24.2 years
Future Pensioners*	23.9 years	26.3 years

** Currently aged 45*

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the London Borough of Havering, Administrating Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bonds yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The funding Strategy Statement will also be reviewed at that time.

20. Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 basis, every year using the same base data as the Funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19).

31 March 2016	**Year Ended**	**31 March 2017**
£m		**£m**
476	Present Value of Promised Retirement Benefits	475
153	Fair Value of Scheme assets (bid Value)	245
363	Net Liability	486
992	**Total**	**1,206**

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

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. It is estimated that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £206m. It is estimated that the change in demographic and longevity assumptions is to decrease the actuarial present value by £17m.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended (% p.a)	31 March 2017	31 March 2016
	% p.a.	% p.a.
Pension Increase Rate	2.4	2.1
Salary Increase Rate	2.7	3.1
Discount Rate	2.5	3.4

Longevity assumption

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

	Males	Females
Current Pensioners	22.0 years	24.2 years
Future Pensioners	23.9 years	26.3 years

Please note the longevity assumptions have changed since last year 's IAS26 disclosure for the Fund.

Commutation assumption

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

Sensitivity Analysis

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

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	7	89
0.5% p.a. increase in the Salary Increase Rate	2	22
0.5% p.a. decrease in the Real Discount Rate	9	113

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

Professional notes

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

21. Current Assets

2015/16 £000		2016/17 £000
	Debtors:	
-	Pension Grants	-
-	Other Local Authorities	-
288	Contributions due from employers	224
82	Contributions due from employees	71
67	Pension Fund Investment Interest	-
675	Pension Fund Bank Account Balances	-
-	Debtors Refund	18
12,595	Cash deposit with LB Havering	12,823
13,707	**Current Assets**	**13,136**

2015/16 £000	Analysis of Debtors	2016/17 £000
-	NHS Bodies	-
-	Other local authorities	-
288	Public corporation and trading funds	224
82	Other entities and individuals	71
370	**Total Debtors**	**295**

22. Current Liabilities

2015/16 £000		2016/17 £000
	Creditors:	
(883)	Unpaid Benefits	(80)
(251)	Accrued Expenses	(132)
(320)	Income Tax Recoveries	-
(27)	Holding Accounts	(53)
(1,481)		**(265)**

2015/16 £000	Analysis of Creditors	2016/17 £000
(1,481)	Other entities and individuals	(265)
(1,481)	**Total**	**(265)**

23. Additional Voluntary Contributions

Market Value 2015/16 £000	AVC Provider	Market Value 2016/17 £000
707	Prudential	801
169	Standard Life	202

Some employees made additional voluntary contributions (AVC's) of £52,413 (2015/16 £54,827) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2016/17 were £38,515 (2015/16 £40,807) to the Prudential and £13,898 (2015/16 £14,020) to Standard Life.

24. Agency Services

Havering Council pays discretionary awards to the former employees of Havering. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

2015/16 £000		2016/17 £000
1,452	Payments on behalf of Havering Council	1,410

25. Related Party Transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Fund, or to be controlled or influenced by the Fund.

The Havering Pension Fund is administering by Havering Council and consequently there is a strong relationship between the Authority and the Pension Fund. In 2016/17, £0.459m was paid to the Authority for the cost of administrating the Fund (2015/16 £0.450m).

The Authority is also the largest employer in the Fund and in 2016/17 contributed £24.997m (2015/16 £27.798m) to the Pension Fund in respect of employer's contributions.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of Havering Council, through a service level agreement. As at 31 March 2017 cash holdings totalled £12.8m (2015/16 £12.96m), earning interest over the year of £0.094m (2015/16 £0.067m).

Governance

Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Group Director of Communities and Resources.

No members of the Pension Fund Committee are in receipt of pension benefits from the Havering Pension

Fund.

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

During the year no Member or Council officer with direct responsibility for Pension Fund issues has undertaken any declarable material transactions with the Pension Fund.

The members of the Pensions Committee do not receive fees in relation to their specific responsibilities as members of the Pensions Committee.

Note 25a Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 244. This applies in equal measure to the accounts of the Havering Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Havering Council.

26. Contingent Liabilities and Contractual Commitments

There are no material outstanding capital commitments (investments) as at 31 March 2017 (2015/16 £0.186m). This relates to an outstanding commitment due on an unquoted private equity fund.

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. As mentioned in Note 10 there are potential liabilities of £0.7m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

27. Contingent Assets

Three admitted bodies in the Havering Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £4.2m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Five admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.7m.

28. Impairment Losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2017.

Glossary

Accounting Policies Those principles, bases, conventions, rules and practices applied by an entity that specify how the effect of transactions and other events are to be reflected in its financial statements through:

(i) recognising

(ii) selecting measurement bases for, and

(iii) presenting assets, liabilities, gains, losses and charges to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Accruals The amounts by which receipts or payments are increased (or reduced) in order to record the full income and expenditure incurred in an accounting period.

Actuary An independent consultant who advises on the financial position of the Pension Fund.

Actuarial Valuation Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Authority on the Fund's financial position and recommended employers' contribution rates.

Agency Arrangement An arrangement whereby an authority (the agent) acts on behalf of another (the principal) to collect income or incur expenditure on the behalf of the principal. Such income or expenditure is not included in the agent's accounts other than any commission paid by the principal.

Amortisation The writing off of an intangible asset or loan balance over a period of time.

Appropriation The transfer of ownership of an asset from one service to another at an agreed (usually market) value.

Balance Sheet A statement of all the assets, liabilities and other balances of the Authority at the end of an accounting period.

Bid Price The purchase price that a buyer is willing to pay for an asset**.**

Budget A forecast of future expenditure plans for the Authority. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the council tax is set. Budgets are revised towards the year end to take account of inflation, changes in patterns of services, and other factors.

Capital Expenditure Expenditure on the acquisition of fixed assets or expenditure which adds to the value of an existing fixed asset.

Capital Financing Requirement The measure of an authority's capital borrowing need under the Prudential Code and the Local Government Act 2003. It is made up of the total value of the Authority's fixed assets and intangible assets less the sums accumulated in the revaluation reserve, deferred grant reserve and capital adjustment accounts.

Capital Receipt Income received from the sale of a capital asset such as land or buildings.

Code of Practice on Local Authority Accounting in the United Kingdom (The Code) Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board. The Code is reviewed continuously and is issued annually.

Collection Fund A Statutory Account which receives council tax and non-domestic rates to cover the costs of services provided by Havering and its precepting authorities.

Community Assets Assets that the Authority 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.

Comprehensive Income and Expenditure Statement A statement showing the income and expenditure for the year of all the functions for which the Authority is responsible and complies with accounting practices as required under International Financial Reporting Standards (IFRS).

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

Contingent Liability A possible liability to future expenditure at the balance sheet date dependent upon the outcome of uncertain events.

Defined Benefit Scheme A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

Depreciation The measure of 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 earmarked to fund known items of anticipated expenditure for which the liability is not chargeable to the current year's Accounts.

Effective Interest Rate The rate of interest needed to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument to equal the amount at the initial recognition.

Finance Lease A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Financial Asset A right to future economic benefits controlled by the Authority that is represented by:

- Cash
- An equity instrument of another entity
- A contractual right to receive cash (or other financial asset) from another entity.
- A contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially favourable to the Authority.

Financial Instrument A contract which gives rise to a financial asset of one entity and a financial liability or equity instrument of another

Financial Liability An obligation to transfer economic benefits controlled by the Authority that is represented by:

- A contractual obligation to deliver cash (or other financial asset) to another entity
- A contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially unfavourable to the Authority.

Fixed Assets Assets that yield benefit to the Authority and the services it provides for a period of more than one year. Fixed Assets are sub-divided into **Tangible** and **Intangible**: the former are physical assets such as land, buildings and equipment; the latter are assets such as computer software or marketable research and development.

General Fund (GF) Havering's main Revenue Account from which is met the cost of providing most of the Authority's services.

General Fund Working Balance Revenue Funds which are uncommitted and available to support general funding pressures not otherwise specifically covered by planned budget or earmarked reserves.

Historic Cost The actual cost of an asset in terms of past consideration as opposed to its current value.

Housing Revenue Account (HRA) A Statutory Account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

Impairment The reduction in value of a tangible or intangible fixed asset reflecting either (i) the consumption of economic benefits such as obsolescence or physical damage or (ii) a general fall in prices. In the former case, the impairment is a charge to the revenue account; in the latter, the impairment is a charge to the Revaluation Reserve or Capital Adjustment Account.

Infrastructure Assets Assets which have an indeterminate life and although valuable do not have a realisable value e.g. roads.

London Collective Investment Vehicle (CIV) - launched in December 2015, is the first fully authorised and regulated investment management company set up by Local Government in the UK. They have been established as a collective vehicle for investments for Local Government Pension Scheme Funds.

Minimum Revenue Provision (MRP) The Authority is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Net Book Value The amount at which fixed assets are included in the balance sheet after depreciation has been provided for.

Net Current Replacement Cost The current cost of replacing or recreating an asset in its existing use, adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

Net Realisable Value The open market value of the asset less the expenses to be incurred in realising the asset.

Non-Operational Assets Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of its services. Examples include investment and surplus properties.

Non Distributed Costs Costs which are not chargeable to services and comprise of:

- Retirement benefit costs (past service costs, settlements and curtailments)
- Unused share of IT facilities

The costs of shares of long term unused but unrealisable assets.

oneSource A partnership between the London Boroughs of Bexley, Havering and Newham through a joint-committee arrangement to deliver support services. This will release resources to be applied to the protection of front-line services.

Operational Assets Fixed assets held, occupied, used or consumed by the Authority in the direct delivery of its services.

Operating Lease A lease other than a finance lease, i.e. a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

Outturn The actual level of expenditure and income for the financial year.

Post Balance Sheet Events Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts are approved for issue by the Group Director, Communities and Resources.

Precept The charge made by one authority (e.g. Greater London Authority) on another authority (e.g. Havering) to finance its net expenditure.

Provisions Amounts set aside to fund known liabilities chargeable to the current year's Accounts where the exact amount or timing of the payment are not yet certain.

Prudential Code Since April 2004 local authorities have been subject to a self-regulatory "prudential system" of capital controls. This gives authorities freedom to determine how much capital investment they can afford to fund through borrowing. The objectives of the code are to ensure that authorities' capital spending plans are affordable, prudent and sustainable, with authorities being required to set specific prudential indicators.

Public Works Loans Board (PWLB) Central Government Agency which funds much of Local Government borrowing.

Revenue Expenditure The day to day expenditure of the Authority, e.g. salaries, goods and services and depreciation.

Revenue Expenditure Funded from Capital Under Statute Expenditure which would otherwise be classified as revenue, but which is classified as capital expenditure for control purposes. Examples include items such as improvement grants and loan redemption expenses.

Revenue Support Grant The main grant paid by the Government to local authorities.

Service Reporting Code of Practice (SeRCOP) SeRCOP establishes proper practices with regard to consistent financial reporting for services. It is an official CIPFA statement – all local authorities in the United Kingdom are expected to adopt its mandatory requirements and detailed recommendations.

Movements 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.

Supported Borrowing Borrowing supported by central government grant towards the financing costs, mainly through Revenue Support Grant.

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Havering
LONDON BOROUGH

AUDIT COMMITTEE
28 September 2017

Subject Heading:	Report To Those Charged With Governance International Standard of Auditing (ISA) 260
CLT Lead:	Debbie Middleton
Report Author and contact details:	Contact: Radwan Ahmed Designation: Head of Finance –Financial Control & Corporate Business Systems Telephone: 0203 373 0934 E-mail address: Radwan.Ahmed@oneSource.co.uk
Policy context:	Audit Committee responsible for approving accounts.
Financial summary:	There are no direct financial implications to the report.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The draft ISA 260 report from the external auditor Ernst and Young will be included as Appendix A and presented by the auditors at the meeting. It will summarise their findings from the 2016/17 audit to date. The ISA 260 report will set out key issues that have been considered by the auditors when considering their opinion, conclusion and certificate. Officers' responses will be included in the ISA 260 report.

The draft of the Letter of Representation will be included as appendix B.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2017.

RECOMMENDATIONS

To note the contents of the Report to Those Charged with Governance (ISA260) and the draft Letter of Representation and consider any issues raised by the external auditor.

REPORT DETAIL

Regulation 11 of the Accounts and Audit Regulations 2015 requires the publication of the Statement of Accounts after the conclusion of the audit, but in any event no later than the 31st July. Transitory provisions (regulation 21) amend this to 30th September for the 2015/16 and 2016/17 accounts.

The draft report from the external auditor at Appendix A summarises their findings from the 2016/17 audit to date. It sets out key findings that were considered by the auditors when considering their opinion, conclusion and certificate.

The Committee is also asked to consider the draft Letter of Representation, Appendix B, setting out the assurances required of the Chief Financial Officer by the auditors.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2017.

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. Any financial consequences arising from the outcome of the audit of accounts and recommendations set out by the external auditor will be addressed as part of the Council's response.

Legal Implications and risks:

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers held within the Corporate Finance section.

Draft statement of Accounts 2016/17

Appendix A

Report to the Audit Committee of the authority on the audit of the statement of accounts and pension fund accounts for the year ended 31 March 2017 (ISA (UK&I)) 260)

Appendix B

Representation letter – audit of the London Borough of Havering's ("the Authority") Statement of Accounts for the year ended 31 March 2017

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London Borough of Havering

Audit results report

Year ended 31 March 2017

Building a better working world

Private and Confidential

28 September 2017

Dear Audit Committee Members

We have substantially completed our audit of the London Borough of Havering for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 30 September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Debbie Hanson
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee, other members of the Authority and management of the London Borough of Havering in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, other members of the Authority and management of the London Borough of Havering, as those matters we are required to state to them in this 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 Audit Committee, other members of the Authority and management of the London Borough of Havering for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.

01 Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the March 2017 meeting of the Audit Committee, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £11 million. We reassessed this using the actual year-end figures, which has increased this amount to £11.2 million. The threshold for reporting audit differences has increased this amount from £553,000 to £563,000. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we have tested the disclosures in sufficient detail to ensure they are correctly disclosed. In particular we have confirmed the figures for senior officer remuneration in full.
- Related party transactions. The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality as well as undertaking additional procedures to gain assurance over the completeness of the disclosures.
- Members' allowances. As these disclosures are considered to be of interest to users of the accounts we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

Executive Summary

Status of the audit

We have substantially completed our audit of the London Borough of Havering's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3.

- Completion of procedures to test the valuation of property, plant and equipment. We are currently completing our procedures to verify and critically challenge the valuation of certain property assets. The Council's valuer has identified significant movements in the value of a number of assets, and we therefore engaged our internal valuation specialist to review the year end valuations for these assets. We will provide an update on the progress of this work, including any findings arising and adjustment that may be required to the accounts, to the Audit Committee meeting on 28 September.
- Sample testing of income and expenditure, including Housing Revenue Account expenditure.
- Testing of the NDR appeals provision.
- Final Director and Manager review of completed audit work.
- Review of final version of the financial statements.
- Completion of subsequent events review up to the date of the audit report.
- Receipt of the signed management representation letter.

Until our work is complete, further amendments may arise. We will provide an update on the progress of this work, and any findings from that work, to the Audit Committee at its meeting on 28 September.

Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. This error relates to a misclassification of debtor and creditor balances, resulting in an overstatement of net expenditure recorded in the Authority's Comprehensive Income and Expenditure Statement of £629,000. We do not consider this error to be material to the financial statements, but ask that management's rationale as to why this is not corrected is approved by the Audit Committee and included in your Letter of Representation to us.

We have agreed with the Council some additional narrative within the financial statements to reflect the basis on which the property held by Mercury Land Holdings is valued. Our audit also identified a number of minor disclosure errors which were corrected by management. Details can be found in Section 4: Audit Differences.

We will provide an update to the Audit Committee meeting on 28 September of any audit differences identified as part of the conclusion of our work (both corrected and uncorrected).

Executive Summary

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of the London Borough of Havering's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure.

We identified the risk of revenue recognition and management override of controls as significant audit risks and undertook specific audit procedures to address these risks. Our work did not identified any transactions during which appeared unusual or outside the Authority's normal course of business.

An area of audit focus which we also included in the Audit Plan was the introduction of the Expenditure and Funding Analysis (EFA) and the restatement of the Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MIRS). Our work did not identify any issues with restatement of the CIES or MIRS, or the figures on the EFA. The Authority did however amend the presentation of the accounts to include the EFA as a note to the financial statements, rather than as a primary statement, as it was incorrectly included in the draft accounts.

We also identified two areas in our Audit Plan where we place reliance on experts; pensions and property valuations. We have evaluated each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work. We have also considered the work performed by the specialist and performed audit procedures to confirm we can place reliance on these experts. This work is still in progress and further detail on the outcome of the work we have completed to date is included in section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issues
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Value for Money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we committed to updating you on the outcome of our risk assessment. We have completed our risk assessment and did not identify any significant risks.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources based on the audit work we have completed. The Authority has identified budget deficits in the medium term, but also has a history of successfully addressing such budget deficits, and has an adequate level of reserves.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

The Council submitted the pre-audit Whole of Government Accounts (WGA) submission in July. We are currently completing our work in relation to this.

Control observations

We have adopted a fully substantive approach, and so have not tested the operation of controls. We have, however, updated our understanding of key processes and the controls which are in place to detect or prevent error. Through this work, we have identified a small number of deficiencies in the design or operation of controls that we wish to bring to your attention. These are in relation to the Council's processes to:

- Engage and instruct its valuer;
- Review the work of third parties engaged to calculate the Council's provision for appeals against the rateable value on non-domestic properties; and
- Produce transaction listing for material balances disclosed in the financial statements.

Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to bring to your attention.

Audit Fees

We have incurred additional costs in testing the significant reductions in the value of assets valued on a depreciated replacement cost basis. We have engaged specialist support from EY valuation experts to enable us to test these movements, in particular focusing on the assumptions and methodology adopted by the Authority's valuer.

We also incurred additional costs in testing the consolidation of Mercury Land Holdings into the Council's group financial statements, and in working with the Council to obtain transaction listings for material balances and transaction streams.

We consider this work to be outside of the scope of the scale fee, and will seek a variation to the scale fee from PSAA Ltd. We will discuss and agree this fee with management and PSAA and confirm our final fee in our Annual Audit Letter.

02 Areas of Audit Focus

Audit issues and approach: Risk of Fraud in Revenue Recognition

Revenue Recognition

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

What is the risk?

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

For the Council, we identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of fraud in revenue recognition.

Significant Risk

What did we do?

Our testing of journal entries has not identified adjustments which were outside of the normal course of business. All journals tested have an appropriate business rationale.

Our testing material revenue and expenditure streams, including accounting estimates did not identify any issues or evidence of management bias.

Our cut-off testing on income and expenditure received around period end to assess whether the recognition or deferral of this income and expenditure was appropriate did not identify any issues.

We have not identified any issues in relation to completeness of revenue through substantive testing and cut-off.

Our review and testing of capital expenditure on property, plant and equipment confirmed it met the relevant requirements to be capitalised.

Audit issues and approach: Management Override of Controls

Management override

What are our conclusions?

From our work complete to date:

- We have not identified any material weaknesses in controls or evidence of material management override of controls.
- We have not identified any inappropriate journals.
- We have not identified any instances of inappropriate judgements being applied in relation to accounting estimates.
- We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

What is the risk?

Risk of management override of controls

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation.

Significant Risk

What did we do?

In order to address this risk we carried out a range of procedures including:

- Gaining an understanding of the oversight given by those charged with governance of management's processes and controls in respect of fraud;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation;
- Reviewed accounting estimates (e.g. IAS 19 liability, valuation of property, plant and equipment) for evidence of management bias. More detail on these areas is included on the following page; and
- Undertook testing to identify any significant unusual transactions; no such transactions were identified, this includes our detailed review of the adjustments through the Movement in Reserves Statement.

Areas of Audit Focus

Further details on procedures / work performed

In undertaking our work on management override of controls we have considered the balances included in the Authority's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be:

- The valuation of property, plant and equipment – due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below. We noted as part of our planning that there have been significant reductions in the value of assets valued on a depreciated replacement cost basis. We have therefore engaged our own internal valuation specialists to enable us to test and validate these movements.
- Valuation of pension liabilities - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.
- Provisions (including NDR appeals provision) - due to the high degree of estimation assumptions we have included this as a higher risk estimate in our audit strategy.
- Accruals of income and expenditure – due to the judgement involved in determining whether good/services are received/rendered in the absence of an invoice we have included manual accruals as a higher risk estimate in our audit strategy.

We consider the remainder of the Authority's estimates, including bad debt provision and depreciation to be at low risk of material misstatement.

Audit issues and approach: Reliance on experts

Reliance on experts

Reliance on experts highlighted in the Audit Plan

We identified two areas in our Audit Plan where we place reliance on experts; pensions and property valuations.

In accordance with Auditing Standards, we have evaluated each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We have also considered the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. As part of this work we have performed the following procedures:

- Analysed source data and make inquiries as to the procedures used by the expert to establish whether the source date is relevant and reliable;
- Assessed the reasonableness of the assumptions and methods used;
- Considered the appropriateness of the timing of when the specialist carried out the work; and
- Assessed whether the substance of the specialist's findings are properly reflected in the financial statements.

We set out our findings in relation to the two specialists we have relied on below.

Pension disclosures

We have assessed and are satisfied with the competency and objectivity of the Authority's actuary, Hymans Robertson. EY's pension team and PwC (as consulting Actuary to the NAO) have reviewed the work of the actuaries. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.

Property valuations

We have assessed and overall are satisfied with the overall competency and objectivity of the Authority's valuers, Wilks, Head and Eve, subject to the completion of our detailed review of a sample of assets valued at depreciated replacement cost as referred to below. In addition to this we have:

- Assessed and used an independent valuer's market report to review and challenge the assumptions and judgements used by the Authority's external valuer in valuing council dwellings.
- Tested the accounting entries made for revaluations, including assessing assumptions, asset use and valuation methods.

We are currently completing our procedures to verify and critically challenge the valuations adopted by the valuer. We identified significant movements in the value of a number of assets, and we therefore engaged our internal valuation specialist to review the year end valuations for these assets. We will provide an update on progress and any findings at the Audit Committee meeting.

Audit issues and approach: Other Financial Statement Risks

Other Financial Statement Risks	What did we do?
CIPFA Code Changes Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements. The Code no longer requires statements or notes to be prepared in accordance with CIPFA's Service Reporting Code of Practice (SeRCOP). Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Authority's segmental analysis. This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.	We: • Reviewed the Expenditure and Funding Analysis, CIES, MIRS and new notes to ensure disclosures are in line with the Code. • Reviewed the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Authority's organisational structure and how overheads are apportioned across the service areas reported. • Agreed the restated comparative figures back to the Authority's segmental analysis and supporting working papers. We are currently concluding our work in relation to this item. At this stage the only matter we have to report to you is that as a result of our audit, the positioning of the Expenditure and Funding Analysis (EFA) within the financial statements was amended to better reflect its status as a note to the accounts rather than a primary statement.
Highways Network Assets deferral to 2017/18 Our Audit Plan noted that CIPFA had issued an update to the 2016/17 Accounting Code which removed all references to the valuation and accounting requirements for the Highways Network Asset (HNA) due to the deferral of its implementation announced in December 2016. Subsequent to this, CIPFA made a further announcement that the plans to implement HNA accounting had been cancelled.	We continued to consider the preparedness of the Council during 2016/17. As a result of the CIPFA decision not to implement HNA accounting, no disclosure requirements were needed in the 2016/17 financial statements.

Other Financial Statement Risks	What did we do?
Group Accounts The Council set up a wholly owned subsidiary company, Mercury Land Holdings, in October 2015. The Council will prepare group accounts for the first time in 2016/17 in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice). We consider there to be an increased risk that the financial statements do not meet the group accounting requirements defined by the Code.	We: • Reviewed the Council's assessment of all potential group entities against accounting standards IFRS10 and 11. • Reviewed and tested that the Council adopted and correctly applied accounting policies that comply with the requirements of the Code. • Reviewed that the consolidations of the companies' accounts have been undertaken correctly into the group accounts. Reviewed and tested all appropriate disclosures. We have agreed with the Council some additional narrative within the financial statements to reflect the basis on which the property held by Mercury Land Holdings is valued. We are currently concluding our work in relation to the Council's group accounts, but at this stage have no further matters to report to you.

03 Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion on the Authority's financial statements

We have audited the financial statements of the London Borough of Havering for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement;
- Authority and Group Comprehensive Income and Expenditure Statement;
- Authority and Group Balance Sheet;
- Authority and Group Cash Flow Statement;
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement;
- the Collection Fund; and
- the related notes 1 to 45 of the Authority financial statements, the related notes 1 to 5 of the Housing Revenue Account Income and Expenditure Account, the related notes 1 to 3 of the Collection Fund, and the related notes 1 to 5 of the Group financial statements

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the London Borough of Havering, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our opinion on the financial statements (cont.)

Respective responsibilities of the Section 151 Officer and External Auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities as set out on page 11, the Section 151 Officer is responsible for the preparation of the Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts for the financial year 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Havering and Group as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Our opinion on the financial statements (cont.)

Opinion on other matters

In our opinion, the information given in the Statement of Accounts for the financial year 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on the London Borough of Havering'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 20(1)(c) of the Local Audit and Accountability Act 2014 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 National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

Our opinion on the financial statements (cont.)

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the London Borough of Havering had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Havering put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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 London Borough of Havering 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 issued by the C&AG in November 2016, we are satisfied that, in all significant respects, the London Borough of Havering had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of the London Borough of Havering in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Debbie Hanson (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Luton
29/09/2017

The maintenance and integrity of the London Borough of Havering's web site is the responsibility of the Authority; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

04 Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as ‘known’ or ‘judgemental’. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We do not have any corrected misstatements in the financial statements or disclosures identified during the audit which we need to bring to your attention. Until our audit is complete however further issues may arise. We will update the Audit Committee on any differences identified as a result of the conclusion of our work at the Committee on 28 September.

We have agreed with the Council some additional narrative within the financial statements to reflect the basis on which the property held by Mercury Land Holdings is valued. Our audit also identified a number of minor disclosure errors which were corrected by management.

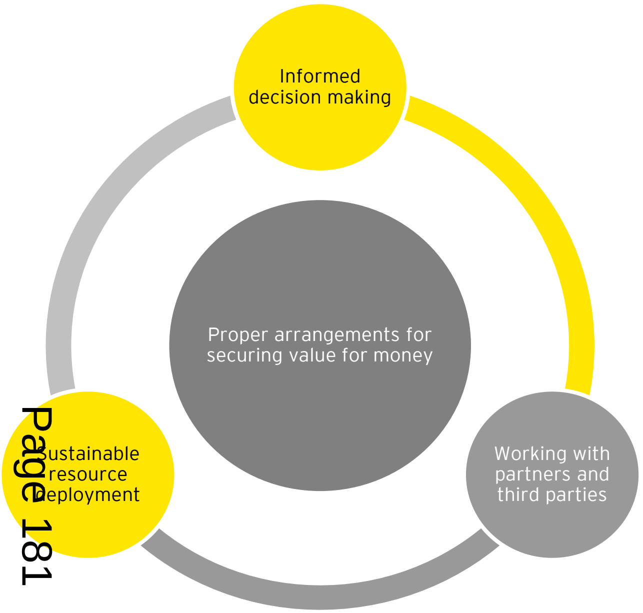
Summary of unadjusted differences

We highlight the following misstatements in the financial statements which were not corrected by management. We ask you to give a rationale as to why they have not been corrected. This should be considered and approved by the Audit Committee and included in your Letter of Representation to us:

Account 31 March 2017	Comprehensive income and expenditure statement (Increase)/Decrease	Balance sheet (Decrease)/Increase
We identified that a housing benefit debtor balance of £314,972 had been incorrectly recorded as a creditor. The effect of this error is to overstate creditors and understate debtors (resulting in an understatement of net assets), with a corresponding overstatement of net expenditure recorded in the Comprehensive Income and Expenditure Account.	(£629,944)	£629,944

05 Value for Money

Value for Money



Economy, efficiency and effectiveness

We must consider whether you have ‘proper arrangements’ to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We identified one significant risk around these arrangements in relation to the deployment of resources in a sustainable manner and working with partners and other third parties. The table below presents our findings in response to the risk in our Audit Plan.

On the basis of the work we have completed to date, we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We did not identify any significant risks in our risk assessment.

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What is the significant VFM risk?	What arrangements did this affect?	What are our findings?
The impact of continuing reductions in funding from central government, together with significant cost pressures in areas such as Adult and Children's services, is particularly challenging for the Council. With restrictions on annual Council Tax increases, the Council's medium-term financial strategy identifies the need to identify and deliver significant savings from 2017/18 and future years. Sustainability and Transformation Plans (STPs) give councils and local NHS organisations the opportunity to work together to improve the way health and social care is designed and delivered. The North East London STP brings together the challenges and opportunities that face NHS and care services in North East London as they work together to improve health and wellbeing within the funds available. While the Council has a history of being well managed and aware of issues impacting the Borough area as a whole, we consider there is a significant risk in relation to the Council's ability to deal with the challenging health and social care environment and deliver the savings required.	Deploying resources in a sustainable manner Working with partners and other third parties	We have performed the procedures outlined in our Audit Plan. We considered the following areas and made the following observations. **We reviewed the Council's medium term financial plan and the assumptions within it, and outturn against the 2016/17 budget**. The Council has set a balanced budget for 2017/18, but identifies a cumulative budget gap of £9.2 million in the period 2018/19 – 2019/20 (before allowing for the effect of any increases in Council Tax). The Council's general fund expenditure was delivered in line with overall approved budget for 2016/17 . This comprised an overspend of £4.47m on services, offset by an underspend on corporate and contingency budgets. The Council's 2017/18 budget includes the planned use of £1.8m of the corporate risk budget to support directorates in delivering their transitional plans to mitigate against demand led expenditure pressures. The Council will need to ensure delivery of its agreed savings plans during 2017/18 in order to keep its Medium Term Financial Plan on track.

What is the significant VFM risk?	What arrangements did this affect?	What are our findings?
		We assessed the level of reserves that the Council has at 31 March 2017. The level of general fund reserves held by the Council at 31 March 2017 is £11.8 million. This is above the minimum level of £10 million recommended by the Council's Section 151 officer. We have therefore concluded that the Council has an adequate level of reserves. **We considered the Council's decision making processes and partnership working.** The Council has appropriate governance performance and risk management processes in place. There is evidence of the Council working effectively with partners in key areas, for example OneSource in the provision of back office services, and STP partners in relation to health and social care. A clear vision for the Councils is included in the Corporate Plan.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/2017 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have completed our work in these areas and have concluded that:

- Financial information in the Statement of Accounts for the year ended 31 March 2017 and published with the financial statements was consistent with the audited financial statements.
- The Annual Governance Statement is consistent with other information from our audit of the financial statements.

We therefore have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues that would require us to make such a recommendation.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and

We have no such matters to report.

07 Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have the following matters we wish to report to you:

1. There are a number of areas where the Council has found it difficult to provide us with transaction listings for certain classes of debtor and creditor balances, and income and expenditure transaction streams. This has caused delays in the completion of our testing. The Council should review its processes for the production of the accounts for 2017/18 to ensure these matters are addressed. This is particularly important in light of the compression of the timescale for the production and audit of the accounts in 2017/18, when the accounts will need to be produced by the 31 May and the audit opinion given by 31 July.

2. The Council has engaged an external valuer, Wilks Head and Eve, to value property assets. We noted that the Council had not issued formal written instructions to its valuer, but had instead instructed the valuer through a series of meetings between the Council's property team and its valuer. Where formal instructions aren't issues to the valuer on an annual basis, the audit trail supporting valuation work is reduced, and the risk of misunderstandings between the valuer and authority is increased. We identified and reported on a similar issue in the prior year.

3. The Council has engaged a third party, Analyse Local, to calculate its provision for future losses of non-domestic rates income arising as a result of successful appeals against non-domestic rate values. We found that the Council had not sufficiently challenged its expert on assumptions made in calculating this estimate. Our subsequent testing of this provision has not identified any further matters we wish to bring to your attention.

08 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	1 March 2017 Audit Plan
Significant findings from the audit	▸ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Any significant difficulties encountered during the audit ▸ Any significant matters arising from the audit that were discussed with management ▸ Written representations we have requested ▸ Expected modifications to the audit report ▸ Any other matters significant to overseeing the financial reporting process ▸ Findings and issues around the opening balance on initial audits (delete if not an initial audit)	28 September 2017 Audit Results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Authority's ability to continue for the 12 months from the date of our report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Significant corrected misstatements, in writing	28 September 2017 Audit Results Report

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fraud	▸ Asking the audit committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▸ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▸ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, where applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and/or regulations ▸ Difficulty in identifying the party that ultimately controls the entity	We have no matters to report
Subsequent events	▸ Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.	28 September 2017 Audit Results Report
Other information	▸ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	We have no matters to report
External confirmations	▸ Management's refusal for us to request confirmations ▸ We were unable to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and/or regulations	▸ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▸ Asking the audit committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit committee.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	28 September 2017 Audit Results Report
Group Audits (if applicable)	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the group audit team's planned involvement in the component auditors' work on the financial information of significant components ▸ Instances where the group audit team's evaluation of a component auditor's work of gave rise to a concern about its quality Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.	1 March 2017 Audit Plan 28 September 2017 Audit Results Report
Independence	Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information on the firm's general policies and processes for maintaining objectivity and independence Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,	1 March 2017 Audit Plan 28 September 2017 Audit Results Report
Fee Reporting	Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	1 March 2017 Audit Plan 28 September 2017 Audit Results Report

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Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report presented to the Audit Committee on 1 March 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you, and your Audit Committee, consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 28 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
Total Audit Fee - code work	TBC	£151,844	£151,844	£151,844
Certification of grant claims and return	TBC	£16,178	£16,178	£15,080

We have incurred additional costs in testing the significant reductions in the value of assets valued on a depreciated replacement cost basis, engaging specialist help from EY valuation experts to enable us to test these movements, in particular to understand the assumptions and methodology adopted by the Authority's valuer.

We also incurred additional costs in testing the consolidation of Mercury Land Holdings into the Council's group financial statements, and in working with the Council to obtain transaction listing for a material balances and transaction streams.

We consider this work to be outside of the scope of the scale fee, and will seek a variation to the scale fee from PSAA Ltd. We will discuss and agree this fee with management and PSAA and confirm our final fee in our Annual Audit Letter.

Our work on the certification of grant claims and returns relates to our audit of the Council's housing benefit subsidy claim. This work will be completed in October and November. We will report any variation to the planned fee to a subsequent meeting of the Audit Committee.

Outstanding matters

The following items are outstanding at the date of this report:

Item	Actions to resolve	Responsibility
Completion of audit work in relation to the following areas:		
• Valuation of property, plant and equipment	EY Valuer to complete review	EY
• NDR Appeals Provision	Response to questions raised with Analyse Local	Management and EY
• Sample testing of income and expenditure, including HRA expenditure	Management to provide supporting evidence for transactions selected for testing	Management and EY
The financial statements	Finalisation and review of the final version of the financial statements	EY and management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Management representations	Receipt of the signed management representation letter (see Appendix E).	Management

Accounting and regulatory update

Accounting update

Since the date of our last report to the Audit Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on the London Borough of Havering
IFRS 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and will change: ▸ How financial assets are classified and measured ▸ How the impairment of financial assets are calculated ▸ Financial hedge accounting ▸ The disclosure requirements for financial assets. ▸ Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.	Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Authority will have to: ▸ Reclassify existing financial instrument assets ▸ Remeasure and recalculate potential impairments of those assets; and ▸ Prepare additional disclosure notes for material items The Council is awaiting clarification of the exact requirements before investing time in the above work.

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Appendix D

IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ▸ Leases; ▸ Financial instruments; and ▸ Insurance contracts; The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. ▸ There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Authority will have to: ▸ Disaggregate revenue into appropriate categories ▸ Identify relevant performance obligations and allocate income to each ▸ Summarise significant judgements The Authority is awaiting clarification of the exact requirements before investing time in the above work.
IFRS 16 Leases	IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Authority will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented. The Authority is yet to commence work in this area due to the timing of implementation.

Appendix D

Progress report on implementation of new standards and regulations

In previous reports to the Audit Committee, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures	Impact on the London Borough of Havering
Earlier deadline for production and audit of the financial statements from 2017/18	▸ The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements. To prepare for this change the Authority has taken some steps in 2016/17. For example it has started to review and amend the closedown process to achieve earlier draft accounts production. As auditors, nationally we have: • Issued a thought piece on early closedown • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 Locally we have had discussions through the year on the Authority's proposals to bring forward the closedown timetable and on potential areas for early work. We have agreed with the Authority to engage early, following the completion of the 2016/17audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Authority can take, for example: • Streamlining the Statement of Accounts removing all non-material disclosure notes • Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations • Providing training to departmental finance staff regarding the requirements and implications of earlier closedown • Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure • Establishing and agreeing working materiality amounts with the auditors

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Management representation letter

Management Representation Letter

London Borough of Havering
Audit for the year ended 31 March 2017

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Havering ("the Group and Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Group and Council as of 31 March 2017 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify – nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist. Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. We believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 that are, free from material misstatement, whether due to fraud or error.

5. We have not corrected the unadjusted error in relation to housing benefit debtor and creditor balances as we consider this to be immaterial, and does not affect a readers understanding of the financial statements, or the financial position for the London Borough of Havering as at the balance sheet date.

Management Rep Letter

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.

   - Additional information that you have requested from us for the purpose of the audit and

   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes and papers of the meetings of the Council, the Cabinet, and the Audit Committee held through the year to the most recent meeting held on 28 September 2017.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management Rep Letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and disclosed all liabilities, related litigation and claims, both actual and contingent. The Authority has not provided any guarantees to any third parties.

4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than the events described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. WE believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.

2. With regard to accounting estimates recognised or disclosed in the financial statements we confirm:

   - The measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.

   - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.

   - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.

Management Rep Letter

- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

I. Expenditure Funding Analysis

1. We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.

2. We also confirm that the financial statements reflect the operating segments reported internally to the Council.

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

K. Going Concern

1. We have made you aware of any issues that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action and the feasibility of those plans.

Management Rep Letter

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the values of the Group and Council's land and buildings and surplus assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

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Debbie Middleton

Section 151 Officer

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Councillor Viddy Persaud

Chair of Audit and Committee

EY | Assurance | Tax | Transactions | Advisory

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ED None

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Debbie Middleton
Chief Financial Officer S151

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Debbie Hanson
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LU1 3LU

Dear Debbie

London Borough of Havering – Letter of Representation

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Havering ("the Authority") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Authority as of 31 March 2017 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify – nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist. Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. We believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 that are, free from material misstatement, whether due to fraud or error.

5. We have not corrected the unadjusted error in relation to housing benefit debtor and creditor balances as this does not have a material impact to the council's statement of accounts.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

C. Compliance with Laws and Regulations

1. You have disclosed to us all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
   - Additional information that you have requested from us for the purpose of the audit and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes and papers of the meetings of the Authority, the Executive Committee, and the Audit Committee held through the year to the most recent meeting held on 28 September 2017.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

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1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and disclosed all liabilities, related litigation and claims, both actual and contingent. The Authority has not provided any guarantees to any third parties.

4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than the events described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

2. Accounting estimates recognised or disclosed in the financial statements:

    - The measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
    - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
    - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
    - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H: Group audit

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

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We also confirm that the financial statements reflect the operating segments reported internally to the Authority**.**

J Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

K. Going Concern

We have made you aware of any issues that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, your plans for future action and the feasibility of those plans.

L Use of the work of a specialist

We agree with the findings of the specialists that you engaged to evaluate the values of the Group and Council's land and buildings and surplus assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Yours sincerely,

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Debbie Middleton
Section 151 Officer

I confirm that this letter has been discussed and agreed at the Audit Committee on 28 September 2017

………………………………………

Councillor Viddy Persaud
Chair of Audit and Committee

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