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AUDIT COMMITTEE
SUPPLEMENTARY AGENDA

30 July 2018

The following report is attached for consideration and is submitted with the agreement of the Chairman as an urgent matter pursuant to Section 100B (4) of the Local Government Act 1972

Andrew Beesley
Head of Democratic Services

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Havering
LONDON BOROUGH

Agenda Item 6

Statement of Accounts 2017/18

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Andrew Blake-Herbert,
Chief Executive,
London Borough of Havering

Dear residents,

Havering as ever has had an eventful year and we need to celebrate the many successes. Opening state-of the-art sports facilities, such as Sapphire Ice and Leisure and successful implementation of an intensive intervention programme for children and families at risk are amongst the many positive moments of the year that has passed. We have also managed to operate within existing budgets, a prudent approach in keeping with Havering's reputation of managing challenging times well.

In the background, hard-working council employees have had to find ways to manage the demographic pressures of an aging population and reducing government funding through developing innovative shared service arrangements and income generation opportunities.

As ever, Havering maintains its renowned efficiency, through prudent planning and lean, highly performing services. Nonetheless, looking forward, we know we have reached the end of the low-hanging fruit of easy savings and are looking to build on this legacy with further transformational work on service delivery.

Havering has recognised the importance of becoming financially self-sustainable. Central Government cuts to core funding, ever-changing grant arrangements and governmental decisions not made with respect to local need has made us realise the need to control our own destiny. London-wide leadership on agreeing to share business rates, even if billions are still paid over central government is just one way in which are taking back control. The Council has already delivered significant savings through oneSource, its back-office shared service and it is looking at widening this offer to adopting more commercial business models in other service areas.

The formal approval of joint ventures and its £1 billion housing estates regeneration programme puts Havering on the front foot. This allows us to prioritise the developments that benefit the borough, adding valuable affordable housing and much needed regeneration of our social housing estate. The Council is making use of the strong balance sheet, that it has generated through prudent management of resources, to make additional investment. It is also seeking to generate a self-sustaining return that will bring additional resources back into the council.

As a unitary Council, Havering has to balance its spending plans. Highways spend has to be balanced off against rising social care spend and the need to find new ways to invest locally.

As ever, the recent democratic process of municipal elections will reinvigorate local decision-making and help members and officers ensure that we make effective use of resources to fund the Council's priorities.

Andrew Blake-Herbert,

Chief Executive, London Borough of Havering

2017/18: An Overview

Introduction

Jane West,
Chief Operating Officer,
London Borough of Havering

The Council's Statement of Accounts represent the financial performance of the past year and the overall financial position of the authority but it is not the whole story. It does not explain how we got here, where we want to go and how we plan to get there. It is also important to understand how service performance has driven income and expenditure and led to the end of year financial position. This narrative report will attempt to give you some insights into what it all means through linking financial facts to other data sources and our corporate objectives that are set by councillors.

The Corporate plan, developed by officers with key input by members, explains how we plan to make a difference to the lives of people who live, work and learn in Havering. The plan informs the allocation of resources through our revenue budget and capital investments and creates the basis for the planning of services across the Council. Even now, the budget-setting process for Havering has started for 2019/20.

The Corporate Plan sets out the Council's vision and how the vision will be achieved through delivery of the four corporate priorities of Communities, Places, Opportunities and Connections. Each priority is put into practice by the development of target outcomes and action plans that link to these priorities. Key performance indicators are also created to monitor the progression of those plans and hopefully the eventual demonstration of success. It is important to recognise that not all plans will succeed but that has never stopped the resilience of Havering at re-thinking the old and piloting the new.

Communities
making Havering

Healthy and Active Lives
A good start for every child to reach their full potential.
Families and communities look after themselves and each other.
Supporting vulnerable residents in our communities

Places
making Havering

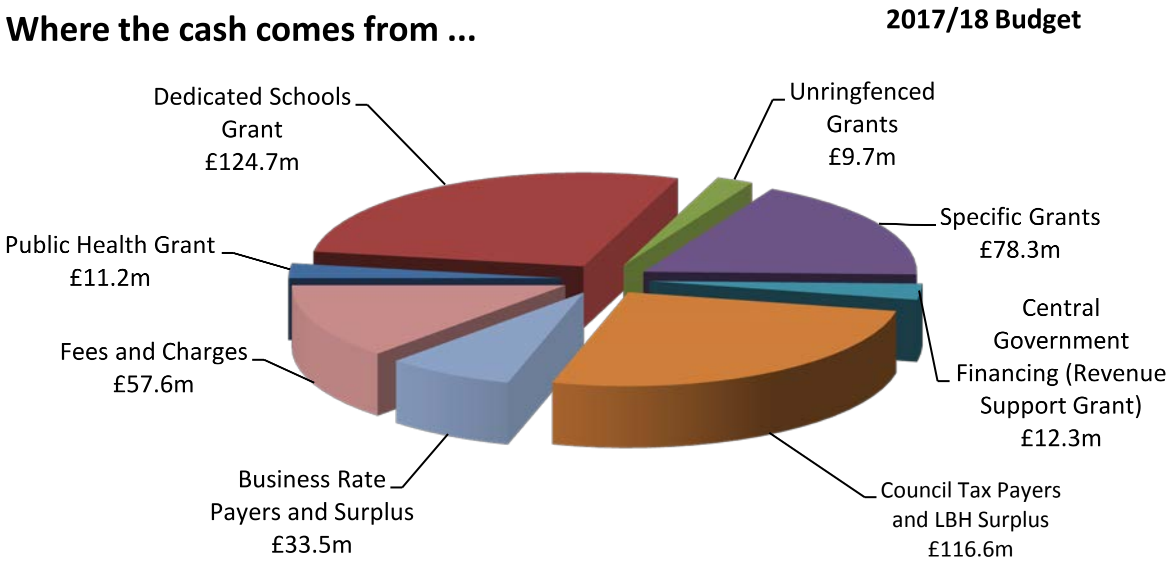
A clean, safe environment for all
High-quality homes
Award-winning parks and open spaces
A vibrant cultural and leisure destination

Opportunities
making Havering

First Class business opportunities
High Quality skills and careers
Dynamic development and infrastructure
A thriving local economy

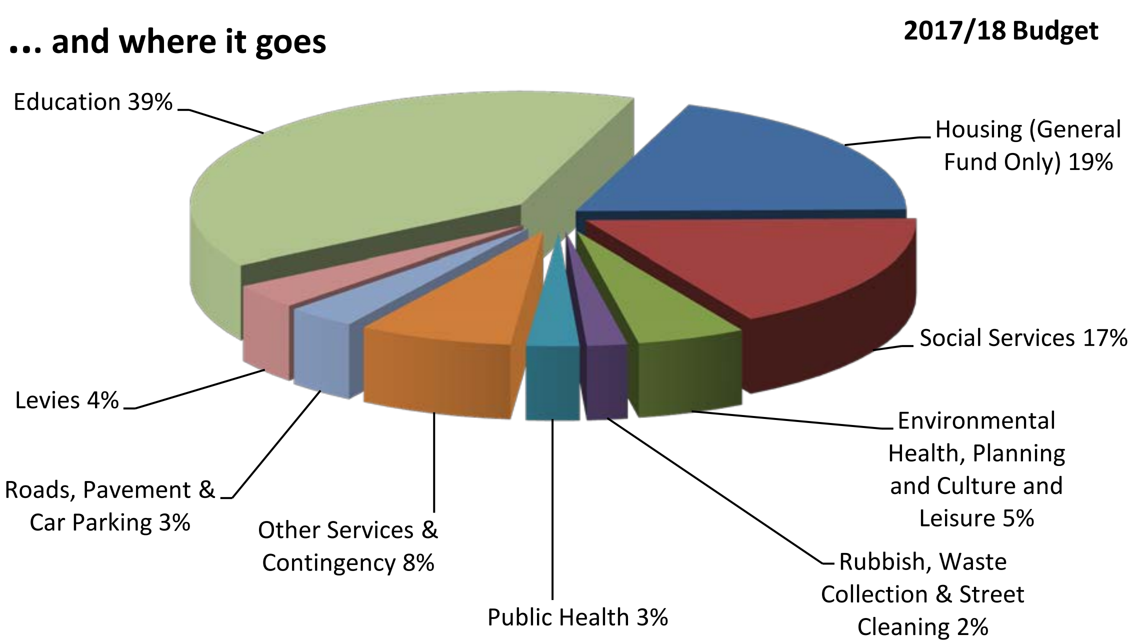
Connections
making Havering

A digital-enabled borough
Capitalising on our location and connectivity
Fast and accessible transport links
Access to jobs and opportunities



Cash In and Cash Out

Understanding the financial picture, requires an understanding of where we receive our income and how we to spend it. A historic source of funding that came without restrictions (Revenue Support Grant) at £12.3m is now a very small portion of our funding and will soon disappear. Approximately half of the monies, such as Dedicated Schools Grant (£124.7m) is very tied to a specific purpose, in this instance education with the vast majority being passported to schools directly. These grants must only be spent on specific activity. Council Tax, Un-ring-fenced grants, Fees and Charges and Business Rates are what fund services for which there are no specific grants, which is the majority of what we do, whether recycling, highways and most of our social care spend. General Fund income totals over £400m but demand is continually rising, particularly in adult social care. Living longer is obviously a good thing but social care and health spend is rising inexorably and this is why Havering is always searching for new ways to generate resources to pay for services that residents demand. The chart below shows where Havering's funding is allocated based on the 2017/18 budget.



Pooling of Business Rates

One way to generate additional resources is to grow the local economy, which will in return increase the business rates tax base. By 2020/21, Central Government intends to have fundamentally reformed the system for funding local government with the purpose of all local authorities moving to self-sufficiency. Most recently, MHCLG (Ministry of Housing, Communities and Local Government) has referred to the retention of 75% of business rates by local government but the long-term target is 100% retention

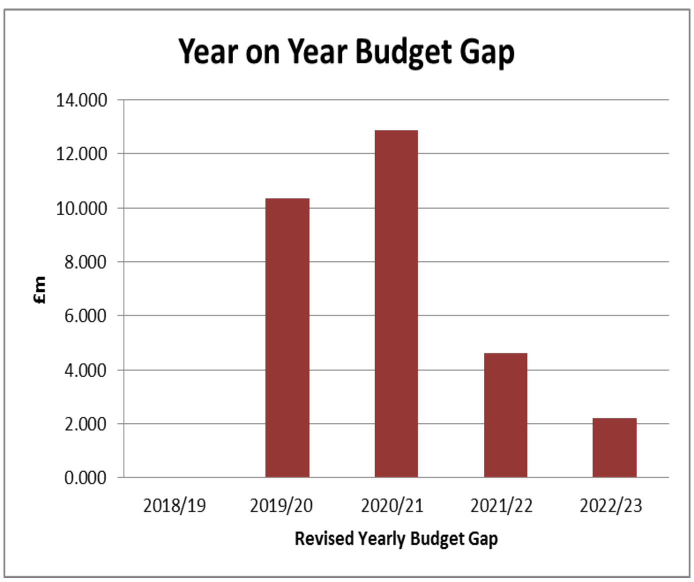
As a result, all local authorities have experienced exceptional reduction in Government funding. In 2017/18, Havering Council's Revenue Support Grant (RSG) funding reduced by approximately £8.606m when compared to 2016/17 allocation. The process of identifying savings is on-going and given the continual restraint in public sector funding this will continue for the foreseeable future.

In London, all Councils have agreed to a 1-year pilot pooled arrangement of business rates for 2018/19, where they share the benefits of growth. By retaining local growth, this would allow councils to reinvest in the key services and infrastructure improvements. If successful, it would continue in future years for the benefit of all.

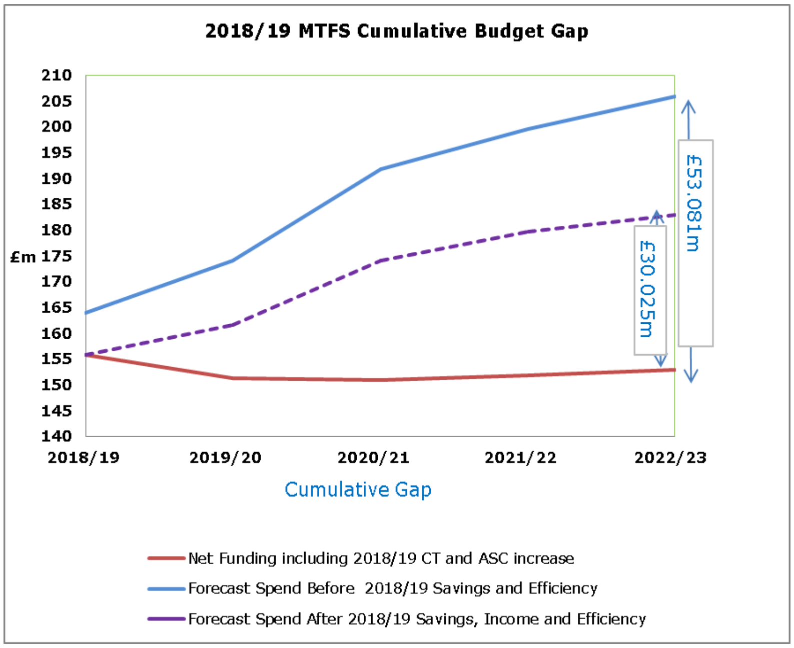
Medium Term Financial Strategy

The Council 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 setting a robust 2018/19 budget. This effort will be intensified during 2018/19 to secure financial balance over the period of the MTFS from 2018/19 through to 2022/23.

To maintain this track record of creating balanced budgets, the Council cannot shy away from tough decisions. Between 2014/15 and 2017/18, Havering has made savings of more than £55.671m across a range of services in order to meet these service pressures and balance the budget.



Additionally, further savings and income plans of **£21.768m** (over the period 2018/19 to 2022/23) were approved as part of the 2018/19 MTFS by Council in February 2018. The MTFS approved by Council in February 2018 reported a balanced budget for 2018/19 and a forecast Budget Gap (difference between funding available and the Council's expenditure) of **£30.025m** by 2022/23**.**



The Local Government Financial Settlement (LGFS) outlined provisional Settlement Funding Assessment (SFA) and Core Spending Power (CSP) allocations for local authorities for 2018/19 and the indicative allocations for 2019/20 (which will be the final year of the current "four year offer" period).

Unfortunately, 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 Havering 32% of elderly people live alone and we will resolutely argue for the for central government to support adult social care appropriately. Similarly, between 2011 and 2016, Havering experienced the largest net inflow of children of all the London Boroughs, with 4,580 additional children arriving in the borough during this period. This means that, after many years of stable rolls, Havering is now experiencing in some areas a level of demand for school places which outstrips capacity. This is why our capital programme has a strong focus on school building but this needs to be financed.

In light of the substantial savings made in recent years (£55.671m over the period 2014/15 to 2017/18), the challenge in preparing the budget for 2018/19 has been to identify proposals which minimise the impact of budget reductions upon delivering the Council's priority services.

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.

As the statutory Section 151 officer and holding the fiduciary duties for the financial well-being of the authority, I have directed that the General Fund Balance remains at the same level as 2017 at £11.766m. I believe this is the minimum appropriate to ensure that there are sufficient resources to manage the level of risk that the Council is willing to tolerate and to ensure there always funds to make emergency payments.

Earmarked Reserves Position

	Balance as at 31 3 2016	Movement In-Yr	Balance as at 31 3 2017	Movement In-Yr	Balance as at 31 3 2018
	£000	**£000**	**£000**	**£000**	**£000**
General Fund Earmarked Reserves	54,076	(829)	53,247	6,277	59,524
Schools Balances	12,203	(2,293)	9,911	(961)	8,950
Total Earmarked Reserves	**66,279**	**(3,122)**	**63,158**	**5,316**	**68,474**

In line with the Council's financial strategy, a considerable degree of professional judgement has gone into determining the level of reserves required to be held by the Council and how the fund in reserves is utilised. Amongst the earmarked reserves are specific ones put aside to manage known major contractual and legal liabilities in the medium term. As one can see the amount in the reserves is broadly consistent between the years but there are dips and this reflects decisions to invest followed by pay-back periods when the resources are returned to fund further improvement projects. 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.

Havering's Balance Sheet

As can be seen below, Havering has a strong balance sheet with a debt to equity ratio consistently below 50%. Nonetheless, only by careful management is it able to undertake carefully considered investments by increasing the level of borrowing and it still needs to take into account the cost of that borrowing and the payback period.

	31/03/2016	31/03/2017	31/03/2018
	£'000s	£'000s	£'000s
Long-term assets	1,013,237	1,096,624	1,326,280
Current assets	250,179	224,188	261,379
Current liabilities	(61,740)	(76,511)	(113,095)
Long-term liabilities	(613,397)	(717,477)	(722,152)
Net Assets	**588,279**	**526,824**	**752,412**
funded by:			
Usable reserves	206,829	208,756	215,447
Unusable reserves	381,450	318,068	536,965
Total Reserves	**588,279**	**526,824**	**752,412**
Borrowing	212,810	214,571	241,776
Debt to Equity Ratio	36.2%	40.7%	32.1%

Before, we get into the detail of the financial performance, here is just a brief look back at past year achievements and highlights, linked to our core priorities as a borough:

Communities

The Families Together Team (FTT), based in the Early Help Service, was formed in 2017 to provide intensive intervention to children and families at risk of becoming looked after or returning home from a care episode. In 2017-18, 17 Looked After Children have returned home, or to a family member, and have been supported by FTT. The implementation of the Planned, Purposeful and Focused planning model within FTT has been highly successful and plans are in place to embed this in the wider service.

The new Sapphire Jubilee Community Centre officially opened in Collier Row. The eco-friendly facility includes a large modern hall for use by local organisations and for events, as well as a kitchen, toilets and an office.

The capital programme is delivering new builds and rebuilds of schools:

- A new primary school is under construction in central Romford and
- Another at Drapers Academy in Gooshays Ward has been established,
- In addition, Mawneys Primary School in Brooklands Ward has been re-built with modern up to date accommodation for the children.

Havering Children's Services launched "The Cocoon" in October. The Council-funded space was developed in partnership with children in care and care leavers to create their own dedicated support hub in Romford town centre. The space enables young people to develop key life skills in a safe environment, have access to training, receive additional education support, learn how to cook and receive support with housing and health.

As part of our continued support for care leavers, the Council approved council tax exemption for all care leavers. This will benefit young people up to the age of 25 who are leaving the care system and starting to lead independent lives.

Places

We secured a record number of green flags for 13 parks in the borough. Harrow Lodge Park and Haynes Park are the latest to be awarded a Green Flag by environmental charity Keep Britain Tidy, with the other 11 retaining their Green Flag status.

Sapphire Ice and Leisure officially opened its doors to the public and saw around 8,000 people attend on the opening day. We made a commitment to provide these sporting facilities in Romford, and following a carefully constructed land-swap deal, we were able to deliver a state of the art pool in Romford.

A new £3m Sports Park was opened in Noak Hill and we have also set things in motion for a new swimming pool and indoor sports centre in Hornchurch . This will replace the old pool dating back to the 1950s. Central Park Leisure Centre in Gooshays Ward Harold Hill has been extended with a large new state of the art gym.

Havering marked the ninth national Armed Forces Day with a parade, led by the Royal British Legion Band and Corps of Drums Romford.

Havering Show saw record numbers with around 55,000 people attending over the bank holiday weekend in August.

Opportunities

Havering launched its £1 billion 12-housing estate regeneration programme, and received a very positive response from the developer market and raised Havering's profile with Government and key stakeholders, especially highlighting our aims to improve connectivity within the borough

The 12 housing estates scheme will create a lasting legacy for the community through investment and skills, training and education which includes partnership with Havering college and construction industry training board.

Including the private sector partners, this will lead to an additional £3bn investment into the borough.

Connections

The Council launched free Wi-Fi in Romford Market ahead of the Christmas festivities to support visitors and traders to use hand held point of sale devices and increase trade in the market. There is work planned to increase its use and aim for broadband and Wi-Fi connectivity to be launched in Hornchurch and Upminster Town Centres later.

The completion of the Crossrail project and the opening of the new Elizabeth line will provide high-speed access to central London from three of the borough's stations. This complements the strategy to provide more affordable homes and jobs in the borough.

Revenue Outturn

Havering Council continues to strive to achieve its ambitious plans to become self-sufficient financially amidst the substantial funding reductions from Central Government and the Council's continuous growth in demand for its services, particularly in relation to Adults and Children's social care and homelessness which support the most vulnerable in the community.

These challenges have been met through determination and focus on measures to contain expenditure within approved budget in order to ensure financial stability over the medium term.

The Original net budget as agreed by Full Council in February 2017 was £156.369m, made up of £155.565m controllable and £0.804m non-controllable budget. At outturn, after adjusting for grant re-allocation and in-year inter-directorate budget virements, the revised net controllable budget is £165.808m.

The revenue outturn for 2017/18 includes General Fund underspends of £0.586 million. The overall underspend has been transferred to the Business Risk Reserves in line with the Revenue Budget Strategy.

Directorate	Revised Budget £m	Final Outturn £m	Overspend / (Underspend) £m	Variance %
Public Health	0.02	0.02	0.00	0.00
Children's Services	43.75	44.10	0.35	0.80
Adult Services	59.07	59.07	0.00	0.00
Neighbourhoods	18.32	17.65	(0.67)	(3.64)
Housing	2.73	3.88	1.15	42.29
oneSource Non-Shared	(0.48)	(1.31)	(0.83)	174.57
Chief Operating Officer	9.75	8.96	(0.79)	(8.14)
SLT	(0.08)	0.10	0.18	(226.66)
oneSource shared	3.55	3.57	0.02	0.59
Service Total	**136.64**	**136.06**	**(0.59)**	**(20.19)**
Corporate Budget	29.16	29.75	0.59	2.01
Net Controllable Budget	**165.81**	**165.81**	**0.00**	**0.00**

Public Health spend is funded directly by the Public Health Grant and Havering always spends in accordance with the Grant and operates within budget.

Children's Services:

The reported outturn for Children's Directorate is a £0.35m overspend. However, the underlying service pressure was mitigated by the application of £2.8m one-off corporate funding, of which £1m will continue into 2018/19.

The primary reasons for the variance are a combination of increased unit costs and higher demand due to increased migration of families into the borough. In addition, there is an underlying pressure on the Directorate's budgets from previous years, particularly in the Special Education Needs & Disability, again due to demand being greater than the historic budgets. It is worthwhile noting that the number of contacts received in 2017/18 outstripped the previous year's total by almost 4%. Numerous actions are proposed and being developed for 2018/19, including a continuation of a finance deep dive and numerous transformation projects aimed at both identifying the extent of the budget pressure and developing strategies to address the funding gap.

Resources will be reallocated across the Directorate during 2018/19 as part of a zero based budgeting exercise, with ongoing work to mitigate the underlying service pressure through reducing unit costs and improving prevention over the next financial year.

However, it is important to understand the drivers of the spend. Havering is estimated to have one of the highest rates of serious physical disabilities amongst London Boroughs. 19% of working age people in Havering have disclosed that they have a disability or long term illness and 10% of school age children in the borough are recorded as having Special Educational Needs and Disabilities (SEND).

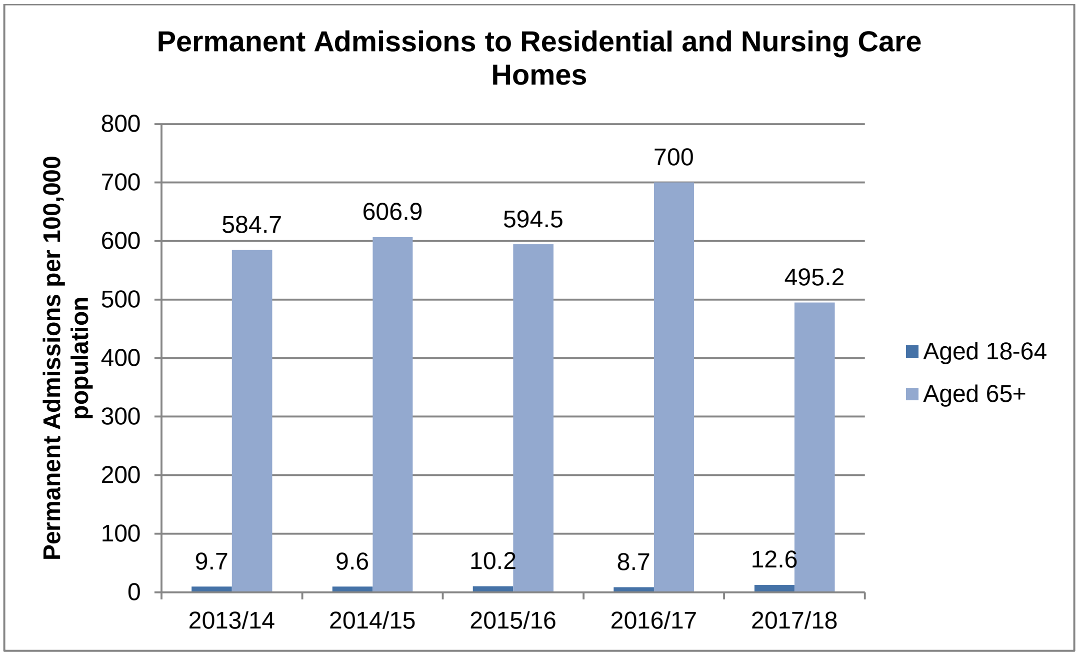
Demand for Looked After Children (LAC) and care leaving services has also been impacted by legislative changes, for example the Children and Families Act 2014, which gave children in care the option to stay with their foster families up to the age of 21. During 2017/18, 66.7% of young people leaving care at age 18 “stayed put” with their foster carers (against a target of 70%). This was an increase on the previous year and, whilst it generates budgetary challenges for the Council, indicates that permanency planning is working well for children in the Council’s care.

Part of the growth in the borough’s looked after children (LAC) population has been due to an increase in the number of unaccompanied asylum seeking children (UASCs). During 2014/15 the borough became part of the London-wide dispersal scheme and immediately saw an increase in numbers, from 13 in 2014/15 to an average of 19 in 2015/16. Since then, the total number of UASCs in Havering has continued to rise, and at 27 now accounts for 11% of the looked after children population. There is a considerable amount of churn within the total number due to UASCs usually being aged 16 or 17. This means that, whilst each UASC is generally only looked after by the authority for a maximum of two years, they remain a cost to the Council beyond their 18th birthday, as care leavers.

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 2018, there were 48 maintained schools (52 at 31 March 2017) on the balance sheet, and 35 academies within the Borough (29 at 31 March 2017).

Adults’

As can be seen, adults’ delivered to budget through careful control throughout the year and through development of closer working relationships with key partners. Despite an aging population, Adult Social Care has seen an overall reduction in its client base of approximately 4% in 2017/18, which has assisted the service in controlling its budget.



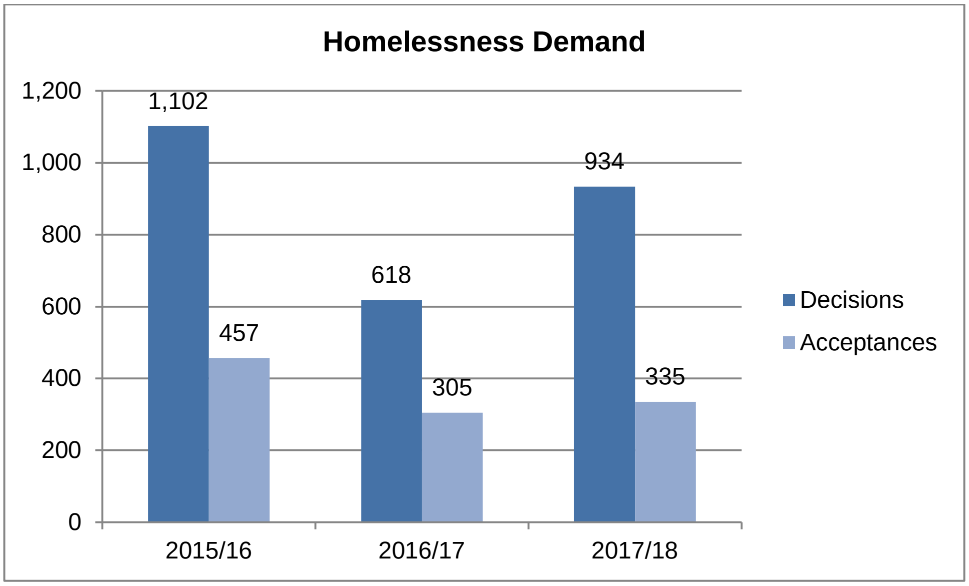
The greatest driver in Adult Social Care costs is demand for residential and nursing care placements supported by the local authority. Though the rate of permanent admissions to residential and nursing care homes per 100,000 population has increased for those aged 18-64, it reduced markedly for those aged 65+ during 2017/18 (from 700 in 2016/17 to 495.2). This has been achieved through more effective, integrated working with partners, often at a locality level, that has allowed older people to continue to live independently within their communities for longer.

Neighbourhoods

The Council underspent on this service by £0.67m but waste tonnages remain a high financial risk for the Council, so reducing the amount of waste collected and sent for disposal and recycling is a high priority. The waste disposal costs for Havering payable to the East London Waste Authority (ELWA) will increase from £14.925m in 2017/18 to £15.8m in 2018/19. Given the projected increases in the size of Havering's population over the next 5 years, it is predicted that the cost to dispose of waste will continue to increase by £0.5 – 1 million a year. Changing behaviours of residents is not just good for the environment but also for council tax bills.

Housing:

There has been an increase in housing demand, homeless prevention and out of borough placements in 2017/18. However, although the number of homelessness decisions made increased by 51% in 2017/18 compared with the previous year, preventative work with families meant that there were just 10% more acceptances, and has reduced the proportion of homeless acceptances to 36% of decisions (from 49% the previous year). Housing Services are working on strategies to meet action plan targets to contain Housing general fund expenditure within the budgets for 2018/19.



Borough-wide, ensuring that there is an appropriate level of affordable housing is a challenge, as it in the most of the south of England. This is why the Council is proactively leveraging its balance sheet to deliver much needed regeneration and housing schemes across its estates and working with partners on joint venture opportunities on land outside the Housing Revenue Account.

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 balance on the HRA reserve is now £4.612m. The full details of the Housing Revenue Account and the movements on that account are set out in a separate section of the Accounts.

Support Services (oneSource, Chief Operating Officer & Senior Leadership Team)

As can be seen, these areas have continued to underspend, as they look to deliver savings early and continue to explore new shared service opportunities. The overall cost effectiveness of the support services has been one of the big success stories of Havering Council.

Capital Outturn

Capital expenditure forms a large part of the Council's spending on the provision of services. The Council's capital programme is designed to maintain and enhance its assets and support the future growth and development of the borough. As you can see from the table below, schools, regeneration, and spend on highways make up large proportions of the budget. This needs to take into account the resources available and its affordability.

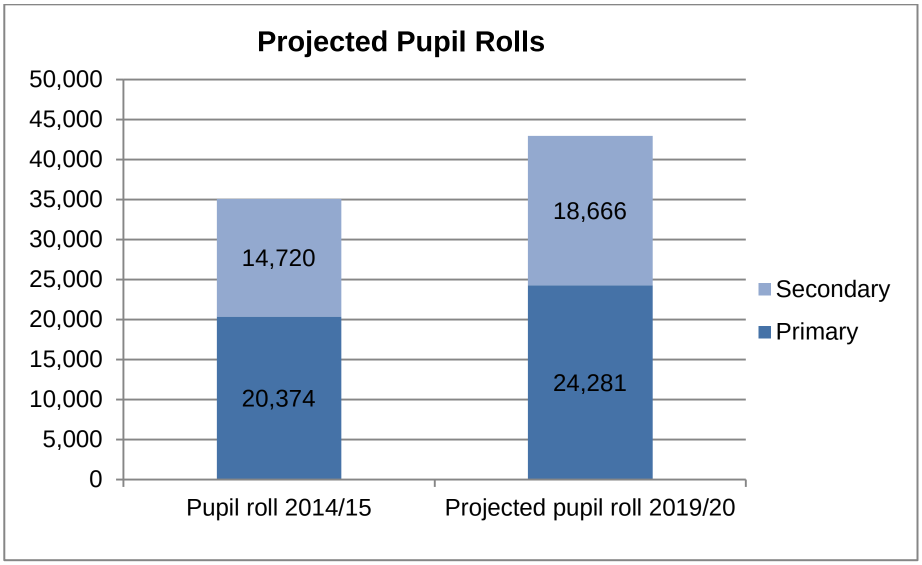
In 2017, new capital schemes totalling £61.8m (£42.1m GF and £19.7m HRA) for 2017/18 were approved, which combined with the carried forward budgets from 2016/17 of £55m meant a total capital programme of £117.8m for 2017/18. Actual capital spend at the end of the financial year 2017/18 is £88.7m. This represents a £29.1m underspend. The slippage in Housing and Schools is driven by unrealistic budget profiles. The Council has since put in place stronger budgeting processes, to reduce the likelihood of such an occurrence.

Capital Programme 2017/18	Expenditure In-Yr			Financing					
Services	**Budget £m**	**Capital Outturn £m**	**Variance £m**	**Capital Receipts £m**	**Capex Funded from Revenue £m**	**Major Repairs Reserve £m**	**S106 & Infrastructure Tariff £m**	**Grants & Other Contributions £m**	**Borrowing £m**
Culture & Customer Access	0.292	3.393	3.101	0.204	0	0	0	0	3.189
Bereavement Services	0.222	0.273	0.051	0.273	0	0	0	0	0
Chief Operating Officer Total	**0.514**	**3.666**	**3.152**	**0.477**	**0**	**0**	**0**	**0**	**3.189**
Environment	6.544	5.648	(0.896)	2.24	0.133	0	0.438	2.837	0
Development	7.795	9.926	2.131	0.097	0.053	0	0.004	5.3	4.472
Housing Services	46.75	33.885	(12.865)	10.358	10.663	12.035	0	0.829	0
Neighbourhoods Total	**61.089**	**49.459**	**(11.630)**	**12.695**	**10.849**	**12.035**	**0.442**	**8.966**	**4.472**
Children's Services	**0.484**	**1.682**	**1.198**	**0.055**	**1.498**	**0**	**0**	**0.129**	**0**
Adults Services	**1.575**	**0.579**	**(0.996)**	**0**	**0**	**0**	**0**	**0.579**	**0**
Asset Management	45.73	32.845	(12.885)	9.759	3.654	0	0.395	11.15	7.887
ICT Services	1.215	0.463	(0.752)	0.463	0	0	0	0	0
oneSource Total	**46.945**	**33.308**	**(13.637)**	**10.222**	**3.654**	**0**	**0.395**	**11.15**	**7.887**
Contingency/Efficiency Pot	**7.181**	**0.000**	**(7.181)**						
Total	**117.788**	**88.694**	**(29.094)**	**23.449**	**16.001**	**12.035**	**0.837**	**20.824**	**15.548**

Asset Management (School Places)

The largest single component by far in Asset Management is school building and this is because of the growth in demand. Between 2011 and 2016, Havering experienced the largest net inflow of children of all the London Boroughs, with 4,580 additional children arriving in the borough during this period. This means that, after many years of stable rolls, Havering is now experiencing in some areas a level of demand for school places which outstrips capacity.

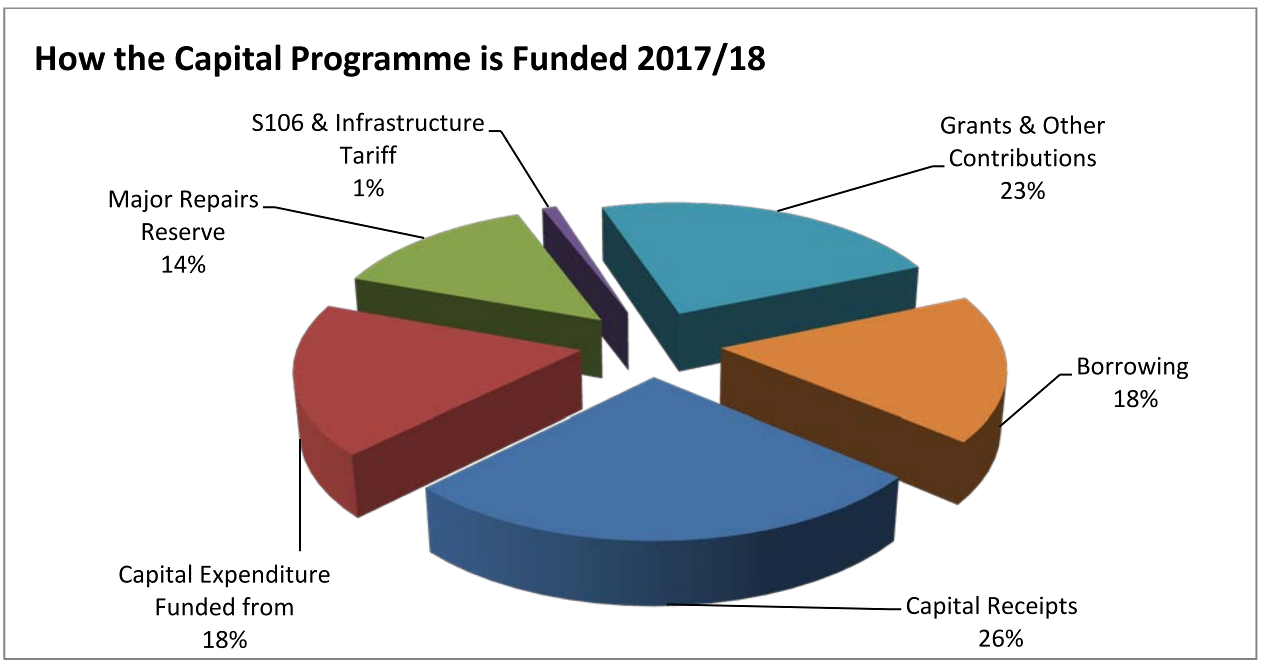
The number of school applications received increased by 7% in 2016/17 compared with the previous year, and by a further 2% in 2017/18. The borough received many new applications in 2017/18 relating to pupils who are moving into Havering from elsewhere. The Commissioning Plan for Education Provision 2015/16 – 2019/20 sets out plans to respond to a 26.8% increase in demand for secondary school places and a 19.2% increase in demand for primary school places over the planning period.



Sources of Funding

The use of resources to finance capital spend is changing over time as less and less capital receipts are being generated from the sale of assets and greater reliance, particularly for the large regeneration schemes, is being placed on the use of borrowing.

The Council's Capital funding in 2017/18 is illustrated below.



As the percentage of capital expenditure financed from borrowing increases, so does the revenue financing costs associated with the additional borrowing required which puts further pressure on the Council's revenue budget. A further review of the existing capital programme will be undertaken in 2018/19 with management asked to carefully consider older schemes with the aim of freeing up capital resources to reduce the pressure caused by the additional capital financing costs from the 2018/19 capital programme.

Treasury Management

The Council held approximately £237m in cash and investments on average during the course of the financial year. This represents the value of the Council's revenue reserves, net current assets, unapplied grants and unapplied capital reserves. Other than reserves, this is money that is committed and is being held pending such expenditure. Given the Council's gross expenditure is approximately £600m, this represents around three months of expenditure. The level of return achieved on these cash deposits is low by historic standards, which is one more reason to pursue direct investment in regeneration projects that can produce a better return.

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. Total cash, cash equivalents and investments held by the Authority at 31 March 2018 amounted to £238m (£209m at 31 March 2017). The average yield from the Authority's cash investments for 2017/18 was 0.66% (0.71 % for 2016/17). 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.

Historically, the Council managed the cash flow of its capital expenditure programme largely via the use of capital receipts. However, as can be seen by the capital programme below with its £313m budget, that the capital ambition of the Council will exceed the potential capital receipts available. The Council plans to use prudential borrowing within the Treasury Management Strategy for prioritised schemes. Over the next couple of years, the Treasury return will dwindle and the cash and cash equivalents will be reduced to working capital. Naturally, is anticipated that the long-term return on capital would be superior to the rates that the Council could achieve on its current rates.

Capital Programme

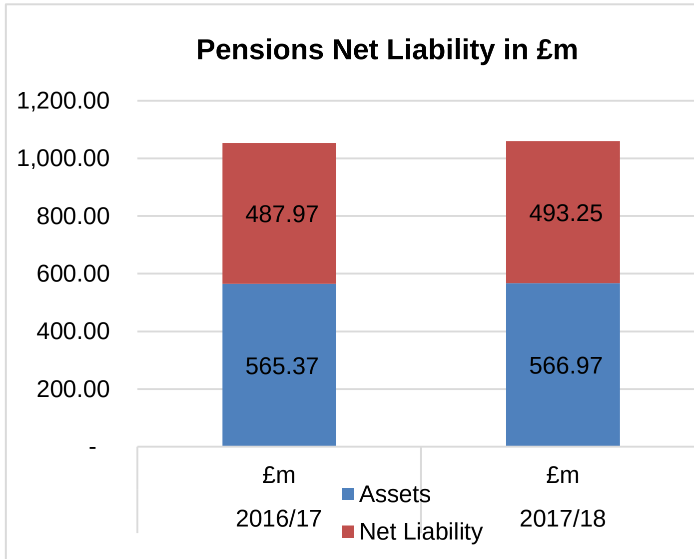
The Council's approved Capital Programme is £312.6m but that does not take account of £29.1m of carry-forward budgets. All schemes are under review to ensure they represent value for money.

Summary of Existing Approved Capital Programme	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**Total £m**
Children's Services	36.644	39.411	3.408	0.000	0.000	**79.464**
Adults Services	0.000	0.000	2.800	0.000	0.000	**2.800**
Neighbourhoods	39.911	74.133	39.896	28.446	2.930	**185.316**
Housing Services	9.401	0.000	0.000	0.000	0.000	**9.401**
oneSource	3.622	1.241	0.626	0.620	0.620	**6.729**
Chief Operating Officer	5.329	13.053	7.164	0.854	0.485	**26.885**
Corporate	2.000	0.000	0.000	0.000	0.000	**2.000**
TOTAL CAPITAL PROGRAMME	**96.907**	**127.839**	**53.894**	**29.920**	**4.035**	**312.594**
Funding						
Capital Receipts	15.492	3.200	2.803	0.000	0.000	**21.495**
Revenue and Reserve Contribution	4.409	0.020	0.000	0.000	0.000	**4.429**
Grants	36.575	57.797	24.066	15.030	0.009	**133.477**
Section 106	1.347	0.693	0.000	0.000	0.000	**2.041**
Other External Funding	16.855	16.565	1.273	0.254	0.000	**34.947**
Prudential Borrowing	22.229	49.563	25.752	14.635	4.026	**116.206**
TOTAL FUNDING	**96.907**	**127.839**	**53.894**	**29.920**	**4.035**	**312.594**

Long-term borrowing stood at £211.6m as at 31 March 2018 (£211.0m as at 31 March 2017). Short term borrowing was £30m as at 31st March 2018 versus £3m, the prior year. This £30m movement largely matches the additional amount of cash on hand. Further details are shown in Financial Instruments note to the accounts (Note 18). Nonetheless, knowing that the borrowing will increase in the future years, the Council will make use of the long lead in time to carefully consider the most efficient and prudent way to borrow.

Pension Fund

The Council participates in the Local Government Pension Scheme (LGPS) for the majority of its staff. The net estimated pension liability for Havering using "ISA19" is £493m as at 31st March 2018 compared with £488m as at 31st March 2017. Estimation of liability is based on a number of judgements relating to the discount rate used, salary increases, changes in retirement age, longevity, interest rates, inflation and expected returns on assets.



The Pension Fund's net assets rose by £1.6m in 2017/18, from £575.37m to £566.97m, while the liability rose from £1.053 to £1.06bn. This mainly reflects subdued market conditions in 2017/18.

The net liability is the additional amount that the Council will have to set aside or generate through investment returns to fund the pension entitlements that have been built up to date by members of the Pension Fund. The most important thing to note is that the actuaries reviewed our position as at March 31st 2016 and came to the conclusion that the Council had a viable long-term solution to reducing the Pension Fund deficit to zero. The next Triennial Review will take place in 2019. Nonetheless, it is important to note that 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.

Jane West

Chief Operating Officer,

London Borough of Havering

Date: 30th July 2018

Explanation of Accounting statements

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 145 to 148 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 the surplus/deficit in year and from movements in the fair value of the assets. It also analyses the movement between reserves, in accordance with statutory regulations;

- **Expenditure Funding Analysis (EFA) –** This statement shows how annual expenditure is used and funded from resources and accounted under local government statute as opposed to how it would accounted by private sector bodies under generally accepted accounting practices.

- **Comprehensive Income and Expenditure Statement (CIES) –** This statement brings summarises the expenditure and income for the year.

- **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 adnt the Council is responsible for keeping a separate account to detail the amounts owing to and from the Council, the GLA and the MHCLG.

- **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.

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 2018 and its income and expenditure for the year ended 31 March 2018.

CHAIRMAN, AUDIT COMMITTEE
30st July 2018

Jane West
Chief Operating Officer
30st July 2018

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

Opinion

We have audited the financial statements of the London Borough of Havering for the year ended 31 March 2018 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 and Collection Fund; and
- the related notes 1 to 45 of the Authority and Group Financial Statements, notes 1 to 3 of the Collection Fund, and notes 1 to 5 of the Housing Revenue Account.

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 2017/18.

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 2018 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 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Operating Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Operating Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going

concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2017/18 set out on pages 1 to 16, other than the financial statements and our auditor's report thereon. The Chief Operating Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, the London Borough of Havering put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you 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.

Responsibility of the Chief Operating Officer

As explained more fully in the Statement of the S151Officer*s* Responsibilities set out on page 18, the Chief Operating Officer is responsible for the preparation of the financial statements, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Operating Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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 2017, as to whether the London Borough of Havering Council 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.
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 Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

In addition we are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Havering Pension Fund. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As we have not yet completed our work on the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts 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.

Use of our report

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.

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
31 July 2018

The maintenance and integrity of the London Borough of Havering Council's web site is the responsibility of the directors; 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

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

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2018 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 2017/18.

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 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Operating Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Operating Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2017/18, other than the financial statements and our auditor's report thereon. The Chief Operating Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Responsibility of the Chief Operating Officer

As explained more fully in the Statement of the Chief Operating Officer's Responsibilities set out on page 18, the Chief Operating Officer is responsible for the preparation of the Authority's financial statements, 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Operating Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the London Borough of Havering Council, 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.

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
31 July 2018

Group Movement in Reserves Statement 2017/18

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 and the group, analysed into ‘usable reserves’ (i.e. 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	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Authority's Share of Reserves of Subsidiaries	Total inc Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2016	**11,766**	**63,157**	**2,830**	**62,171**	**33,533**	**35,299**	**208,756**	**318,069**	**(430)**	**526,395**
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	(8,694)	8,694		
Net (decrease)/increase before transfers to earmarked reserves	**(3,527)**	**-**	**(3,921)**	**(11,103)**	**8,962**	**11,515**	**1,926**	**(63,380)**	**(430)**	**(61,884)**
Transfers to/(from) Earmarked Reserves										
Decrease/increase in Year	**(3,527)**	**-**	**(3,921)**	**(11,103)**	**8,962**	**11,515**	**1,926**	(63,380)	(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**
Movement in reserves during 2017/18										
(Deficit)/surplus on provision of services	10,106		65,163				75,269		(169)	75,100
Other comprehensive expenditure and income								177,851		177,851
Total comprehensive expenditure and income	**10,106**	**-**	**65,163**	**-**	**-**	**-**	**75,269**	**177,851**	**(169)**	**252,951**
Adjustments between accounting basis and funding basis under regulations	(5,740)		(58,886)	(6,198)	(2,870)	8,662	(65,032)	65,032		-
Net (decrease)/increase before transfers to earmarked reserves	**4,366**	**-**	**6,277**	**(6,198)**	**(2,870)**	**8,662**	**10,237**	**242,883**	**(169)**	**252,951**
Transfers to/(from) Earmarked Reserves	(4,366)	8,861	(4,495)				-	-		-
Decrease/increase in Year	**-**	**8,861**	**1,782**	**(6,198)**	**(2,870)**	**8,662**	**10,237**	**242,883**	**(169)**	**252,951**
Balance at 31 March 2018	**11,766**	**72,018**	**4,612**	**55,973**	**30,663**	**43,961**	**218,993**	**560,952**	**(599)**	**779,346**

Authority Movement in Reserves Statement 2017/18

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' (i.e. 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 2016	**11,766**	**66,279**	**7,155**	**73,274**	**24,571**	**23,784**	**206,829**	**381,450**	**588,279**
<u>Movement in reserves during 2016/17</u>									
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**
<u>Movement in reserves during 2017/18</u>									
Deficit/surplus on provision of services	10,106		65,163				75,269		75,269
Other comprehensive expenditure and income								177,851	177,851
Total comprehensive expenditure and income	**10,106**	**-**	**65,163**	**-**	**-**	**-**	**75,269**	**177,851**	**253,120**
Adjustments between accounting basis and funding basis under regulations (Note 9)	(5,740)	-	(58,886)	(6,198)	(2,870)	8,662	(65,032)	65,032	
Net decrease/increase before transfers to earmarked reserves	**4,366**	**-**	**6,277**	**(6,198)**	**(2,870)**	**8,662**	10,237	**242,883**	**253,120**
Transfers to/from Earmarked Reserves (Note 10)	(4,366)	8,861	(4,495)				-		
Decrease/increase in Year	**-**	**8,861**	**1,782**	**(6,198)**	**(2,870)**	**8,662**	**10,237**	**242,883**	**253,120**
Balance at 31 March 2018	**11,766**	**72,018**	**4,612**	**55,973**	**30,663**	**43,961**	**218,993**	**560,952**	**779,945**

Group Comprehensive Income and Expenditure Statement 2017/18

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 2016 – 31 March 2017				Notes	1 April 2017 – 31 March 2018		
£000	£000	£000			£000	£000	£000
Gross Expenditure	Gross Income	Net			Gross Expenditure	Gross Income	Net
			Gross expenditure, gross income and net expenditure of continuing operations				
7,610	(31)	7,579	Section 151		9,029	(926)	8,103
13,338	(2,236)	11,102	Chief Operating Officer		23,043	(8,188)	14,855
97,822	(90,752)	7,070	Neighbourhoods		67,987	(94,748)	(26,761)
77,974	(17,552)	60,422	Adult Services		76,456	(17,251)	59,205
200,253	(145,806)	54,447	Children's Services		156,341	(140,619)	15,722
13,660	(11,550)	2,110	Public Health		10,989	(11,337)	(348)
109,492	(98,430)	11,062	oneSource Non -Shared		100,051	(95,117)	4,934
7,061	(2,224)	4,837	oneSource Shared		10,053	(3,134)	6,919
527,210	**(368,581)**	**158,629**	**Cost of services**		**453,949**	**(371,320)**	**82,629**
		30,737	Other operating expenditure				40,057
		15,388	Financing and investment income and expenditure				14,772
		(214,943)	Taxation and non-specific grant income				(212,558)
		(10,189)	**Deficit on provision of services**				**(75,100)**
		(19,150)	Surplus on revaluation of property, plant and equipment assets				(145,749)
		91,224	Actuarial losses/(gains) on pension assets / liabilities				(32,102)
		72,074	**Other comprehensive income and expenditure**				**(177,851)**
		61,885	**Total comprehensive income and expenditure**				**(252,951)**

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Authority Comprehensive Income and Expenditure Statement 2017/18

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 2016 – 31 March 2017					1 April 2017 – 31 March 2018		
£000 Gross Expenditure	**£000 Gross Income**	**£000 Net**		**Notes**	**£000 Gross Expenditure**	**£000 Gross Income**	**£000 Net**
Re-stated	Re-stated	Re-stated	**Gross expenditure, gross income and net expenditure of continuing operations**				
7,610	(174)	7,436	Section 151		9,081	(931)	8,150
19,413	(7,218)	12,195	Chief Operating Officer		23,043	(8,188)	14,855
93,848	(85,819)	8,029	Neighbourhoods		67,798	(95,091)	(27,293)
77,974	(17,552)	60,422	Adult Services		76,456	(17,251)	59,205
200,253	(145,806)	54,447	Children's Services		156,341	(140,619)	15,722
11,387	(11,550)	(163)	Public Health		10,989	(11,337)	(348)
109,492	(98,430)	11,062	oneSource Non -Shared		100,051	(95,117)	4,934
7,061	(2,250)	4,811	oneSource Shared		10,053	(3,155)	6,898
527,038	**(368,799)**	**158,239**	**Cost of services**		**453,812**	**(371,689)**	**82,123**
		30,737	Other operating expenditure	11			40,057
		15,347	Financing and investment income and expenditure	12			15,109
		(214,943)	Taxation and non-specific grant income	13			(212,558)
		(10,620)	**Surplus on provision of services**				**(75,269)**
		(19,150)	Surplus on revaluation of property, plant and equipment assets	25a			(145,749)
		91,224	Actuarial losses/gains on pension assets / liabilities	25e			(32,102)
		72,074	**Other comprehensive income and expenditure**				**(177,851)**
		61,454	**Total comprehensive income and expenditure**				**(253,120)**

Balance Sheet as at 31 March 2018

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority and the group. 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 2017 Authority £000	31 March 2017 Group £000		Notes	31 March 2018 Authority £000	31 March 2018 Group £000
997,552	997,552	**Property, plant and equipment**	14	1,224,274	1,224,304
104	104	**Heritage assets**	15	133	133
39,404	56,374	**Investment property**	16b	44,680	62,631
2,353	2,353	**Intangible assets**	17	2,073	2,073
40,000	40,000	**Long term investments**	18	33,000	33,000
8,615	-	**Long term investments in subsidiaries**	16c	8,735	-
8,596	422	**Long term debtors**	19	13,385	379
1,096,624	**1,096,805**	**Long-term assets**		**1,326,280**	**1,322,520**
122,593	122,593	**Short-term investments**	18	151,479	151,479
277	277	**Inventories**		321	421
50,750	50,072	**Short-term debtors**	19	48,692	47,313
46,735	47,229	**Cash and cash equivalents**	20	53,420	58,285
3,833	3,833	**Assets held for sale**	21	6,906	6,906
224,188	**224,004**	**Current assets**		**260,818**	**264,404**
(2,998)	(2,998)	**Short-term borrowing**	18	(30,746)	(31,171)
(73,513)	(74,048)	**Short-term creditors**	22	(78,243)	(78,243)
(76,511)	**(77,046)**	**Current liabilities**		**(108,989)**	**(109,414)**
(1,202)	(1,094)	**Long-term creditors**		-	-
(6,133)	(6,133)	**Provisions**	23	(5,349)	(5,349)
(211,573)	(211,573)	**Long-term borrowing**	18	(211,030)	(211,030)
(487,970)	(487,970)	**Other long-term liabilities**	42	(469,258)	(469,258)
(10,599)	(10,599)	**Capital grants receipts in advance**	35b	(12,527)	(12,527)
(717,477)	**(717,369)**	**Long-term liabilities**		**(698,164)**	**(698,164)**
526,824	**526,394**	**Net assets**		**779,945**	**779,346**
208,756	208,326	**Usable reserves**	24	218,993	218,393
318,068	318,068	**Unusable reserves**	25	560,952	560,953
526,824	**526,394**	**Total Reserves**		**779,945**	**779,346**

I certify that the statement of accounts gives a true and fair view of the financial position of the authority at 31 March 2018 and its income and expenditure for the year ended 31 March 2018. These financial statements replace the unaudited financial statements signed by the Section 151 officer on the 31st of May 2018

Cash Flow Statement as at 31 March 2018

The Cash Flow statement shows the changes in cash and cash equivalents of the Authority and the Group during the reporting period. The statement shows how the Authority / Group 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 / Group 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.

2016/17 Authority £000	2016/17 Group £000		Note	2017/18 Authority £000	2017/18 Group £000
10,620	10,189	Net surplus on the provision of services		75,269	75,100
55,056	64,959	Adjust net surplus or deficit on the provision of services for non-cash movements	26	5,338	10,815
(37,202)	(37,202)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(48,893)	(49,579)
28,474	**37,946**	**Net cash flows from Operating Activities**		**31,714**	**36,336**
(37,011)	(45,336)	Investing activities	27	(52,233)	(52,885)
1,761	1,761	Financing activities	28	27,204	27,205
(6,776)	**(6,282)**	**Net increase /(decrease) in cash and cash equivalents**		**6,685**	**10,656**
53,511	53,511	Cash and cash equivalents at the beginning of the reporting period	20	46,735	47,229
		Adjustment to cash balance from group consolidation			400
46,735	**47,229**	**Cash and cash equivalents at the end of the reporting period**	**20**	**53,420**	**58,285**

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 2017/18 financial year and its position at the year end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by 31 May 2017, 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 2017/18*, 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 2017/18 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.

Within the accounts the Comprehensive Income and Expenditure Statement has been restated to comply with the CIPFA code; 'Telling the story'. This is to improve the presentation and transparency of the council's financial statements.

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. 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.

xv. 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.

xvi. Interests in Companies and Other Entities

The code requires local authorities with, in aggregate, material interest in subsidiaries and associated companies and joint ventures to prepare group financial statements.

The Group's financial statement incorporate the financial statements of the London borough of Havering and its subsidiaries prepared as a the year end date. As part of the consolidation process Havering has

Aligned the accounting policies of the subsidiaries with those of the council and made consolidation adjustments where necessary;

Consolidated the financial statements of the subsidiaries with those of the council on a line by line basis;
Eliminated in full balances, transactions, income and expenses between the council and the partnerships.

Consolidated the financial statements of the subsidiaries with those of the council on a line by line basis;
Eliminated in full balances, transactions, income and expenses between the council and the partnerships.

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. 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

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.

Development Costs

General Feasibility studies are automatically treated as revenue, unless in very rare circumstances when they lead to the creation of an asset. This is because they are typically an options review of what schemes may or may not be considered for the capital programme. They do not in and of themselves produce an asset. There would need to be an accompanying business case justification as to why this expenditure could be capitalised and as such, this would normally only occur in relation to large-scale regeneration schemes.

The watershed moment between the feasibility and the development stage, when concrete designs are reviewed is normally the point at which expenditure may be considered for capitalisation. The Council's policy at this stage is to treat the expenditure as capital and then if the scheme did not go ahead or was stopped at an early stage without producing any assets, would treat the expenditure as an abortive revenue cost. This policy could be broadly described as *capitalising at risk* and all schemes that were cancelled without producing an asset would need to be reviewed for the potential for these abortive costs.

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. Where an Asset is fully depreciated and therefore has a zero net book value, it is deemed as being abandoned or scrapped and treated as such (This will not have an effect on the Comprehensive Income and Expenditure Statement as the gross book value and the accumulated depreciation are equal). 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.

xxii. 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 2017/18, the following accounting policy changes that need to be reported relate to:

(a) Amendments to IFRS 9 Financial instruments

The Authority does not expect the reclassification changes to have a material impact upon the financial statements because the majority of the financial assets will retain the same measurement basis.

(b) Amendments to IFRS 16 – Leases

The International Accounting Standards Board (IASB) published IFRS 16 Leases in January 2016 with an effective date of 1 January 2019. The new standard requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

(c) Amendments to IFRS 15 Revenue from Contracts with Customers

This introduces multi-step methodology to identify contracts and performance obligations. There are enhanced disclosure requirements attached to his requirement. This is not anticipated to have a material impact in the immediate term beyond additional disclosures but the authority is waiting the final assessment from CIPFA/LASAAC.

3. Critical Judgements in Applying Accounting Policies, Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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.

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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
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 £1,224m 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 £6.249m 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 £12.24m 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	The authority uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. 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). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value

Item	Uncertainties	Effect if actual results differ from assumptions
	assumptions used could affect the fair value of the authority's 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.	measurement for the investment properties and financial asset
Provisions	The Authority has made a provision of £3.0m 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 £0.3m 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 pension's 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 £96m. However, the assumptions interact in complex ways. During 2017/18, the Authority's actuary advised that changes in actuarial assumptions gave rise to a gain of £18.4m (as compared to a loss of £174.9m in 2016/17) to the Consolidated Income and Expenditure Statement.
Arrears	At 31 March 2018, the Authority had a gross debtor's balance of £76.4m. A review of significant balances suggested that an impairment of doubtful debts of 35% (£26.6m) 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 £13.3m to be set aside as an allowance.
NNDR Appeals	At 31 March 2017, the Authority made a provision for £2.1m 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.

4. Material Items of Income and Expense

A net revaluation gain of £75.3m has been credited to the Consolidated Income and Expenditure Account (CI&ES) in 2017/18. 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 credited to the CI&ES in 2016/17 was £5.0m. Further information is provided at note 39.

A net loss on of £35.1m has been debited disposals to the CI&ES in 2017/18. This is a result of a loss from the transfer from the balance sheet of schools and other buildings to Academies (33.3m) and losses from the sale of other GF and HRA assets (1.8m). This is compared to 2016/17 where there was a corresponding loss of £15.5m.

In 2016/17, the Authority included Mercury Land Holding, a wholly owned subsidiary within the accounts. Mercury Land Holding have subsequently set up a separate subsidiary called Mercury Land Holdings Design and Build and this has been consolidated within the Mercury Land Holdings company accounts which are consolidated into the Authority, group account on page 105. During the year Mercury Land holding refinanced the loan with the London Borough of Havering and this increased to £13.061m from £7.991m in 2016/17.

Our external valuers have revised the estimates used to calculate land values of assets valued on a depreciated replacement cost (DRC) basis, Consequently, this has led to an increase in land values for assets valued using DRC in Havering's accounts in 2017/18. Under IAS8 changes in accounting estimates are recognised prospectively and recognised by adjusting the carrying amount in the period of change.

5. Events after the Balance Sheet Date

Academies

Gaynes and Sanders Primary are pursuing academy status and these are likely to convert in 2018/19

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.

6. Authorisation of the Statement of Accounts

The Statement of Accounts was authorised for issue on the date the Chief Operating Officer certified that the accounts give a true and fair view of the financial position of the Authority at the year end; and its income and expenditure, see the "Statement of Responsibilities for the Statement of Accounts". This is the date up to which events after the balance sheet date have been considered.

7. Expenditure and Funding Analysis 2017/18

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.

1st April 2016 - 31st March 2017					1st April 2017 - 31st March 2018			
Net Expenditure Chargeable to the General Fund and HRA Balances £000	**Adjustments between Funding and Accounting Bases £000**	**Other Adjustments £000**	**Net Expenditure in the CI&ES £000**	**Service**	**Net Expenditure Chargeable to the General Fund and HRA Balances £000**	**Adjustments between Funding and Accounting Bases £000**	**Other Adjustments £000**	**Net Expenditure in the CI&ES £000**
Re-stated	Re-stated	Re-stated	Re-stated					
7,509	(24,832)	24,759	**7,436**	Section 151	29,850	(14,243)	(7,456)	**8,150**
10,295	(19)	1,919	**12,195**	Chief Operating Officer	8,959	4,072	1,824	**14,855**
36,540	(31,881)	3,371	**8,030**	Neighbourhoods	19,753	(37,703)	(9,344)	**(27,293)**
57,625	-	2,797	**60,422**	Adult Services	59,070	787	(652)	**59,205**
48,547	17	5,883	**54,447**	Children's Service	44,104	(29,405)	1,022	**15,722**
247	(2)	(409)	**(164)**	Public Health	23	21	(392)	**(348)**
7,365	(3)	3,699	**11,061**	OneSource Non-Shared	(1,306)	4,347	1,893	**4,934**
4,127	(12)	696	**4,811**	oneSource Shared	3,573	2,319	1,006	**6,898**
172,255	**(56,732)**	**42,715**	**158,238**	**Net Cost of Services**	**164,026**	**(69,805)**	**(12,099)**	**82,123**
(167,930)	**38,665**	(39,593)	(168,858)	Other Income and Expenditure	**(165,808)**	**5,178**	3,239	(157,392)
4,325	**(18,067)**	****3,122**	**(10,620)**	**Surplus or Deficit**	**(1,782)**	**(64,627)**	****(8,860)**	**(75,269)**
18,921				Opening General Fund and HRA Balance	**14,596**			
(4,325)				Less/Plus Surplus or Deficit on General Fund and HRA Balance in Year*	1,782			
14,596				**Closing General Fund and HRA Balance at 31 March**	**16,378**			

* 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 2017/18

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	(16,429)	2,078	109	(14,242)
Chief Operating Officer	2,979	1,043	49	4,071
Neighbourhoods	(39,803)	2,125	(26)	(37,704)
Adult Services	209	575	4	788
Children's Services	(34,675)	5,847	(577)	(29,405)
Public Health	0	44	(23)	21
oneSource Non-Shared	3,856	493	(2)	4,347
oneSource Shared	1,140	1,185	(6)	2,319
Net Cost of Services	**(82,723)**	**13,390**	**(472)**	**(69,805)**
Other income and expenditure from the Expenditure and Funding Analysis	5,178	-	-	5,178
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(77,545)**	**13,390**	**(472)**	**(64,627)**

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)**

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 i.e. Minimum Revenue Provision and other revenue contributions are deducted from the 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 business rates 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:

2016/17 £000	Income from Services	2017/18 £000
174	Section 151	931
2,236	Chief Operating Officer	8,188
92,017	Neighbourhoods	95,091
17,552	Adult Services	17,251
145,789	Children's Services	140,619
11,551	Public Health	11,337
2,250	oneSource Shared	3,155
102,234	oneSource Non -Shared	95,117
373,803	**Total income analysed on a segmental basis Net Cost of Services**	**371,689**

8. Expenditure and Income Analysed by Nature

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

2016/17 £000	Expenditure/Income	2017/18 £000
	Expenditure	
212,817	Employee benefits expenses	196,598
293,813	Other services expenses	306,347
20,032	Depreciation, amortisation, impairment	(50,533)
20,823	Interest payments	25,302
14,428	Precepts and levies	15,667
1,138	Payments to Housing Capital Receipts Pool	1,274
15,546	(Gain) loss on the disposal of assets	23,116
578,597	**Total expenditure**	**517,771**
	Income	
(130,063)	Fees, charges and other service income	(124,156)
(5,607)	Interest and investment income	(5,342)
(132,692)	Income from council tax, non-domestic rates,	(138,748)
(320,855)	Government grants and contributions	(324,794)
(589,217)	**Total income**	**(593,040)**
(10,620)	**Surplus or Deficit on the Provision of Services**	**(75,269)**

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					
2017/18	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
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)	(12,649)	(741)				13,390
Financial instruments (transferred to the Financial Instruments Adjustments Account)	40					(40)
Available for sale financial instruments (transferred to the Available for Sale Financial Instruments Account)						-
Council tax and NNDR (transfers to or from Collection Fund)	(2,104)					2,104
Holiday pay (transferred to the Accumulated Absences Reserve)	576					(576)
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	9,513	25,125			(29,485)	(5,153)
Total Adjustments to Revenue Resources	**(4,624)**	**24,384**	**-**	**-**	**(29,485)**	**9,725**
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	2,723	15,132	(17,855)			-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)		(322)	322			-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,274)		1,274			-
Posting of HRA resources from revenue to the Major Repairs Reserve		9,165		(9,165)		-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,656					(1,656)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	5,338	10,572				(15,910)
Total Adjustments between Revenue and Capital Resources	**8,443**	**34,547**	**(16,259)**	**(9,165)**	**-**	**(17,566)**
Use of the Capital Receipts Reserve to finance capital expenditure			22,457			(22,457)
Use of the Major Repairs Reserve to finance capital expenditure				12,035		(12,035)
Application of capital grants to finance capital expenditure	1,921				20,823	(22,744)
Cash payments in relation to deferred capital receipts		(45)				45
Total Adjustments to Capital Resources	**1,921**	**(45)**	**22,457**	**12,035**	**20,823**	**(57,191)**
Total Adjustments	**5,740**	**58,886**	**6,198**	**2,870**	**(8,662)**	**(65,032)**

Comparative figures for 2016/17 are as follows:	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)**

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 2017/18.

	Balance as at 31 3 2016	Transfers (from)/to Revenue	Transfers between reserves	Balance as at 31 3 2017	Transfers (from)/to Revenue	Transfers between reserves	Balance as at 31 3 2018
	£000	£000	£000	£000	£000	£000	£000
General Fund Earmarked Reserves							
Corporate Transformation reserve	**27,564**	(9,979)	(111)	**17,474**	(2,837)	(10,206)	**4,431**
Business Risk reserve	**-**	9,262	2,365	**11,627**	10,420	4,806	**26,853**
oneSource reserve	**1,196**	(138)	-	**1,058**	(424)	-	**634**
Insurance reserve	**6,932**	(487)	-	**6,445**	(56)	-	**6,389**
Reserves for future capital schemes	**10,283**	2,666	(184)	**12,765**	(1,337)	200	**11,628**
Legal reserve	**256**	(161)	-	**95**	(103)	230	**222**
Crematorium and Cemetery reserves	**540**	128	-	**668**	108	(50)	**726**
Social Care reserve	**2,308**	(2,281)	-	**27**	(5)	-	**22**
Troubled Families reserve	**-**	1,344	-	**1,344**	(169)	-	**1,175**
Public Health reserve	**290**	473	-	**763**	415	-	**1,178**
Whole life costing Transport Fleet reserve	**562**	-	-	**562**	-	-	**562**
Ordinary Place of Residence reserve	**1,400**	-	(1,400)	**-**	-	-	**-**
Emergency Assistance Scheme	**-**	-	-	**-**	(80)	821	**741**
SLM Funding 2017/18-2022/23	**-**	-	-	**-**	(213)	2,111	**1,898**
Other reserves	**2,745**	(1,656)	(670)	**419**	558	2,088	**3,065**
HRA Major works				**-**	3,545	-	**3,545**
Total General Fund Earmarked Reserves	**54,076**	**(829)**	**-**	**53,247**	**9,822**	**-**	**63,069**
Schools Balances							
General Balances	**2,911**	140	-	**3,052**	(671)	-	**2,381**
Schools Balances	**7,168**	(2,726)	-	**4,442**	(438)	-	**4,004**
Centrally held schools balances (Note 34)	**2,124**	293	-	**2,417**	148		**2,565**
Total Schools Balances	**12,203**	**(2,293)**	**-**	**9,911**	**(961)**	**-**	**8,950**
Total Earmarked Reserves	**66,279**	**(3,122)**	**-**	**63,158**	**8,861**	**-**	**72,019**

General Fund Earmarked Reserves

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

Business 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 Business 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.

Emergency Assistance Scheme - The EAS is for assistance for extreme hardship in emergency situations. They are for vulnerable residents and customers experiencing hardship or In need of support.

SLM Funding 2017/18-2022-23 - This reserve will be required until 2022/23 and aims to smooth out the overall impact of the leisure management contract on the revenue account as the five leisure centres reach business maturity at different stages.

Other Reserves – This encompasses a range of several smaller reserves including 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 2017/18 are shown at Note 34.

11. Other Operating Expenditure

2016/17 £000		2017/18 £000
14,428	Levies	15,667
817	Payments to the Government Housing Capital Receipts Pool	1,274
15,492	(Gain) / Loss on the disposal of non-current assets	23,116
30,737	**Total**	**40,057**

12. Financing And Investment Income And Expenditure

2016/17 £000		2017/18 £000
7,727	Interest payable and similar charges	7,721
13,096	Pensions Net interest on the net defined benefit liability (asset)	12,193
(1,864)	Interest receivable and similar income	(2,297)
(2,768)	Income and expenditure in relation to investment properties	(3,090)
(808)	Changes in the fair value of investment properties	537
(36)	Other investment income	45
15,347	**Total**	**15,109**

13.Taxation And Non-Specific Grant Income

2016/17 £000		2017/18 £000
(110,162)	Council tax income	(114,826)
(22,530)	National non-domestic rates income	(23,923)
(45,704)	Non ring-fenced government grants	(42,404)
(36,547)	Capital grants and contributions	(31,405)
(214,943)	**Total**	**(212,558)**

14. Property, Plant and Equipment

Movements in Balances 2017/18

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Gross Book Value	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 31 March 2017	**498,422**	**366,536**	**42,491**	**164,235**	**4,142**	**-**	**28,051**	**1,103,877**
Additions	33,056	26,501	2,898	7,447	-	-	**3,171**	**73,073**
Revaluation increases/(decreases) to :								
Revaluation Reserve	1,884	133,936	-	-	-	30		**135,850**
Revaluation gains to the CI&ES	38,228	28,835	-	-	-	(30)		**67,033**
Derecognition - Disposals	(6,109)	(33,879)	(28,043)	(706)	-	-		**(68,737)**
Derecognition - other	-	-	-	-	-	-		**-**
Reclassifications & Transfers	3,622	21,599	-	-	-	742	**(25,887)**	**76**
At 31 March 2018	**569,103**	**543,528**	**17,346**	**170,976**	**4,142**	**742**	**5,335**	**1,311,172**
Accumulated Depreciation and Impairment								
At 31 March 2017	**-**	**1,954**	**35,267**	**68,707**	**397**	**-**	**-**	**106,325**
Depreciation Charge	8,445	6,596	2,592	6,477	85	-	**-**	**24,195**
Depr. written out upon Revaluation:	(4,103)	(5,767)	-			-	**-**	**(9,870)**
Revaluation Reserve	(4,342)	(106)	-			-	**-**	**(4,448)**
CI &ES								
De-recognition - disposals	-	(875)	(28,043)	(386)		-	**-**	**(29,304)**
Reclassifications	-	(54)	-			54	**-**	**-**
At 31 March 2018	**-**	**1,748**	**9,816**	**74,798**	**482**	**54**	**-**	**86,898**
Net book value at 31 March 2018	**569,103**	**541,780**	**7,530**	**96,178**	**3,660**	**688**	**5,335**	**1,224,274**
Net book value at 31 March 2017	**498,422**	**364,582**	**7,224**	**95,528**	**3,745**	**-**	**28,051**	**997,552**

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)**
Derecognition - Disposals	(7,374)	(23,456)	-	-	-	(838)	**(31,668)**
Derecognition - other	-	-	-	-	-	-	**-**
Reclassifications & 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**

Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in 2018/19.

31 March 2017 £000		31 March 2018 £000
	Fund	
9,519	Arts, culture, sport and leisure	375
3,318	Roads, footways and bridges	1,884
28,614	Education capital schemes	35,518
4,007	Town centre and environmental	1,598
2,598	Office accommodation, equipment, ICT and	1,300
1,769	Other smaller General Fund schemes	7,538
49,825	**Total General Fund commitments**	**48,213**
26,509	Housing	22,639
76,334	**Total commitments**	**70,852**

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 2018.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Carried at historical cost	-	-	7,530	96,178	3,660	613	5,335	113,316
Valued at fair value as at:								
31 March 2018	569,103	505,645	-	-	-	75	-	**1,074,823**
31 March 2017	-	7,260	-	-	-	-	-	**7,260**
31 March 2016	-	28,875	-	-	-	-	-	**28,875**
31 March 2015	-		-	-		-	-	-
31 March 2014	-		-	-	-	-	-	-
Total cost or valuation	**569,103**	**541,780**	**7,530**	**96,178**	**3,660**	**688**	**5,335**	**1,224,274**

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**
Depreciation	-	(1)	(1)
Revaluation	30	-	30
31 March 2018	**110**	**23**	**133**

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.

2016/17 £000		2017/18 £000
3,019	Rental income from investment property	3,437
(251)	Direct operating expenses arising from investment property	(346)
2,768	**Net gain**	**3,091**

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.

2016/17 £000		2017/18 £000
38,596	**Opening Balance**	**39,404**
808	Revaluation gains from fair value adjustment	(537)
-	Additions	5,813
-	Assets reclassified	-
-	Disposal of investment properties	-
39,404	**Balance at the end of the year**	**44,680**

The valuation of the Authority's investment property portfolio in 20171/8 was undertaken by Wilks Head & Eve who provide specialist valuations advice and who have extensive experience in the property sector.

c) Investments wihtin the group balances
Mercury Land Holding hold £17.951m in investment properties that on an open market value for existing use basis.

Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy as at 31 March 2018 and 2017 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 2018 £000
Office units	-	4,412	-	4,412
Commercial units	-	40,268	-	40,268
Total	**-**	**44,680**	**-**	**44,680**

2017 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	-	4,385	-	4,385
Commercial units	-	35,019	-	35,019
Total	**-**	**39,404**	**-**	**39,404**

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 finance manager reporting directly to the chief financial officer on a regular basis regarding all valuation matters.

c) Investment in Subsidiaries

2016/17 £000	Investments in subsidiary companies:	2017/18 £000
8,615	**Cost or valuation** - Additions	8,735
8,615	**Net book value** - Additions	8,735

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Corporation of incorporation	Class of shares	Holding	Principal activity
Mercury Land Holding	England	Ordinary	100%	Development of the building project

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 £549m charged to revenue in 2017/18 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:

2016/17 £000	Intangible fixed assets software and system development	2017/18 £000
14,637	Gross carrying amounts	16,152
(13,224)	Less accumulated amortisation	(13,799)
1,413	**Net carrying amount at start of year**	**2,353**
1,514	Additions – purchases	299
-	Disposals	(30)
(574)	Less amortisation for the period	(549)
2,353	**Net carrying amount at end of year**	**2,073**
	Comprising:	
16,152	Gross carrying amounts	2,989
(13,799)	Less accumulated amortisation	(916)

18. Financial Instruments

(a) Financial Instruments - Classification

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
- loans to small companies
- 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
- money market funds managed by BNP Paribas and Insight Liquidity Managers

(b) Financial Instruments - Balances

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

31 March 2017		Financial Liabilities	31 March 2018	
Long-Term £000	Short-Term £000		Long-Term £000	Short-Term £000
		Loans at amortised cost:		
		PWLB		
203,234	-	- Principal borrowed	203,234	-
-	393	- Accrued interest	-	393
		Market Loan		
7,000	-	- Principal borrowed	7,000	-
-	93	- Accrued interest	-	91
		Other Loans		
1,339	2,511	- Principal borrowed	796	30,251
	1	- Accrued interest		11
211,573	**2,998**	**Total borrowing ***	**211,030**	**30,746**
		Liabilities at amortised cost:		
		Trade payables		
157	42,362	- Trade Creditors	-	35,591
157	**42,362**	**Included in creditors ****	**-**	**35,591**
211,730	**45,360**	**Total financial liabilities**	**211,030**	**66,337**

* The total short-term borrowing includes £0.484m (2017: £0.486m) representing accrued interest on long-term borrowing.

** The creditors lines on the Balance Sheet include £42.962m (2017: £31.151m) short-term and £0m (2017: £1.045m) long-term creditors that do not meet the definition of a financial liability. See note 22 for further information on short-term creditors.

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

31 March 2017		Financial Assets	31 March 2018	
Long-Term £000	**Short-Term £000**		**Long-Term £000**	**Short-Term £000**
		Loans and receivables:		
40,000	122,000	- Principal at amortised cost	30,000	150,850
-	593	- Accrued interest	-	553
		Available for sale investments		
-	-	- Principal at amortised cost	3,000	-
-	-	- Accrued interest	-	76
40,000	**122,593**	**Total Investments**	**33,000**	**151,479**
		Loans and receivables:		
-	7,963	- Cash (including bank accounts)	-	8,536
-	29,521	- Cash equivalents at amortised cost	-	35,822
-	9	- Accrued interest	-	17
		Available for sale investments		
-	9,242	- Cash equivalents at fair value	-	9,045
-	-	- Accrued interest		
-	**46,735**	**Total cash and cash equivalents**	**-**	**53,420**
		Loans and receivables		
8,596	32,469	- Trade receivables	13,061	31,068
8,596	**32,469**	**Included in debtors**	**13,061**	**31,068**
48,596	**201,797**	**Total financial assets**	**46,061**	**235,967**

* The total short-term investments includes £0.250m representing accrued interest on long-term investments.

** The debtors lines on the Balance Sheet include £17.626m (2016/17: £18.281m) short-term that do not meet the definition of a financial asset. See note 19 for further information.

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

31 March 2018		Fixed Assets	31 March 2018	
Long-Term £000	Short-Term £000		Long-Term £000	Short-Term £000
		Loans and receivables:		
40,000	122,000	- Principal at amortised cost	30,000	150,850
-	593	- Accrued interest	-	553
		Available for sale investments		
-	-	- Principal at amortised cost	3,000	-
-	-	- Accrued interest	-	76
40,000	**122,593**	**Total investments**	**33,000**	**151,479**
		Loans and receivables:		
-	8,457	- Cash (including bank accounts)	-	13,401
-	29,521	- Cash equivalents at amortised cost	-	35,822
-	9	- Accrued interest	-	17
		Available for sale investments	-	
-	9,242	- Cash equivalents at fair value	-	9,045
-	-	- Accrued interest	-	-
-	**47,229**	**Total cash and cash equivalents**	**-**	**58,285**
		Loans and receivables		
422	31,791	- Trade receivables	-	30,289
422	**31,791**	**Included in debtors**	**-**	**30,289**
40,422	**201,613**	**Total financial assets**	**33,000**	**240,053**

(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				2017/18
	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	7,721						7,721
Interest payable and similar charges	**7,721**	**-**	**-**	**-**	**-**	**-**	7,721
Interest income			(2,228)	(69)			(2,297)
Increases in fair value				56			56
Interest and investment income	**-**	**-**	**(2,228)**	**(13)**	**-**	**-**	(2,241)
Changes in value of investment properties					537		537
Income and expenditure relating to investment properties					(3,091)		(3,091)
Pensions Net Interest		12,193					12,193
Impact in Other Comprehensive Income	**-**	**12,193**	**-**	**-**	**(2,554)**	**-**	9,639
Net gain (loss) for the year	**7,721**	**12,193**	**(2,228)**	**(13)**	**(2,554)**	**-**	**15,119**

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Gains and losses in 2016/17 were as follows:

	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	-	13096	-	-	-	-	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**

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(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 2018, 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 2017			Fair Value Level	31 March 2018	
Balance Sheet £000	Fair Value £000			Balance Sheet £000	Fair Value £000
		Financial liabilities held at amortised cost:			
203,234	260,017	- Long-term loans from PWLB	2	203,234	250,995
7,000	11,790	- Long-term LOBO loans	2	7,000	11,357
1,339	1,339	- Other long-term loans	2	796	796
2,511	2,511	- Other Short-term loans	2	30,251	30,251
487	487	- Accrued interest		495	495
214,571	**276,144**	**Total**		**241,776**	**293,894**
42,519	42,519	Liabilities for which fair value is not disclosed *		39,387	39,387
257,090	**318,663**	**Total Financial Liabilities**		**281,163**	**333,281**

31 March 2017 Balance Sheet £000	31 March 2017 Fair Value £000		Fair Value Level	31 March 2018 Balance Sheet £000	31 March 2018 Fair Value £000
		Recorded on balance sheet as:			
42,362	42,362	- Short-term creditors		35,591	35,591
2,998	2,998	- Short-term borrowing		30,746	30,746
157	157	- Long-term creditors		-	-
211,573	273,146	- Long-term borrowing		211,030	263,148
257,090	**318,663**	**Total Financial Liabilities**		**277,367**	**329,485**

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 2017 Balance Sheet £000	31 March 2017 Fair Value £000		Fair Value Level	31 March 2018 Balance Sheet £000	31 March 2018 Fair Value £000
		Financial assets held at amortised cost:			
		Loans & Receivables			
40,000	40,921	- Long-term loans to local authorities	2	30,000	30,513
22,000	22,168	- Short-term loans to local authorities	2	101,850	102,441
100,000	100,466	- Short-term bank deposits	2	49,000	49,111
		- Unrated Corporate Bonds	2	3,000	3,000
593	593	- Accrued interest		630	630
		Cash and Cash equivalents			
37,475	37,475	- Cash equivalents at amortised cost	2	44,358	44,358
9	9	- Accrued interest	2	17	17
		Available for Sale investments			
9,251	9,251	- Covered Bond	1	9,045	9,045
-	-	- Accrued interest			
209,328	**210,883**	**Total**		**237,900**	**239,115**
41,065	41,065	Assets for which fair value is not disclosed *		44,690	44,690
250,393	**251,948**	**Total Financial Assets**		**282,590**	**283,805**
		Recorded on balance sheet as:			
8,596	8,596	- Long-term debtors		13,061	13,061
40,000	40,921	- Long-term investments		33,000	33,513
32,469	32,469	- Short-term debtors		31,068	31,068
122,593	123,227	- Short-term investments		151,480	152,182
46,735	46,735	- Cash and cash equivalents		53,420	53,420
250,393	**251,948**	**Total Financial Assets**		**282,029**	**283,244**

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

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 £49m 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 2018 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 2017		Credit Rating	31 March 2018	
Long-term £000	Short-term £000		Long-term £000	Short-term £000
-	-	AAA	-	-
-	-	AA+	-	-
-	-	AA	-	-
-	67,000	AA-	-	49,000
-	13,000	A+	-	10,000
-	20,000	A	-	5,000
-	-	A-	-	-
40,000	22,000	Unrated local authorities	30,000	86,850
-	-	Unrated Corporate Bonds	3,000	-
40,000	**122,000**	**Total Investments**	**33,000**	**150,850**

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 2017/18 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 2017 £000		Gross balance of debtors £000	Average % default based on past experience %	Average % default based on current experience %	Credit risk exposure 31 March 2018 £000
-	Capital	4,760	-	-	-
4,428	Housing	10,045	69	56	5,603
984	Social Services	5,852	15	16	943
2,367	Parking	5,070	70	72	3,670
-	Other local authorities	147	-	-	-
-	Health authorities	490	-	-	-
2,037	Other sundry debtors	15,447	12	12	1,875
9,816	**Total**	**41,811**	**24**	**29**	**12,091**

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 2017 £000	Time to maturity (years)	31 March 2018 £000
2,511	Not over 1	30,252
-	Over 1 but not over 2	-
2,449	Over 2 but not over 5	1,110
20,554	Over 5 but not over 10	38,057
118,611	Over 10 but not over 20	131,107
30,000	Over 20 but not over 30	-
21,308	Over 30 but not over 40	32,960
11,651	Over 40	-
7,000	Uncertain date	7,000
214,084	**Total**	**240,486**

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:

	2017/18 £000
Increase in interest payable on variable rate borrowings	
Increase in interest receivable on variable rate investments	
Impact on comprehensive income and expenditure	**-**
Decrease in fair value of loans and receivables *	(1,352)
Decrease in fair value of fixed rate borrowing liabilities	(31,290)

* No impact on comprehensive income and expenditure. The Authority has no investments in call accounts with falling interest rates at 31 March 2018.

** 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 2017 £000					31 March 2018 £000			
Gross	Impairment Allowance		Net		Gross	Impairment Allowance		Net
				Collection Fund Debtors				
14,603	(6,958)	*	7,645	Council tax payers	13,909	(6,880)	*	7,029
734	(545)	*	189	Business rate payers	822	(615)	*	207
				Other Debtors				
5,941	-	*	5,941	Government departments	6,475	-	*	6,475
6,929	-		6,929	Capital	4,760	-		4,760
6,463	(4,428)		2,035	Housing	10,045	(5,603)		4,443
11,192	(6,686)	*	4,506	Housing Benefit	10,918	(7,002)	*	3,915
6,382	(984)		5,398	Social Services	5,852	(943)		4,909
3,371	(2,367)		1,004	Parking Enforcement	5,070	(3,670)		1,400
299	-		299	Other local authorities	147	-		147
644	-		644	Health authorities	490	-		490
1,100	-		1,100	Mercury Land Holdings	1,347	-		1,347
17,097	(2,037)		15,060	Other sundry debtors	15,446	(1,875)		13,571
74,755	**(24,005)**		**50,750**	**Total short-term debtors**	**75,280**	**(26,588)**		**48,692**

* 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 2017 £000		31 March 2018 £000
8,184	Mercury Land Holdings	13,062
412	Other	323
8,596	**Total cash and cash equivalents**	**13,385**

20. Cash and Cash Equivalents

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

31 March 2017 £000		31 March 2018 £000
2,379	Bank current accounts	3,012
29,521	Short-term deposits with banks – call accounts	35,839
9,250	Available for Sale Investments	9,045
5,585	Schools – under the LMS cheque book scheme	5,524
46,735	**Total cash and cash equivalents**	**53,420**

21. Assets Held for Sale

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

2016/17 £000		2017/18 £000
3,833	**Opening Balance**	**3,833**
-	Revaluation gains from fair value adjustments	4,333
-	Assets reclassified	(75)
-	Disposals	(1,185)
3,833	**Balance at end of the year**	**6,906**

22. Short-Term Creditors

31 March 2017 £000		31 March 2018 £000
	Collection Fund creditors	
6,438	Council tax payers *	6,322
1,114	NNDR payers*	1,463
2,277	GLA*	3,885
5,165	Central Government (NNDR)*	4,253
	Other Creditors	
3,335	Central Government *	4,988
-	HMRC *	4,107
12,822	Pension Fund *	17,635
3,585	Capital creditors	3,658
32,934	Other sundry creditors	27,373
5,843	Income in advance	4,560
73,513	**Total**	**78,243**

* 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

2017/18	Self Insurance £000	Collection Fund £000	Other Provisions £000	Total £000
Balance at 1 March 2017	**3,854**	**2,024**	**255**	**6,133**
Additional provisions made in year	-	178	-	**178**
Amounts used in year	-	(108)	-	**(108)**
Transfer to revenue	(849)	-	(5)	**(854)**
Balance at 31 March 2018	**3,005**	**2,094**	**250**	**5,349**

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), motor vehicles (£162,764) and property (£50,000). A new insurance contract will commence on 1st July 2018 and deductible levels will be set depending on the outcome of the tender process.

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 provision allows for £250,000 (£255,000 at 31 March 2017) 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 2017 £000		31 March 2018 £000
11,766	General Fund balance	11,766
63,157	Earmarked Reserves	72,019
2,830	Housing Revenue Account balance	4,612
35,299	Capital Grants Unapplied	43,959
62,171	Capital Receipts Reserve	55,973
33,533	Major Repairs Reserve	30,663
208,756	**Total usable reserves**	**218,992**

25. Unusable Reserves

31 March 2017 £000		31 March 2018 £000
346,712	Revaluation Reserve	470,842
58	Financial Instruments Available for Sale Reserve	2
462,256	Capital Adjustment Account	563,831
(823)	Financial Instruments Adjustment Account	(727)
(487,970)	Pension Reserve	(469,258)
289	Deferred Capital Receipts Reserve	244
2,087	Collection Fund Adjustment Account	(17)
(4,541)	Accumulated Absences Account	(3,965)
318,068	**Total unusable reserves**	**560,952**

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 Capitals Adjustment Account.

31 March 2017 £000		31 March 2018 £000
344,798	**Balance at 1 April**	**346,712**
19,150	Net gain on revaluation of fixed assets	145,749
(6,305)	Excess of Fair Value Depreciation over Historical costs depreciation	(6,398)
(10,931)	Removal of Revaluation balance upon sale	(15,221)
-	Other Adjustments	-
346,712	**Balance at 31 March**	**470,842**

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 2017/18 of £2,000 (£58,000 for 2016/17) 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.

2016/17 £000		2017/18 £000
426,133	**Balance at 1 April**	**462,256**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(23,652)	Net charges for depreciation of non-current assets	(24,196)
4,194	Net charges for impairment of non-current assets	75,814
-	Net charges for de-recognition of non-current assets	-
143	Mitigation of PPP Capitalised	307
(574)	Amortisation of intangible assets	(548)
(31,542)	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	(40,649)
	Adjusting amounts written out of the Revaluation Reserve	
6,305	Excess of Fair Value Depreciation over Historical costs depreciation	6,398
10,931	Removal of Revaluation balance upon sale	15,221
-	Other	
(34,195)	**Net written out amount of the cost of non-current assets consumed in the year**	**32,347**
	Capital financing applied in the year:	
26,014	Use of the Capital Receipts Reserve to finance new capital expenditure	22,457
-	Use of the Major Repairs Reserve to finance new capital expenditure	12,035
25,032	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	22,744
1,259	Statutory provision for the repayment of debt	1,656
20,462	Capital expenditure charged against the General Fund and HRA balances	15,910
72,767	**Capital financing applied in year**	**74,802**
(3,257)	**Revenue expenditure funded from capital under statute**	**(5,037)**
808	**Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement**	**(537)**
462,256	**Balance at 31 March**	**563,831**

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.

2016/17 £000		2017/18 £000
(918)	**Balance at 1 April**	(823)
95	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	96
(823)	**Balance at 31 March**	**(727)**

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.

2016/17 £000		2017/18 £000
(388,109)	**Balance at 1 April**	**(487,970)**
(91,224)	Actuarial gains or (losses) on pensions assets and liabilities	32,102
(34,556)	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	(41,523)
25,919	Employer's pensions contributions and direct payments to pensioners payable in the year	28,133
(487,970)	**Balance at 31 March**	**(469,258)**

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.

2016/17 £000		2017/18 £000
344	**Balance at 1 April**	**289**
(55)	Transfer to the Capital Receipts Reserve upon receipt of cash	(45)
289	**Balance at 31 March**	**244**

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.

2016/17 £000		2017/18 £000
2,188	**Balance at 1 April**	**2,087**
(101)	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	(2,104)
2,087	**Balance at 31 March**	**(17)**

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.

2016/17 £000		2017/18 £000
3,008	**Balance at 1 April**	**4,541**
3,008	Settlement or cancellation of accrual made at the end of the preceding year	4,541
(4,541)	Amounts accrued at the end of the current year	3,965
(1,533)	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	576
4,541	**Balance at 31 March**	**3,965**

26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2016/17 Authority £000	2016/17 Group £000		2017/18 Authority £000	2017/18 Group £000
19,458	19,458	Depreciation, impairment and downward revaluation	(51,618)	(51,610)
574	574	Amortisation	548	548
7,315	7,852	Movement in creditors	3,724	3,603
816	708	Movement in long-term creditors	(1,202)	(1,202)
(8,673)	1,142	Movement in debtors	(111)	203
(8,139)	(8,480)	Movement in long-term debtors	(4,789)	150
31	32	Movement in inventories	(44)	(144)
8,637	8,637	Movement in pension liability	13,390	13,390
1,047	1,047	Decrease in provisions	(784)	(784)
31,542	31,542	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	40,649	40,316
2,448	2,447	Other non-cash items charged to the net surplus or deficit on the provision of services	5,575	6,345
55,056	**64,959**	**Net cash flows from operating activities**	**5,338**	**10,815**

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

2016/17 Authority £000	2016/17 Group £000		2017/18 Authority £000	2017/18 Group £000
(36,547)	(36,547)	Capital grants credited to the Consolidated Income and Expenditure Statement	(31,405)	(32,091)
(655)	(655)	Proceeds from sale of fixed assets	(17,488)	(17,488)
(37,202)	**(37,202)**	**Adjustment for items included in the net surplus or deficit on the provisions of services that are investing and financing activities**	**(48,893)**	**(49,579)**

27. Cash Flow Statement – Investing Activities

2016/17 Authority £000	2016/17 Group £000		2017/18 Authority £000	2017/18 Group £000
(71,507)	(88,477)	Purchase of property, plant and equipment, investment property and intangible assets	(84,223)	(84,223)
(483,621)	(475,006)	Purchase of short-term and long-term investments	(227,099)	(226,978)
655	655	Proceeds from the sale of property, plant and equipment, investment property and intangible	17,488	17,488
37,498	37,498	Capital grants received	35,502	35,502
474,812	474,812	Proceeds from short-term and long-term	205,093	204,320
5,152	5,152	Other receipts from investing activities	1,006	1,006
(37,011)	**(45,366)**	**Net cash flows from investing activities**	**(52,233)**	**(52,885)**

28. Cash Flow Statement – Financing Activities

2016/17 Authority £000	2016/17 Group £000		2017/18 Authority £000	2017/18 Group £000
49,974	49,974	Cash receipts of short-term and long-term borrowing	132,946	132,946
(48,213)	(48,213)	Repayments of short-term and long-term borrowing	(105,741)	(105,741)
1,761	**1,761**	**Net cash flows from financing activities**	**27,205**	**27,205**

29. Trading Operations

2016/17 (Surplus)/ Deficit £000		2017/18 Income £000	2017/18 Expenditure £000	2017/18 (Surplus)/ Deficit £000
	a) Open Air Market			
253	The Authority operates an open air market three days a week	(397)	577	180
	b) Other Trading Accounts			
(339)	Highways	(4,370)	3,105	(1,265)
(326)	Schools/Welfare Catering	(6,812)	6,901	89

The Market trading results have been in line with 2016-17, the reason for the reduced deficit is due to change to accounting treatment of depreciation where depreciation is now charged and reversed to the capital adjustment account outside of the trading accounts.

Highways – The reduction in trading surplus was due to:

In 2016/17 legal costs of £0.508m were born by the service.
• 2017/18 Charge out rates being reviewed and increased, giving rise to the increase in income of £0.146m
• Central recharges reduced in 2017/18 by £0.028m
• Prior year central depot valuation charge of £0.055m not transacted in 2017/18.
• The remaining £0.193m movement was due to transfer of staff from Contractor to both LBH agency and employee costs along with other smaller underspends.

Catering - The Service has a £590,000 surplus before overheads in 2017-18, however once overheads are applied this becomes a deficit of £89,000. Income reduced by £93,000 due to changes in income collection within Primary Schools, and expenditure by £90,000 due to efficient cost management, resulting in a net decrease in trading surplus of £3,000. The Trading surplus is attributable to continued improvements in Business processes. Overheads increased in 2017-18 by £412,000 to £679,000 due to the recalculation of internal recharges. This was to address anomalies that occurred in 2016/17.

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.

2016/17 £000		2017/18 £000
	Funding	
1,369	Section 75 Joint Pooled Budget between London Borough of Havering and North East London Foundation Trust	1,508
120	Recharges (excluded from the Pooled Budget)	90
1,460	Non Pooled Budget codes	1,173
2,949	**Total funding**	**2,771**
2,867	**Final outturn**	**2,920**

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 2017/18 was as follows:

Section 75 Joint Pooled Budget between LBH and CCG	Budget 2017/18 £000	Actual 2017/18 £000	BCF Funding Outturn 17-18 £000
LBH Funding - Capital			
Disability Facility Grant Allocation	1,553	1,277	(276)
Net Pooled Capital	**1,553**	**1,277**	**(276)**
LBH Funding Revenue - CCG Commissioned Services			
Minimum CCG Contribution - Expenditure	**10,203**	**10,203**	**-**
Revenue - CCG/ LBH			
Minimum CCG Contribution - Expenditure	**7,144**	**7,144**	**-**
CCG Minimum contribution representing ex256 monies	*4,773*		
CCG minimum contribution element for services commissioned on behalf of CCG - Reablement	*865*		
CCG minimum contribution element for services commissioned on behalf of CCG - Riverside	*172*		
CCG contribution to Care Act	*632*		
LBH Additional Contribution	*702*		
Net Pooled Revenue	**17,347**	**17,347**	**-**
Total Pooled	**18,899**	**18,624**	**(276)**

Underspend on capital has been carried forward into the following financial year (2018/19).

Comparative figures for 2016/17 are as follows:

Section 75 Joint Pooled Budget between LBH and CCG	Budget 2016/17 £000	Actual 2016/17 £000	BCF Funding £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)**

31. Members' Allowances

Payments in year were £989,954 including expenses (£994,128 in 2016/17). Additionally, payments to co-opted members totalled £1351 (£3,439 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:

			2017/18			2016/17		
Lower Band		Upper Band	Schools	Other	**Total**	Schools	Other	**Total**
£50,000	-	£55,000	42	45	**87**	47	32	**79**
£55,000	-	£60,000	18	12	**30**	22	19	**41**
£60,000	-	£65,000	13	19	**32**	18	12	**30**
£65,000	-	£70,000	14	14	**28**	20	13	**33**
£70,000	-	£75,000	14	4	**18**	14	6	**20**
£75,000	-	£80,000	5	8	**13**	3	6	**9**
£80,000	-	£85,000	3	3	**6**	4	5	**9**
£85,000	-	£90,000	2	5	**7**	4	1	**5**
£90,000	-	£95,000	2	3	**5**	2	1	**3**
£95,000	-	£100,000	-	3	**3**	-	-	**-**
£100,000	-	£105,000	1	1	**2**	-	2	**2**
£105,000	-	£110,000	-	-	**-**	-	2	**2**
£110,000	-	£115,000	-	3	**3**	-	3	**3**
£115,000	-	£120,000	-	-	**-**	-	1	**1**
£120,000	-	£125,000	-	2	**2**	-	-	**-**
£125,000	-	£130,000	-	-	**-**	-	2	**2**
£130,000	-	£135,000	-	4	**4**	-	-	**-**
£135,000	-	£140,000	-	-	**-**	-	-	**-**
£140,000	-	£145,000	-	-	**-**	-	1	**1**
£145,000	-	£150,000	-	-	**-**	-	-	**-**
£150,000	-	£155,000	-	1	**1**	-	1	**1**
			114	**127**	**241**	**134**	**107**	**241**

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 2017/18 £	Employer's pension contribution £	Total Remuneration including pension contributions 2017/18 £
Chief Executive – Andrew Blake-Herbert	1	167,217	9,313	**176,530**	36,788	**213,318**
Section 151 Officer	2	133,966	-	**133,966**	29,472	**163,438**
Chief Operating Officer / S151 Officer	2	12,326	-	**12,326**	-	**12,326**
Chief Operating Officer	2	-	-	**-**	-	**-**
Director of Neighbourhoods		132,615	-	**132,615**	29,175	**161,790**
Director of Children's Services		130,210	-	**130,210**	28,646	**158,857**
Director Adult Social Care and Health		132,615	-	**132,615**	29,175	**161,790**
Director of Public Health		122,207	-	**122,207**	17,573	**139,780**
Legal and Governance		95,143	-	**95,143**	20,931	**116,074**
Total		**926,299**	**9,313**	**935,612**	**191,761**	**1,127,374**

Note 1 In his role as counting Officer, the Chief Executive received a sum of £9,313 for the general election.

Note 2 As at March the 1st 2018, a combined Chief Operating Officer/Section 151 Officer was appointed, This had been previous covered two separate posts one of which was covered by agency at a cost of £209,700

The comparative figures for 2016/17 are as follows:

Post Holder Information	Notes	Salary £	Other payments £	Total Remuneration excluding pension contributions 2017/18 £	Employer's pension contribution £	Total Remuneration including pension contributions 2017/18 £
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 Children's, 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 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

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 Children's, 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.

33. External Audit Costs

The following fees relating to external audit and inspection were included in the 2017/18 accounts:

2016/17 £000		2017/18 £000
152	Fees payable with regard to external audit services carried	152
16	Certification of housing benefit subsidy claim	15
-	Amounts relating to prior year Statement of Accounts 2016/17 Scale Fee Variation	21
-	Audit fees refunded by the PSAA (Public Sector Audit Appointments Ltd)	(23)
168	**Total for year**	**165**

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 2017/18 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	Individual Schools Budget £000	Totals £000
Final DSG for 2017/18 before academy recoupment			207,296
Less academy figure recouped for 2017/18			91,893
Total DSG after academy recoupment for 2017/18			**115,403**
Plus: brought forward from 2016/17			2,417
Agreed initial budgeted distribution for 2017/18	**30,900**	**86,920**	**117,820**
In year adjustments	-	-	-
Final budgeted distribution for 2017/18	**30,900**	**86,920**	**117,820**
Actual central expenditure	(28,335)	-	(28,335)
Actual ISB deployed to schools	-	(86,920)	(86,920)
Carry forward to 2018/19	**2,565**	**-**	**2,565**

Comparative figures 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**

35. Grant Income

a) The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

2016/17 £000		2017/18 £000
Credited to Taxation and Non Specific Grant Income		
20,890	Revenue Support Grant	12,284
9,462	Redistributed Business Rates	9,232
15,352	Non ring-fenced Grant	20,889
36,547	Capital Grants	31,405
82,251	**Total**	**73,810**
Credited to Services		
57,273	Rent Allowances	55,992
37,072	Rent Rebates	34,755
11,508	Public Health Grant	11,224
119,818	Dedicated Schools Grant	115,165
-	Better Care Fund	6,442
-	Contributions from Other Local Authorities	4,724
-	School Contribution	1,027
796	Schools Funding Agency / Education Funding Agency	1,217
6,757	Pupil Premium Grant	6,021
2,964	Universal Free School Meals	2,813
489	Additional Funding For Schools –Primary School Sports Funding	724
472	Unaccompied Asylum Seeking Children Funding	704
-	Flexible Homelessness Grant	1,444
1,809	Other	7,000
238,958	**Total**	**249,252**

2017/18 includes donations and contributions not included in the 2016/17 accounts. The compariable figures for 2016/17 are: Better Care Fund £6.332m, Contributions form other Local authorities £3.466m and schools contirbution of £1.147m.

Current Liabilities

b) Capital Grants – receipts in advance:

2016/17 £000		2017/18 £000
7,700	Brought forward	10,599
4,170	Amounts received in year	3,848
(1,271)	Amounts applied to meet new capital investment	(1,920)
10,599	**Carried forward**	**12,527**

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 2017-18 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
Tapestry	Cllr J Alexander	6	-	5	-
Havering Museum	Cllr W Brice-Thompson Cllr F Thompson	7	2	1	-
Havering Arts Council	Cllr L Hawthorn Cllr D White Cllr J Chapman	-	4	-	-
Local Government Association	Cllr G Ford	55	-	-	-
East London Waste Authority	Cllr S Kelly	15,216	-	3,875	-
Havering Citizen Advice Bureau	Cllr R Morgon	195	-	-	-
London Riverside Board	Cllr R Ramsey	-	152	-	-
Havering Theatre Trust	Cllr P Rumble	447	-	-	-
BT Global Services	Cllr M White	118	-	-	1

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). 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 2017/18 is disclosed below indicating the share falling to each of the authorities. The LBH share is charged against the Consolidated Income and Expenditure Statement.

2016/17 £000	oneSource	2017/18 £000
	Net Expenditure	
8,780	Exchequer and Transactional Services	6,979
9,250	Finance	9,804
790	Business Services	2,293
3,781	Legal and Governance	3,437
8,448	ICT	7,895
3,467	Asset Management	2,959
3,170	Strategic and Operational HR	2,811
37,686	**Total Net Expenditure**	**36,178**
	Cost Sharing:	
18,626	London Borough of Newham	17,103
16,273	London Borough of Havering	16,211
2,787	London Borough of Bexley	2,864

As at 31 March 2018, the Authority owed £1.498m to the London Borough of Newham and £0.334m to the London Borough of Bexley

The joint committee council members are the same as in 2016-17; 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 2017 to March 2018
Director of Asset Management	London Borough of Havering	April 2017 to March 2018
Director of Exchequer and Transactional	London Borough of Havering	April 2017 to March 2018
Director of Legal and Governance	London Borough of Newham	April 2017 to March 2018
Director of Human Resources	London Borough of Havering	April 2017 to March 2018
Director of Finance	London Borough of Newham	April 2017 to March 2018
Director of ICT	London Borough of Newham	April 2017 to March 2018

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.

The Council has determined that for the financial year ended 31 March 2018, 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 also 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

MLH directors who have held office since 1st April 2017 are as follows:

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

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:

2016/17 £000	Capital Expenditure	2017/18 £000
66,736	Property, Plant and Equipment	73,073
-	Investment fixed assets	5,813
1,515	Intangible Assets	299
3,257	Revenue expenditure funded from capital under statute	5,037
7,991	Long Term Investments	120
8,615	Long Term Loans	4,352
88,114	**Total capital expenditure**	**88,694**
	Less financed from	
(26,015)	Capital receipts	(22,457)
-	Major repairs	(12,035)
(20,462)	Revenue funds	(15,910)
(25,032)	Grants and contributions	(22,744)
16,605	**Increase in need to borrow**	**15,548**
(1,259)	Minimum Revenue Provision	(1,656)
15,346	**Change in Capital Financing Requirement**	**13,892**

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

31 March 2017 £000	Capital Financing Requirement	31 March 2018 £000
1,040,893	Tangible fixed assets	1,275,993
16,606	Mercury Land Holdings	21,076
2,353	Intangible assets	2,073
(346,712)	Revaluation Reserve	(470,842)
(462,256)	Capital Adjustment Account	(563,831)
(306)	Finance lease and other long-term liabilities	-
250,578	**Net Requirement**	**264,469**

38. Leases

Operating Leases

The Authority has entered into the following operating leases for vehicles, plant and equipment.

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

2016/17 £000		2017/18 £000
166	Children's and Education Services	108
31	Highways, Roads and Transport Services	25
197	**Minimum lease payments**	**133**

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

31 March 2017 £000		31 March 2018 £000
129	Not later than one year	133
254	Later than one year and not later than five years	121
383	**Minimum Lease Payments**	**254**

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 2017 £000		31 March 2018 £000
114	Not later than one year	77
19	Later than one year and not later than five years	116
133	**Minimum Lease Payments**	**193**

The minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.193m (£0.133m in 2016/17). In most cases these rents are charged to Central Support Service and subsequently released to the appropriate service.

39. Revaluation Gains and Impairment Losses

During 2017/18, the Authority has recognised a net revaluation gain of £75.276m 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	42,570	-
Other land and buildings	42,946	14,005
Surplus Assets	-	30
Total PPE	**85,516**	**14,035**
Investment Properties	2,277	2,815
Assets Held for Sale	4,656	323
Total (gain) or loss to the CI&ES	**92,449**	**17,173**

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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
£0 - £20,000	65	8	19	3	84	14	619,307	104,917
£20,001 - £40,000	8	2	6	2	14	3	384,162	86,774
£40,001 - £60,000	7	-	2	4	9	4	450,801	193,518
£60,001 - £80,000	1	-	1	2	2	2	141,265	142,466
£80,001 - £100,000	-	-	1	-	1	-	94,621	-
£100,001 - £150,000	3	-	-	-	3	-	364,762	-
>£150,000	-	2	-	-	-	2	-	413,303
Total	**84**	**12**	**29**	**11**	**113**	**25**	**2,054,918**	**940,978**

Note: The Authority terminated the contracts of a number of employees in 2017/18, incurring costs of £940,978 (£2,054,918 in 2016/17). 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 2017/18 the Authority paid £5.98m (£6.73m 2016/17) to Teachers Pensions in respect of teachers pension contributions. This represented a contribution rate of 16.5% from 1 September 2017 (rising from 16.5% from 1 April 2016). 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 £38,960 (£36,000 in 2016/17) to NHS Pensions in respect of public health pension contributions. This represented 14.4% of pensionable pay (14.3% in 2016/17). 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 by London Borough of Havering. This is a funded defined benefit final salary scheme, meaning that 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) to Nov 2017
2. Legal & General Investment Management (LGIM) from Nov 2017
3. London CIV (Collective Investment Vehicle) Sub funds:
   - Ballie Gifford Global Alphan
   - Ballie Gifford Diversified Growth
   - Ruffer
4. UBS
5. 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're earned by employees, rather than when benefits are eventually paid as pensions. However, the charge to be made make against council tax is based on 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 in the year:

2016/17 £000		2017/18 £000
	Comprehensive Income and Expenditure Statement	
	Cost of services:	
	Service Cost Comprising:	
20,666	Current service cost	31,632
2,955	Past service costs	416
(2,161)	Gain from settlements	(2,718)
	Financing and Investment Income and Expenditure	
13,096	Net interest expense	12,193
34,556	**Total post-employment benefits charged to the surplus or deficit on the provision of services**	**41,523**
	Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	
	Re-measurement of the net defined benefit liability comprising:	
(63,137)	Return on plan assets (excluding the amount included in the net interest expense)	(13,326)
174,877	Actuarial gains and losses arising on changes in financial assumptions	(18,415)
(20,516)	Other	(361)
91,224	**Total post-employment Benefits charges to the Comprehensive Income and Expenditure Statement**	**(32,102)**
	Movements in Reserves Statement	
(34,556)	Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(41,523)
	Actual amount charged against the General Fund Balance for pensions in the year:	
25,919	Employers' contributions payable to scheme	28,133
(8,637)	**Net movement in Pensions Reserve**	**(13,390)**

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:

2016/17 £000		2017/18 £000
	Local Government Pension Scheme	
(1,053,340)	Present value of the defined benefit obligation	(1,060,216)
565,370	Fair value of plan assets	590,958
(487,970)	**Net liability arising from defined benefit obligation**	**(469,258)**

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

2016/17 £000		2017/18 £000
	Local Government Pension Scheme	
491,367	Opening fair value of scheme assets	565,370
16,584	Interest income	14,087
	Re-measurement gain (loss):	
63,137	The return on plan assets, excluding the amount included in the net interest expense	13,326
25,919	Contributions from employer	28,133
5,325	Contributions from employees into the scheme	5,272
(34,171)	Benefits paid	(32,331)
(2,791)	Other – effect of settlements	(2,899)
565,370	**Closing fair values of scheme assets**	**590,958**

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

2016/17 £000		2017/18 £000
	Funded liabilities: Local Government Pension Scheme	
879,476	Opening balance at 1 April	1,053,340
20,666	Current service cost	31,632
29,680	Interest cost	26,280
5,325	Contributions from scheme participants	5,272
	Re-measurement (gains) and losses:	
174,877	Actuarial gains/ losses arising from changes in financial assumptions	(18,415)
(20,516)	Other	(361)
2,955	Past service cost (Including curtailments)	416
(34,171)	Benefits paid	(32,331)
(4,952)	Liabilities extinguished on settlements	(5,617)
1,053,340	**Closing balance at 31 March**	**1,060,216**

Local Government Pension Scheme assets comprised:

2016/17				Asset Category	2017/18			
Quoted Prices in Active Markets £000	Quoted Prices not in Active Markets £000	Total £000	Percentage of Total assets %		Quoted Prices in Active Markets £000	Quoted Prices not in Active Markets £000	Total £000	Percentage of Total assets %
				Equity Securities				
-	-	**-**	-	Consumer			**-**	
-	-	**-**	-	Manufacturing			**-**	
-	-	**-**	-	Energy and utilities			**-**	
-	-	**-**	-	Financial institutions			**-**	
-	-	**-**	-	Health and Care			**-**	
-	-	**-**	-	Information technology			**-**	
-	1.60	**1.60**	-	Other		1.30	**1.30**	
				Debt Securities				
61,635.20	-	**61,635.20**	11.00	Corporate bonds (investment grade)	52,674.60		**59,491.70**	10.00
16,471.20	-	**16,471.20**	3.00	UK Government	12,391.20		**12,831.30**	2.00
31,632.70	-	**31,632.70**	6.00	Other	31,267.60		**27,559.90**	5.00
				Real Estate				
28,882.00	-	**28,882.00**	5.00	UK Property	32,044.50		**34,163.20**	6.00
				Investment Funds and Unit Trusts				
408,286.30	-	**408,286.30**	72.00	Equities	423,238.00		**439,431.20**	74.00
				Cash and Cash Equivalents				
18,461.00	-	**18,461.00**	3.00	All	15,352.70		**17,479.40**	3.00
565,368.40	**1.60**	**565,370.00**	**100.00**	**Totals**	**566,968.60**	**1.30**	**590,958.00**	**100.00**

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 2016.

2016/17 £000		2017/18 £000
	Local Government Pension Scheme	
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.0 years	Men	22.0 years
24.2 years	Women	24.2 years
	Longevity at 65 for future pensioners:	
23.9 years	Men	23.9 years
26.3 years	Women	26.3 years
3.40%	Rate of inflation	3.50%
2.70%	Rate of increase in salaries	2.70%
2.40%	Rate of increase in pensions	2.40%
2.50%	Rate for discounting scheme liabilities	2.60%

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 2018	Approximate % increase to Employer Liability	Approximate Monetary amount £000
0.5% decrease in Real Discount Rate	9%	95,716
0.5% Increase in the Salary Increase	1%	11,424
0.5% Increase in the Pension	8%	83,181

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 2019.

The Authority anticipates to pay £24.2m expected contributions to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 16.2 years, 2017/18 (16.2 years 2016/17).

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.

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 2017	6,500	142,921
Receipts	25	547
Payments	(25)	(547)
Balance at 31 March 2018	**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 2017/18

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.

2016/17 £000		Notes	2017/18 £000
	Income		
(48,573)	Dwelling rents		(47,534)
(385)	Non-dwelling rents		(422)
(6,728)	Charges for services and facilities		(11,095)
(1,739)	Contributions towards expenditure		(1,350)
(57,425)	**Total Income**		**(60,401)**
	Expenditure		
7,948	Repairs and maintenance		6,679
21,978	Supervision and management		21,827
345	Rents, rates, taxes and other charges		448
218	Increased provision for bad/doubtful debts		461
347	Depreciation and Impairment of tangible fixed assets	4	(31,235)
-	Debt management		
30,836	**Total Expenditure**		**(1,820)**
(26,589)	**Net expenditure or income of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(62,221)**
250	**HRA Services' share of Corporate and Democratic Core**		**250**
(26,339)	**Net Expenditure of HRA Services**		**(61,971)**
	HRA Share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement		
(7,127)	Net gain on disposal of HRA assets		(8,654)
5,854	Interest payable and similar charges		5,853
(331)	Interest and investment income		(392)
(27,943)	**Deficit/(Surplus) for the year on HRA Services**		**(65,164)**

Movement on the Housing Revenue Account Balance during 2017/18

2016/17 £000		2017/18 £000
(7,155)	**Housing Revenue Account balance brought forward**	**(2,830)**
(27,943)	(Surplus)/deficit for the year on the HRA Income and Expenditure Account	(65,164)
31,864	Adjustments between accounting basis and funding basis under regulations	58,887
(3,234)	**HRA balance before transfer to earmarked reserves**	**(9,107)**
404	Transfers to earmarked reserves	4,495
(2,830)	**Housing Revenue Account balance carried forward**	**(4,612)**

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

2016/17 £'000	Notes	2017/18 £000
Items included in the HRA Income and Expenditure but excluded from the movement in the HRA balance		
Adjustments to the Revenue Resources		
(109)	Pensions costs (transferred from the Pensions Reserve)	(741)
8	Holiday pay (transferred to the Accumulated Absences Reserve)	-
(8,559)	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	25,125
(8,660)	**Total Adjustments to Revenue Resources**	**24,384**
Adjustments between Revenue and Capital Resources		
15,724	Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	15,132
(385)	Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(322)
8,962	Posting of HRA resources from revenue to the Major Repairs Reserve	9,165
16,223	Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	10,573
-	Deferred Capital Receipt	(45)
40,524	Total Adjustments between Revenue and Capital Resources	**34,503**
31,864	**Adjustments between accounting basis and funding basis under regulations**	**58,887**

1. Information on Housing Fixed Assets

a) Number of Dwellings

2016/17 Number		2017/18 Number
	Flats	
2,870	1 bedroom	2,911
2,259	2 bedrooms	2,326
380	3 bedrooms	384
17	4 & 5 bedrooms	20
	Houses	
324	1 bedroom	334
1,140	2 bedrooms	1,123
2,352	3 bedrooms	2,386
155	4 & 5 bedrooms	150
9,497	**Total Number of Dwellings**	**9,634**

b) Balance Sheet Value of HRA Tangible Fixed Assets

2016/17 £000		2017/18 £000
	Operational	
498,421	Dwellings	569,103
17,644	Other land and buildings	21,709
143	Vehicles, plant and equipment	63
1,930	Infrastructure	1,672
518,138		592,547
	Non-operational	
-	Investment properties	-
-	Held for sale	-
-		-
518,138	**Total Tangible Fixed Assets**	**592,547**

c) Valuation of Council Dwellings at Year End

2016/17 £m		2017/18 £m
1,994	Vacant possession value	2,276
1,495	Excess of vacant possession value over Balance Sheet value	1,707

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

2016/17 £'000		2017/18 £'000
24,571	**Balance brought forward at start of year**	**33,532**
8,961	Total depreciation from Capital Adjustment Account	9,165
-	Less MRR used to fund Capital Expenditure on HRA dwellings	(12,035)
33,532	**Balance carried forward at end of year**	**30,662**

3. a) Total Capital Expenditure and Funding

2016/17 £'000		2017/18 £'000
	Capital expenditure on HRA property and other assets:	
17,251	Dwellings	33,056
-	Other land buildings	-
2,575	Assets Under Construction	-
19,826	**Total expenditure**	**33,056**
	Financed from:	
-	Major Repairs Reserve	12,035
1,815	Grants and contributions	91
16,223	Revenue contributions	10,572
1,788	Capital receipts	10,358
19,826	**Total funding**	**33,056**

b) HRA Capital Receipts

2016/17 £'000		2017/18 £'000
13,622	Right to Buy sales	13,727
1,716	Other property sales	1,082
15,338	Total cash receipts	14,809
(1,138)	Transferred for Pooling	(1,274)
14,200	**Total expenditure**	**13,535**

4. Depreciation and Impairment Charge

The depreciation charged to the HRA breaks down as follows:

2016/17 £'000		2017/18 £'000
8,263	Dwellings	8,445
337	Other buildings	383
87	Equipment	80
275	Infrastructure	257
8,962	**Total HRA depreciation**	**9,165**
(8,615)	Impairment charge	(40,400)
347	**Total HRA depreciation and impairment charge**	**(31,235)**

5. Rent Income, Arrears and Bad Debts

2016/17		2017/18
102.71	Average weekly rent (including service charges unpooled)	103.20

The average weekly rent increased by 0.5%.

31 March 2017 £000		31 March 2018 £000
2,907	Rent arrears at 31 March	3,556
(2,328)	Bad debts provision at 31 March	(2,786)
579	**Total**	**770**

Collection Fund 2017/18

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 2017/18

2016/17			2017/18	
Business Rates £000	Council Tax £000		Business Rates £000	Council Tax £000
		Income		
-	(134,316)	Income from Council Tax	-	(140,125)
(75,137)	-	Income from Business Rates	(79,122)	-
-	(57)	Prompt payment discounts	-	(64)
87		Transitional relief	(1,936)	-
(2,020)	-	Income collectable from Business Rate Supplement	(2,217)	-
		Previous Year Deficit recognised in the CI&ES		
(1,863)	-	London Borough of Havering	147	-
(3,106)	-	Central Government	244	-
(1,242)	-	Greater London Authority	98	-
(83,281)	**(134,373)**	**Total Income**	**(82,786)**	**(140,189)**
		Expenditure		
		Previous Year Surplus recognised in the CI&ES		
-	3,793	London Borough of Havering	-	2,201
-	-	Central Government	-	-
-	918	Greater London Authority	-	479
		Precepts		
22,513	108,350	London Borough of Havering	24,100	114,404
37,521	-	Central Government	26,510	-
15,009	23,591	Greater London Authority	29,723	24,311
		Charges to Collection Fund		
749	869	Write-offs	577	1,032
(252)	(606)	Increase/(decrease) in bad debt provision	75	(71)
(817)	-	Increase in provision for appeals	232	-
271	-	Cost of collection	268	-
		Business Rate supplement		
2,014	-	Payment to Greater London Authority	2,210	-
6	-	Cost of Collection	8	-
77,014	**136,915**	**Total Expenditure**	**83,703**	**142,356**
(6,267)	2,542	Movement in fund balance	916	2,169
6,560	(5,191)	Net deficit/(surplus) at start of year	293	(2,648)
293	**(2,649)**	**Net deficit/(surplus) carried forward notes 3a & 3b)**	**1,209**	**(479)**

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 2017/18 at £1,597.73 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	3
A	2,083
B	5,358
C	19,188
D	30,758
E	16,607
F	8,560
G	4,788
H	575
Allowance for losses in collection 1.25%	(1,099)
Tax Base	**86,821**

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 £204.4m at 31 March 2018 (£180.5m at 31 March 2017) multiplied by uniform rates for large and small businesses. In 2017/18 the rate was 47.9p for large businesses (49.7p in 2016/17) and 46.6p for small (48.4p in 2016/17). 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 £70,000 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

2016/17 £000		2017/18 £000
85,449	Gross NNDR due in year	94,691
(10,311)	Less: allowances and other adjustments	(15,569)
75,138	**Net NNDR Yield**	**79,122**

2b) Income collectable from Business Rate Supplement

2016/17 £000		2017/18 £000
2,236	Gross Supplement due in year	2,434
(216)	Less: allowances and other adjustments	(216)
2,020	**Net Business Rate Surplus Yield**	**2,218**

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. From 2018/19 Havering has joined the London Pool and thus the existing pool has been disbanded.

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

2016/17 £000		2017/18 £000
(2,176)	London Borough of Havering	(395)
(473)	Greater London Authority	(85)
(2,649)	**(Surplus) / Deficit**	**(479)**

3b) Business Rates

2016/17 £000		2017/18 £000
88	London Borough of Havering	363
146	Central Government	604
59	Greater London Authority	242
293	**Deficit**	**1,209**

Pension Fund

Pension Fund Account for the year ended 31 March 2018

2016/17 £'000		Notes	2017/18 £'000
	Dealings with members, employers and others directly involved in the fund		
39,293	Contributions receivables	7	41,639
1,623	Transfers in from other pension funds	8	2,654
40,916			44,293
(36,409)	Benefits	9	(36,486)
(3,856)	Payments to and on account of leavers	10	(3,807)
(40,265)			(40,293)
651	Net additions (withdrawals) from dealings with members		4,000
(3,925)	Management expenses	11a	(4,304)
(3,274)	Net additions/(withdrawals) including fund management expenses		**(304)**
	Returns on investments		
6,480	Investment income	12	9,340
(22)	Taxes on Income	13	-
95,254	Profit and losses on disposal of investments and changes in the market value of investments	14a	26,693
101,712	**Net returns on investments**		**36,033**
98,438	Net increase (decrease) in the net assets available for benefits during the year		**35,729**
572,941	Opening net assets of the Fund at start of year		671,379
671,379	**Closing net assets of the Fund at end of year**		**707,108**

Net Asset Statement for the year ended 31 March 2018

£'000			£'000
658,621	Investment Assets	14	689,295
(113)	Investment Liabilities	14	-
658,508	**Total net investments**		**689,295**
13,136	Current Assets	21	18,141
(265)	Current Liabilities	22	(328)
671,379	**Net assets of the Fund available to fund benefits at end of the reporting period**		**707,108**

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 Statutory Section 151 officer.

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 2017/18 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 2017/18 six new employers joined the fund and one ceased.

There are 46 employer organisations with active members within the Havering Pension Fund including the Authority.

The membership profile is detailed below:

31-Mar-17		31-Mar-18
***41**	**Number of employers with active members**	**46**
	Number of employees in scheme	
4,521	Havering	4,746
1,596	Scheduled bodies	1,745
100	Admitted bodies	71
6,217	**Total**	**6,562**
	Number of pensioners and dependants	
5,659	Havering	5,769
403	Scheduled bodies	462
39	Admitted bodies	16
6,101	**Total**	**6,247**
	Deferred pensioners	
5,129	Havering	5,221
1,005	Scheduled bodies	1,115
62	Admitted bodies	48
6,196	**Total**	**6,384**
18,514	**Total number of members in pension scheme**	**19,193**

*Restated from 39 to 41 due to late identification of new member data.

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 2018. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Current employer contribution rates range from 17.5% to 38.2% of pensionable pay.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage of pensionable pay.

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

From 1 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 2017/18 financial year and its position at year end as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting* in *the United Kingdom* 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG)
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, using the effective interest rate of the financial instrument as at the date of acquisation or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) 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.

(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.

Accounting Standards issued but not yet adopted

At the balance sheet date, the following new standard and amendment to existing standards had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

IFRS9 Financial Instruments - introduces changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. It is not expected that the impact of the new standard to have a material impact and the Fund does not at this stage anticipate any adjustments for impairments.

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 2018 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%	96 11 83

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), 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

2016/17 £'000		2017/18 £'000
	Employees' contributions	
	Normal:	
5,325	Havering	5,292
1,425	Scheduled Bodies	1,533
117	Admitted Bodies	92
	Additional contributions:	
24	Havering	19
19	Scheduled bodies	4
6,910	**Total Employees' Contribution**	**6,940**
	Employers' contributions	
	Normal:	
10,840	Havering	12,608
5,675	Scheduled bodies	6,073
334	Admitted bodies	360
	Deficit funding:	
14,157	* Havering	14,303
	Augmentation	
1,130	Havering	715
247	Scheduled bodies	633
-	Admitted bodies	7
32,383	**Total Employers' Contributions**	**34,699**
39,293	**Total Contributions Receivable**	**41,639**

*The £14.30m deficit funding in 2017/18 reflects additional contributions made by the Authority to the Pension Fund. It consists of £9.65m secondary contributions and £4.65m in voluntary planned contributions.

By authority

2016/17 £'000		2017/18 £'000
31,476	Havering	32,937
7,366	Scheduled bodies	8,243
451	Admitted Bodies	459
39,293	**Total Contributions Receivable**	**41,639**

8. Transfers in from Other Pension Funds

2016/17 £000		2017/18 £000
1,623	**Individual transfers**	2,654
1,623	**Transfers In from Other Pension Funds**	**2,654**

9. Benefits Payable

By category

2016/17 £000		2017/18 £000
	Pensions	
27,487	Havering	28,306
1,091	Scheduled Bodies	1,169
588	Admitted Bodies	637
29,166	**Pension Total**	**30,112**
	Commutation and Lump Sum Retirements	
5,968	Havering	4,328
939	Scheduled Bodies	864
164	Admitted Bodies	247
7,071	**Commutation and Lump Sum Retirements Total**	**5,439**
	Lump Sum Death Benefits	
143	Havering	831
29	Scheduled Bodies	104
172	**Lump Sum Death Benefits Total**	**935**
36,409	**Total Benefits Payable**	**36,486**

By authority

2016/17 £000		2017/18 £000
33,598	Havering	33,465
2,059	Scheduled bodies	2,137
752	Admitted Bodies	884
36,409	**Total Benefits Payable**	**36,486**

10. Payments To and On Account of Leavers

2016/17 £'000		2017/18 £'000
81	Refunds to members leaving service	45
3,775	Individual transfers	3,762
3,856	**Payments to and on Account of Leavers**	**3,807**

At the year end there are potential liabilities of a further £0.65m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (See Note 26).

11a. Management Expenses

2016/17 £000		2017/18 £000
562	Administrative Costs	532
3,003	Investment Management Expenses	3,346
328	Oversight and Governance Costs	403
24	Oversight and Governance Costs - External Audit costs	18
8	Local Pension Board	5
3,925	**Management Expenses**	**4,304**

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 £0.096m (2016/17 £0.084m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.073m in respect of transaction costs (2016/17 £0.144m).

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

2016/17 £000		2017/18 £000
2,814	Management Fees	3,188
11	Performance measurement fees	16
34	Custody fees	20
144	Transaction costs	122
3,003	**Investment Management Expenses**	**3,346**

12. Investment Income

2016/17 £000		2017/18 £000
2,444	Pooled Investments - unit trusts and other managed funds	3,586
3,572	*Income from Bonds	3,260
1,387	Pooled Property Investments	2,238
(1,070)	Foreign Exchange Gains/(losses)	140
95	Interest on Cash Deposits	113
52	Other Income	3
6,480	**Investment Income**	**9,340**

***** Income includes Index linked Interest of £0.161m (2016/17 £0.182m).

13. Taxes on Income

2016/17 £000		2017/18 £000
(22)	Withholding Tax	-
(22)	**Taxes on Income**	**-**

14. Analysis of Investments

2016/17 £'000		2017/18 £'000
	Investment Assets	
	Bonds - Fixed Interest Securities	
11,863	UK Public Sector	15,322
65,845	UK Private (Corporate)	70,255
1,264	Overseas Public Sector	-
78,972		**85,577**
	Bond - Index-Linked Securities	
35,774	UK Public Sector	30,857
777	UK Private (Corporate)	764
389	Overseas Public Sector	2,053
36,940		**33,674**
	Derivative Contracts	
63	Forward Currency Contracts	18
63		**18**
	Pooled Investment	
500,444	UK Unit trusts - Quoted	524,615
152	UK Unit Trusts - Unquoted	152
38,641	Pooled property investments	40,796
539,237		**565,563**
2,039	Cash deposits Managers	3,215
-	Amounts receivable for sales	68
1,009	Investment income due	1,172
361	Outstanding Dividend and Recoverable Withholding Tax	8
3,409		**4,463**
658,621	**Total Investment Assets**	**689,295**
	Investment Liabilities	
(113)	Amount payable for purchases	-
(113)	**Total Investment Liabilities**	**-**
658,508	**Total Net Investments**	**689,295**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2017	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 2018
	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	78,972	34,803	(27,813)	(385)	-	85,577
Index-linked Securities	36,940	17,293	(20,533)	(26)	-	33,674
Pooled Investment Vehicles	539,237	22,094	(22,917)	27,149	-	565,563
Derivatives – forward currency contracts	63	2,007	(2,007)	(45)	-	18
Cash Deposits (fund managers)	2,039	-	-	-	1,176	3,215
	657,251	**76,197**	**(73,270)**	**26,693**	**1,176**	**688,047**
Other Investment Balances	1,257	-	-	-	(9)	1,248
	658,508	**76,197**	**(73,270)**	**26,693**	**1,167**	**689,295**

	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**

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 £0.122m, including transition costs (2016/17 £0.144m). 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 2018 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2017		Manager	Mandate	Value 31 March 2018	
£000	%			£000	%
127,458	19.36	Royal London	Investment Grade Bonds	131,077	19.02
39,274	5.96	UBS	Property	40,796	5.92
97,009	14.73	State Street Global Assets	Passive UK/Global Equities	-	-
102,489	15.56	GMO Global Real Return (UCITS)	Multi Asset	108,696	15.77
292,267	44.38	London CIV	Pooled Global Equities	309,837	44.95
-	-	Legal & General Investment Management	Passive UK/Global Equities	98,879	14.34
11	0.01	Other	Other	10	0.00
658,508	**100**	**Total Fund**		**689,295**	**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-Mar-17	% of total fund	Security	Market Value 31-Mar-18	% of total fund
£000	%		£000	%
292,267	44	London CIV	-	-
-	-	London CIV Global Alpha Fund	126,973	18
102,486	16	GMO Global Real Return (UCITS) Fund	108,696	15
-	-	London CIV Ruffer Absolute Return Fund	95,216	13
-	-	London CIV Diversified Growth Fund	87,498	12
97,009	15	SSGA MPF All World Equity Index	-	-
-	-	LGIM FTSE RAFI AW 3000 Index	49,486	7
-	-	LGIM All World Equity Index	49,393	7
39,274	6	UBS Property	40,796	6

14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, Legal and General Investment Management (LGIM), who carry out stock lending as part of the Fund's activities. Stock Lending occurs in limited number of overseas equities index funds.

The Stock Lending programme is managed and administered by the custodian of the funds (Citibank) within the risk control parameters set by LGIM. The programme has been operating for over 10 years and enjoys an idemnity from Citibank. Stocklending is only undertaken with counterparties who have satisified the requirements in terms of market capability and minimum credit standing.

All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2018, the value of quoted equities on loan was £75.7m. These equiites continue to be recognised in the fund's financial statements.

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 2018 is given below:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value (Unrealised Gain)	Liability Value (Unrealised Loss)
	£000	£000	£000	£000	£000	£000
Up to three months	GBP	2,008	USD	1,990	18	-
Gross open forward currency contracts at 31 March 2018					**18**	**-**
Net forward currency contracts at 31 March 2018					**18**	**-**
Prior year comparative						
Gross open forward currency contracts at 31 March 2017					**63**	**-**
Net forward currency contracts at 31 March 2017					**63**	**-**

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, Knight Frank LLP	Market value in accordance with the "RICS" Appraisal and Valuation standards	Valuations could be affected by significant differences in rental value and rental 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 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Investments – Property funds	3.65	40,795	42,285	39,307

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 2018	**Level 1** **£000**	**Level 2** **£000**	**Level 3** **£000**	**Total** **£000**
Financial Assets				
Financial assets at fair value through profit and loss	643,884	152	40,796	684,832
Loans and receivables	22,604	-	-	22,604
Total Financial Assets	**666,488**	**152**	**40,796**	**707,436**
Financial Liabilities				
Financial liabilities at amortised cost	(328)	-	-	(328)
Total Financial Liabilities	**(328)**	**-**	**-**	**(328)**
Net Financial Assets	**666,160**	**152**	**40,796**	**707,108**

	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 amortised cost	(378)	-		(378)
Total Financial Liabilities	**(378)**	**-**	**-**	**(378)**
Net Financial Assets	**632,586**	**152**	**38,641**	**671,379**

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-Mar-17				31-Mar-18		
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			
78,972	-	-	Bonds -Fixed Interest Securities	85,577	-	-
36,940	-	-	Bonds - Index linked securities	33,674	-	-
63	-	-	Derivative contracts	18	-	-
500,596	-	-	Pooled investment Vehicles	524,767	-	-
38,641	-	-	Property	40,796	-	-
-	2,039	-	Cash	-	3,215	-
-	1,370	-	Other Investment Balances	-	1,248	-
-	13,136	-	Debtors	-	18,141	-
655,212	**16,545**	**-**	**Financial Assets Total**	**684,832**	**22,604**	**-**
			Financial Liabilities			
-	-	(113)	Other Investment Balances	-	-	-
-	-	(265)	Creditors	-	-	(328)
-	**-**	(378)	**Financial Liabilities Total**	**-**	**-**	**(328)**
655,212	**16,545**	**- 378**	**Grand total**	**684,832**	**22,604**	**- 328**
	671,379				**707,108**	

(b) Net Gains and Losses on Financial Instruments

2016/17 £000		**2017/18 £000**
	Financial assets	
95,254	Fair value through fund account	26,693
95,254	**Total**	**26,693**

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-Mar-18 Potential market movements (+/-) %	31-Mar-17 Potential market movements (+/-) %
Global Equities Inc. UK	7.47	9.68
Fixed Interest Bonds	8.12	9.25
Index Linked Bonds	14.01	14.29
Multi Asset	4.74	4.93
Property	3.65	3.05
Cash	0.00	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 2018 £000	Change %	Value on Increase £000	Value on Decrease £000
Fixed Interest Bonds	85,577	8.12	92,526	78,628
Index linked Bonds	33,674	14.01	38,392	28,956
Global Pooled inc.UK	524,767	4.74	549,641	499,893
Property	40,796	3.65	42,285	39,307
Cash	3,215	0.00	3,215	3,215
Total	**688,029**		**726,059**	**649,999**

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**

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 2018 and 31 March 2017 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 2018 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	119,252	1,193	120,444	118,059
Cash and Cash Equivalents	3,215	32	3,246	3,183
Cash Balances	17,658	177	17,835	17,481
Total Change in Asset Value	**140,125**	**1,402**	**141,525**	**138,722**

Assets exposed to interest rate risk	Value as at 31 March 2017 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £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**

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 12.29% over a rolling 36 month period.

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

A 12.29% 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 2018 £000	Potential Market movement 12.29%	Value on increase £000	Value on Decrease £000
Overseas Index Linked Bonds	2,053	252	2,306	1,801
Overseas Cash	1	-	-	-
Total change in assets available to pay benefits	**2,054**	**252**	**2,306**	**1,801**

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 Index Linked Bonds	389	36	425	353
Overseas Fixed Interest	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**

(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 2018 the value of liquid assets was £666m, which represented 94% of the total Fund (31 March 2017 £618m, which represented 94% 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 2017/18

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;
- 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 62 of the Local Government Pension Scheme Regulations 2013 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 2017 to 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-Mar-16 %**
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 reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

** Aged 45 at the 2016 Valuation*

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

Experience over the period since 31 March 2017

Since the last formal valuation, real bonds yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

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-Mar-17	Year Ended	31-Mar-18
£m		£m
1,206	Present Value of Promised Retirement Benefits	1,226
671	Fair Value of Scheme assets (bid Value)	707
535	Net Liability	519

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, 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 2018 and 31 March 2017. It is estimated that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £22m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended (% p.a)	31-Mar-18	31-Mar-17
	% p.a.	% p.a.
Pension Increase Rate	2.4	2.4
Salary Increase Rate	2.7	2.7
Discount Rate	2.6	2.5

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 reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.0 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 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	94
0.5% p.a. increase in the Salary Increase Rate	1%	14
0.5% p.a. decrease in the Real Discount Rate	9%	115

The principal demographic assumption is the longevity assumption. For sensitivity purposes, It is estimated 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 2018 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in these documents, together with further details regarding the professional requirements and assumptions.

21. Current Assets

2016/17 £000		2017/18 £000
	Debtors:	
224	Contributions due from employers	294
71	Contributions due from employees	80
-	Pension Fund Bank Account Balances	104
18	Debtors Refund	29
12,823	Cash deposit with LB Havering	17,634
13,136	**Current Assets**	**18,141**

2016/17 £000	Analysis of Debtors	2017/18 £000
224	Public corporation and trading funds	294
71	Other entities and individuals	80
295	**Total Debtors**	**374**

22. Current Liabilities

2016/17 £000		2017/18 £000
	Creditors:	
(80)	Unpaid Benefits	(84)
(132)	Accrued Expenses	(164)
(53)	Holding Accounts	(80)
(265)		**(328)**

2016/17 £000	Analysis of Creditors	2017/18 £000
(265)	Other entities and individuals	(328)
(265)	**Total**	**(328)**

23. Additional Voluntary Contributions

Market Value 2016/17 £000	AVC Provider	Market Value 2017/18 £000
801	Prudential	810
202	Standard Life	167

Some employees made additional voluntary contributions (AVC's) of £47,510 (2016/17 £52,413) 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 2017/18 were £40,744 (2016/17 £38,515) to the Prudential and £6,775 (2016/17 £13,898) 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:

2016/17 £000		2017/18 £000
1,410	Payments on behalf of Havering Council	1,380

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 2017/18, £0.450m was paid to the Authority for the cost of administrating the Fund (2016/17 £0.459m).

The Authority is also the largest employer in the Fund and in 2017/18 contributed £26.911m (16/17 £24.997m) 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 2018 cash holdings totalled £17.7m (2016/17 £12.8m), earning interest over the year of £0.113m (2016/17 £0.094m).

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 Statutory Section 151 officer until 31 March 2018 and the Managing Director of oneSource.

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.

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 2018.

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 £0.65m 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

Two 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 £0.26m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Three admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £2.6m.

28. Impairment Losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2018.

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 Chief Operating Officer

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.

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 Pension Fund
Audit results report

Year ended 31 March 2018

26 July 2017

EY
Building a better working world

Members of the Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford RM1 3BB

26 July 2018

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Havering Pension Fund for 2017/18.

We have substantially completed our audit of Havering Pension Fund for the year ended 31 March 2018.

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 31 July 2018.

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.

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of the financial statements was brought forward, with draft accounts needing to be prepared by 31 May, and publication of audited accounts by 31 July. These changes provide risks for both the preparers and the auditors of the financial statements. The Council has prepared well for these changes, preparing a good set of draft accounts and supporting working papers in advance of the deadline of 31 May. The Council's staff also responded to the queries we raised during the course of audit promptly, and as such we anticipate being able to meet the earlier deadline of 31July for the issue of our Audit Report on the financial statements. We would like to thank the Council's staff in helping us achieve this.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 30 July 2018.

Yours faithfully

Debbie Hanson
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

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 and management of Havering Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Havering Pension Fund 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 and management of Havering Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented to the March 2018 meeting of the Audit Committee, we provided you with an overview of our audit scope and approach for the audit of the pension fund financial statements. We carried out our audit in accordance with this Plan. We outlined below our reassessment of materiality and risk.

- Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £11.5 million, but that we would update this at year end. This level of materiality has reduced to £9.8 million. The threshold for reporting misstatements that have an effect on the primary statements (fund account and net asset statement) is £490,000.
- Changes in risks: In our Audit Committee Planning Report, we communicated our significant risk in relation to the accounts. Following receipt of the draft accounts and undertaking our work during the audit, the risks remain consistent with our initial assessment.

Status of the audit

We have substantially completed our audit of Havering Pension Fund's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Pension Fund's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Testing of Employer and Member contributions within the Fund Account
- Testing of Pension Benefits within the Fund Accounts
- Review of the Pension Fund Annual Report
- Review of the final signed version of the financial statements
- Completion of review of audit work by the manager and Associate Partner.
- Completion of subsequent events review
- Receipt of the signed management representation letter

Executive Summary

Audit differences

There are no unadjusted differences arising from our audit.

We have identified a small number of disclosure matters which have been adjusted by management. As can be seen in Section 4 Audit Differences, we have not felt it necessary to provide the details of these amendments.

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.

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

We have adopted a fully substantive approach, so have not tested the operation of controls.

Independence

Please refer to Section 8 for our update on Independence.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error (management override)

What is the risk?

There is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For the Pension Fund we have identified the valuation of unquoted investments such as private equity funds (classified as Level 3 Investments). The nature of these Investments means that any error in judgements taken by Investment Managers in relation to these investments could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

What did we do?

In response to the risk, we:

- Enquired of management about risks of fraud and the controls in place to address those risks;
- Considered the oversight given by those charged with governance of management's processes over fraud by direct enquiry;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias, including in respect of Level 3 investments;
- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we acquired directly from the custodian or fund managers;
- Reviewed accounting estimates for evidence of management bias; and
- For Level 3 investments we agreed information to source reports and the financial statements of the individual funds.

Significant risk

Misstatements due to fraud or error (management override)

What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately report valuations, primarily:

- Material accounting estimates.
- Journal entries.
- Unusual transactions.

What are our conclusions?

- We obtained the responses we requested from management and those charged with governance to our enquiries and used these to inform our understanding of fraud risks. We noted that key elements of the entity level control framework that we would expect to see, especially arrangements for internal audit, and risk management, were in place.
- Our walkthrough testing included considering what controls are in place to address significant risks. We concluded that these are in large part year end processes including management review of the draft financial statements. We confirmed that these controls were in place, although our approach was not to rely on controls.
- Our work on the testing of accounting estimates has been completed and no significant issues identified.
- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

Overall, our audit work has not identified any material issues, inappropriate judgements or unusual transactions which indicate that there has been any misreporting of the Pension Fund's financial position or that management has overridden control.

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

We have audited the pension fund financial statements for the year ended 31 March 2018 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 2017/18.

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 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Operating Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Operating Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2017/18, other than the financial statements and our auditor's report thereon. The Chief Operating Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Audit Report

Our opinion on 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

Responsibility of the Chief Operating Officer

As explained more fully in the Statement of the Chief Operating Officer's Responsibilities set out on page 18, the Chief Operating Officer is responsible for the preparation of the Authority's financial statements, 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Operating Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the London Borough of Havering Council, 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.

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
Date

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the 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 unadjusted differences

We highlight in our report any unadjusted misstatements greater than £490,000. We have no unadjusted misstatements to bring to your attention.

Summary of adjusted differences

We highlight in our report adjusted misstatements which we consider merit the attention of Members. We have such amendments to bring to your attention.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the London Borough of Havering Council's financial statements, and the Pension Fund Annual Report. We have not yet completed our review of this information. We will update Members on the progress of our review at the meeting of the Audit Committee on 30 July 2018.

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.

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;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations;

We have no matters to report.

06 Assessment of Control Environment

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 not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

8 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Planning Board report dated 28 February 2018.

We complied with the FRC 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 30 July 2018.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
Total Audit Fee – Code work	£21,000	£21,000	£21,000	£21,000

9 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Net Assets Statement category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Investment Assets and Liabilities	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Current Assets (excluding cash)	Substantively tested all relevant assertions	Immaterial - Substantively tested assertion for presentation and disclosure	N/A
Cash	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Current Liabilities	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**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.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report 28 February 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report 28 February 2018
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit planning report 28 February 2018

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
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	Audit results report 26 July 2018 No conditions or events were identified, either individually or together to raise any doubt about Havering Pension Fund'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 • Material misstatements corrected by management	Audit results report 26 July 2018
Subsequent events	• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report 26 July 2018
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit results report 26 July 2018

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Audit results report 26 July 2018
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of 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 about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report 28 February 2018 Audit results report 26 July 2018

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report 26 July 2018 We have received all requested confirmations
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur. • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit results report 26 July 2018 We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report 26 July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report 26 July 2018
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report 26 July 2018
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report 28 February 2018 Audit results report 26 July 2018

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]
[Date]

Ernst & Young
[Address]

This letter of representations is provided in connection with your audit of the financial statements of Havering Pension Fund ("the Fund") for the year ended 31 March 2018. 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 transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), 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 2017/18

2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, 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 the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Fund, we believe that the Fund 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 2017/18 that are free from material misstatement, whether due to fraud or error.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

Management representation letter

Management Rep Letter

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. 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.

4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

   - Involving financial improprieties

   - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements

   - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties

   - Involving management, or employees who have significant roles in internal control, or others

   - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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.
   - Additional information that you have requested from us for the purpose of the audit.
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date 31 July 2018.

Management representation letter

Management Rep Letter

5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund'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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

D. 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/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and confirm there are no guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Report.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

Management representation letter

Management Rep Letter

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.

2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

Management Rep Letter

J. Actuarial valuation

1. The latest report of the actuary Hymans Robertson LLP as at 31 March 2016 and dated 31 March 2017 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the 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 faithfully,

____

Chief Operating Officer

____

Chairman of the Audit Committee

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About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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London Borough of Havering

Audit results report

Year ended 31 March 2018

26 July 2018

Building a better working world

26 July 2018

Members of the Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford RM1 3BB

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of London Borough of Havering for 2017/18. We plan to issue our final report at the Audit Committee meeting scheduled for 30 July 2018.

We have substantially completed our audit of London Borough of Havering for the year ended 31 March 2018. 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 in Section 3, before the statutory deadline of 31 July 2018.

We have no of matters about 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.

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of the financial statements was brought forward, with draft accounts needing to be prepared by 31 May, and publication of audited accounts by 31 July. These changes provide risks for both the preparers and the auditors of the financial statements. The Council has prepared well for these changes, preparing a good set of draft accounts and supporting working papers in advance of the deadline of 31 May. As such we anticipate being able to meet the earlier deadline of 31July for the issue of our Audit Report on the financial statements. We would like to thank the Council's staff in helping us achieve this.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 30 July 2018.

Yours faithfully

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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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 and management of the London Borough of Havering Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of the London Borough of Havering Council 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 and management of the London Borough of Havering Councilfor this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented at the 28th March 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

Changes in materiality

We updated our planning materiality assessment using the draft accounts and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment for both the group and single entity to £9.8 million (Audit Planning Report – £11.6 million). This results in updated performance materiality, at 75% of overall materiality, of £7.3 million, and an updated threshold for reporting misstatements of £490k.

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
Our audit strategy was to check the bandings reported in note 32 of the financial statements, test the completeness of the disclosure and make sure that the disclosure was compliant with the Code. We sample checked transactions back to the payroll system and supporting documentation. No issues have been noted.

Related party transactions
Our audit strategy was to obtain and review declarations from senior officers and members of the Council for any material disclosures and make sure that the disclosure in note 36 was compliant with the Code. We carried out a sample check of Companies House searches on contracts from the Council's contract register to identify whether any key decision-makers in the Council had an interest in the company. We carried out a sample check of Companies House searches between decision-makers in the Council and companies to which they were linked, to test the completeness of the disclosure. We obtained confirmation that there were no related party transactions within the declarations made by Members at committee meetings they attended. No issues have been noted.

Members' allowances
Our audit strategy was to test the completeness of the disclosure note 31 and make sure that the disclosure was compliant with the Code by sample checking transactions back to the payroll system and the Council's Constitution. No issues have been noted.

Executive Summary

Status of the audit

We have substantially completed our audit of Havering's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Completion of our testing on the valuation of property plant and equipment, and depreciation charges on Council Dwellings and Other Land & Buildings
- Testing of income and expenditure transactions recorded in the Comprehensive Income and Expenditure Account
- Receipt of outstanding investment confirmations
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Completion and Manager and Associate Partner review of the completed audit work.
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We will provide the Audit Committee with a verbal update on the progress of these outstanding matters at its meeting on 30 July 2018. We will not be able to issue our audit certificate at the same time as the audit opinion, as we have not yet been able to complete our work on the WGA.

Audit differences

We have one unadjusted audit difference to bring to your attention. This relates to the valuation of property, plant and equipment. We identified a small number of audit differences which management has agreed to adjust for. Further details are provided in Section 4 of our report.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit 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 summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section 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 issue
- 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.

Executive Summary

Control observations

As part of our audit of the financial statements, we have adopted a fully substantive approach. Therefore we have not tested the operation of controls. We did, however, obtain an understanding of the Council's internal control environment sufficient to plan our audit and determine the nature, timing and extent of testing performed. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

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 Planning Report, we identified one significant risk around these areas in relation to the establishment of Joint Venture arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 housing estates within the Borough.

We have completed the procedures outlined in our Audit Planning Report to address this risk and as a result have concluded that we have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Refer to section 5 of this report for further details.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement (AGS) for consistency with our knowledge of the Authority. We understand that the AGS will be updated but we do not expect to have any matters to report as a result of this work.

We are yet to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. However as the Council is below the anticipated testing threshold set by the NAO we do not expect to have any issues to report.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

Significant Risk

What is the risk?

There is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error.As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We identify and respond to this fraud risk on every audit engagement.

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.

What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately inflate income or understate expenditure, primarily:

- Material accounting estimates.
- Accruals near year end
- Journal entries.
- Unusual transactions.

What did we do?

- Wrote to the Chief Operating Officer, Chair of the Audit Committee, Head of Internal Audit, and Monitoring Officer about risks of fraud and the controls in place to address those risks and reviewed their responses.
- Documented our understanding of the controls relevant to this significant risk and considered if they have been appropriately designed.
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature. We amended our sample sizes when testing additions to reflect the existence of this risk and agreed samples to source documentation to ensure the capital/revenue split was reasonable.
- Reviewed accounting estimates and year end manual accruals for evidence of management bias.
- Evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority‘s normal course of business.

We did not identify any capital expenditure which had been inappropriately capitalised.

Overall, our audit work has not identified any material issues, inappropriate judgements or unusual transactions which indicate that there has been any misreporting of the Authority’s financial position or that management has overridden controls.

Other areas of focus

Valuation of land and buildings

What is the risk?

Material misstatement of the net assets of the Authority as a result of inappropriate judgemental inputs and/or estimation techniques to calculate the year-end balances recorded in the balance sheet.

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the Council's valuer including their professional capabilities
- The reasonableness of the underlying assumptions used by the Authority's expert valuer

What did we do?

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuers in performing their valuation.
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also considered if there were any specific changes to assets that had occurred and that these had been communicated to the valuer.
- Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.
- Considered changes to useful economic lives as a result of the most recent valuation.
- Tested accounting entries had been correctly processed in the financial statements.

On receipt of the draft accounts we noted a significant (£200 million) increase in the value of the Council's property assets, On further review we confirmed that the majority of this increase related to schools. We therefore engaged our internal valuation specialists to review and critically challenge the basis and method of valuation adopted for a sample of schools.

Other areas of focus

Valuation of land and buildings

What are our conclusions?

We noted that the valuation of schools increased significantly in 2017/18, rising from a gross book value in 2016/17 of 2016/17 £323 million, to £523 million in 2017/18 (an overall increase of £200 million).

We confirmed that the significant increase in the value of these assets arose from a change in approach adopted to the valuation of land by the Council's valuer. In previous years, the Council's valuer had estimated the value of the land as a percentage of the value of the building. We reported that elements of the Council's specialist's approach to valuation were formulaic. We were, however, able to confirm that overall the combined valuation of the land and buildings was within the acceptable range determined by our own valuers, albeit at the lower end of this range.

We note that the approach adopted by the Council's valuer in relation to land this year is improved and takes into account the actual size of the land, the split between developed and undeveloped land, and market values within the London Borough of Havering. As we did in the prior year, we engaged our expert valuer to consider the underlying assumptions made by the Council's valuer, and we were able to conclude that the revised approach to the valuation of land was reasonable and that the valuations fell within an acceptable range. We note that there is a significant amount of subjectivity in relation to the valuation of land for schools, which results in a wide range for these valuations.

We considered the Council's assessment of whether the significant year on year change in the value of land associated with schools gave rise to an error in the prior period, and whether, therefore a restatement of prior period amounts was needed. We agreed with the Council's assessment that the change in basis of valuation constituted a change in estimation technique, and did not, therefore requirement a restatement of prior period amounts. The Council has agreed to add some additional narrative disclosures around the reasons for the significant change in value.

We also engaged our valuer to test the valuation of the school buildings. We noted that the approach adopted by the Council's valuer was unchanged from the previous year, with obsolescence being capped at 50%. This implies that the residual value of a building will never fall below 50% of the cost of a modern equivalent as long as the asset remains in use. We disagree with this assumption, and consider that this is likely to result in an overstatement of values for older buildings. Again we noted that our own valuers provided a wide range of values due to the judgement involved in making an assessment of remaining life of these assets.

Taking into account all the assumptions made in determining the valuation of these combined land and building assets, we have been able to conclude that overall, the Council's valuation of these assets is within the acceptable range determined by our valuer, although we would note that the values are at the top of a wide range of possible values and that the range of values is wide as a result of the level of subjectivity and judgements applied in these valuations.

Other areas of focus

Valuation of land and buildings

What are our conclusions?

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	Wilks Head & Eve	EY (Range)
Gaynes School		
Buildings	£11,638,000	£5,653,406 - £11,742,366
Land	£11,354,000	£6,294,954 - £11,609,908
Total	£22,992,000	£11,948,360 - £23,352,274
Sanders Draper School		
Buildings	£11,061,000	£6,015,367 - £11,109,917
Land	£10,006,000	£5,834,445 - £11,504,891
Total	£21,067,000	£11,849,812 - £22,614,808

Other areas of audit focus

Pension liability valuation

What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Authority's expert – Hymans Robertson.
- Ensuring the information supplied to the actuary in relation to Havering was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hymans Robertson.

What did we do?

- Liaised with the auditors of Havering Pension Fund to obtain assurances over the information supplied to the actuary in relation to the London Borough of Havering Council;
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC -Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering the review of these by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

We have received reports from the Havering Pension Auditor and the EY actuarial team.

In testing the Council's pension liability, we noted that the draft financial statements were prepared on the basis of IAS19 data and assumptions taken at December 2017, with a forecast of the 31 March 2018 position.

Havering Pension Fund's draft financial statements include an up to date estimate of the asset values within the fund at 31st March 2018. This estimate is £28.7 million higher than the value reflected in the Council's estimate of its pension liability, reflecting an improvement in market conditions. The Council's share of this difference in estimate is £24 million.

As this difference is above our audit materiality, the Council obtained from its actuary an up to date IAS19 report. The updated report reflected a reduction in the Council's pension liability of £23.9 million. The Council have reflected this change in its financial statements.

Further details are provided at Section 4 Audit Differences.

Other areas of audit focus

Group financial statements

What is the risk?

At the point we presented our Audit Planning Report to Members, we indicated that the Council was likely to have entered into a Joint Venture arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 housing estates within the Borough. The Council subsequently entered into these arrangements after 31 March 2018.

We nevertheless considered whether any transactions or balances relating to these joint venture arrangements should be consolidated within its group financial statements, having regard to both the relative size of the joint venture to the group (quantitative criteria), and the specific nature or circumstances of the joint venture (qualitative criteria).

What judgements are we focused on?

- The Council's assessment of both qualitative and quantitative factors when determining whether or not to consolidate any transactions or balances relating to the joint venture arrangements.

What did we do?

- We reviewed the Council's assessment of whether or not to consolidate any transactions or balances relating to the joint venture arrangements.

What are our conclusions?

The Council has concluded that while in future years the three joint venture companies will require consolidation in the Council's financial statements, as no material transactions arose in 2017/18, the Council has not reflected these joint venture arrangements within their 2017/18 financial statements. The Council have, though, drawn attention to these arrangements in their Narrative Report.

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

We have audited the financial statements of the London Borough of Havering for the year ended 31 March 2018 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 and Collection Fund; and
- the related notes 1 to 45 of the Authority and Group Financial Statements, notes 1 to 3 of the Collection Fund, and notes 1 to 5 of the Housing Revenue Account.

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 2017/18.

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 2018 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 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Chief Operating Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Operating Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Draft audit report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2017/18 set out on pages 1 to 16, other than the financial statements and our auditor's report thereon. The Chief Operating Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, the London Borough of Havering put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Draft audit report

Our opinion on the financial statements

Matters on which we report by exception

We report to you 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.

Responsibility of the Chief Operating Officer

As explained more fully in the Statement of the S151Officers Responsibilities set out on page 16, the Chief Operating Officer is responsible for the preparation of the financial statements, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Operating Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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.

Draft audit report

Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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 2017, as to whether the London Borough of Havering Council 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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.

Draft audit report

Our opinion on the financial statements

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

In addition we are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Havering Pension Fund. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As we have not yet completed our work on the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts 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.

Use of our report

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.

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
31 July 2018

The maintenance and integrity of the London Borough of Havering Council's web site is the responsibility of the directors; 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 the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and the 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 highlight the following differences which have been corrected by management.

Adjusted audit differences 31 March 2018 (£000)	Effect on the current period:		Balance Sheet (Decrease)/Increase				Reserves
	Comprehensive income and expenditure statement Debit/(Credit)	Movement in Reserves Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Pensions Reserve Debit/ (Credit)
Known Differences:							
Creditors overstated as income had been received:							
- CIES: Neighbourhoods Income	(3,545)						
- Creditors					(3,545)		
Judgemental Differences:							
Change in estimate of pension fund asset value:							
- Actuarial losses/gains on pensions assets/liabilities	(23,900)						
- Other comprehensive income and expenditure		23,900					
- Long-Term Liabilities						23,900	
- Pension Liability							(23,900)

Audit Differences

Corrected misstatements in the statement of cash flows
Misstatement 1: In respect of the know error shown above, the Council has amended the cash flow statement to reflect the reduction in creditors, and increase in income.

Uncorrected misstatements

We have one uncorrected error to bring to your attention. In the prior year we identified one unadjusted error, relating to the valuation of Harrow Lodge Leisure Centre fell outside our acceptable range of £4.2million to £7.8 million. Taking the upper end of our valuation, we considered that the Council's valuation of £8.9 million overstated the value of this asset by £1.1 million. This asset has been subject to valuation again this year. The valuation of this asset has reduced by £143,000 (to £8.8 million) . The valuation of this asset does, however, continue to sit outside the range of values provided to us by our valuer in the prior year. Taking the upper end of the valuation range provided to us by our valuer, we consider that the valuation of property plant and equipment is overstated by £1 million. Further details are set out in the table below.

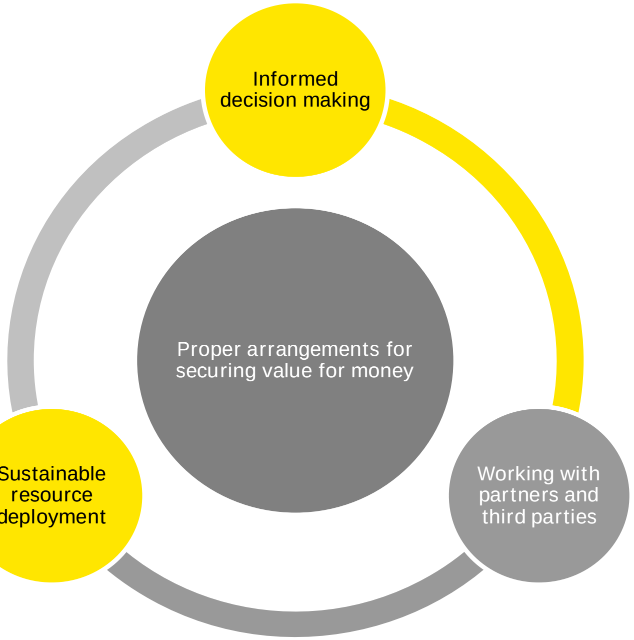
We do not consider these to be material to the financial statements, but ask that management's rationale as to why these are not corrected is approved by the Audit Committee and included in your Letter of Representation to us.

Unadjusted audit differences 31 March 2018 (£000)	Effect on the current period:		Balance Sheet (Decrease)/Increase				Reserves
	Comprehensive income and expenditure statement Debit/(Credit)	Movement in Reserves Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Revaluation Reserve Debit/ (Credit)
Judgemental Differences:							
Valuation of Harrow Lodge Leisure Centre							
- Property Plant & Equipment: Other Land & Buildings				(1,000)			
- Revaluation Reserve							1,000

We have no other uncorrected misstatement to bring to your attention.

05 Value for Money Risks

Value for Money



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Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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 will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified one significant risks around these arrangements, related to the establishment of a Joint Venture for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 housing estates within the Borough.

The table below presents our findings in response to the risk included in our Audit Planning Report and any other issues we want to bring to your attention.

We have completed the work outlined in our Audit Plan and expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

We are only required to determine whether there are any risks 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.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Establishment of Joint Venture The Council has entered into a Joint Venture arrangement for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 housing estates within the Borough. Funding these schemes will commit the Council to significant levels of borrowing. Given the significance and importance of these decisions to the Council's strategic, operational and financial priorities, the effectiveness of the governance and risk management arrangements related to these key decisions are crucial. Key issues that should be addressed as part of these arrangements include: • Clear and robust decision making, including consideration of legal powers. • Exploration of options, costs and benefits. • Treasury management and prudential borrowing considerations. • Identification and mitigation of risks. • How the Council identified and secured appropriate expertise and resource to support its decision making.	• Taking informed decisions; • Deploying resources in a sustainable manner; and • Work with partners and other third parties.	We have assessed the arrangements in place supporting the Joint Venture, focusing on: · Assessing the governance and financial and risk management arrangements in place to support key decision making · Understanding the financial implications and the key decisions being made · Understanding how the Council is working with other bodies and partners in relation to these projects. We have not identified any issues in the review of the arrangements in place. We are therefore satisfied that the information provide to Members and Officers in respect of the joint venture arrangement is appropriate and is based on third party assessments and advice from appropriately knowledgeable professionals with relevant experience.

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 financial statements 2017/18 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.

Financial information in the financial statements 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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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.

We have not carried out our work in this area. We will report any matters to the Audit Committee should they arise.

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.

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; and
- Consideration of laws and regulations.

We have nothing to report in respect of these issues.

Other reporting issues

Other matters

The applicable accounting framework is CIPFA's annual Code of Practice on Local Authority Accounting in the United Kingdom (which is IFRS based as adapted for Local Authorities). The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The 2018/19 Code will determine how IFRS 15 and IFRS9 will be adopted by local government bodies.

IFRS 15 Revenue from Customers with Contracts:

Given the nature of the Council's income streams, it is unlikely that the future implementation of IFRS 15 will have a material impact on the financial statements of the Council. The vast majority of the Council's income streams are taxation or grant based, and are therefore outside the scope of IFRS15.

The following income streams which are within the scope of IFRS 15 may be considered material by the Council in making its assessment of the impact on IFRS 15 in its 2018/19 accounts:

- fees and charges for services under statutory requirements, .g. application fees for taxi licenses or planning fees;
- sale of goods provided by the authority e.g. retail sales at leisure centres, concessionary sale at local authority theatres; and
- charges for services provided by a local authority e.g. maintenance for council dwellings or transport fares

IFRS 9 Financial Instruments:

The Council's view is that the impact of this standard on the Authority's financial statements will be immaterial. The Council will need to keep this standard under continued focus during 2018/19 because statutory overrides may be introduced by Central Government.

07 Assessment of Control Environment

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 not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

8 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated March 2018.

We complied with the FRC 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 30 July 2018.

We confirm we have not undertaken non-audit work outside the PSAA Code requirements.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the non-audit services undertaken been provided on a contingent fee basis.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Proposed Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	TBC**	160,344	151,844	172,702*
Non-audit work - Grant claims	TBC***	15,080	15,080	16,178

* The proposed final fee for 2016/17 includes a proposed variation of £20,858 to the PSAA scale fee of £151,844. This arises from the additional procedures we undertook in relation to:

- The valuation of property, plant and equipment;
- The consolidation of balances relating to Mercury Land Holdings;
- Obtaining transaction listings to support amounts disclosed in the Council's financial statements; and
- The Council's Whole of Government Accounts submission.

Further information on the additional procedures we undertook are included in our 2016/17 Audit Results Report. This report was presented to the September 2017 meeting of the Audit Committee. We have agreed the additional fee with the Council; the variation is currently being considered by PSAA Ltd.

** As reported in our Audit Planning Report, the 2017/18 planned fee did not include the additional audit fee in relation to the additional work required to address the significant value for money risk, or our consideration of the transactions and balances consolidated in respect of the Council's wholly owned subsidiary, Mercury Land Holdings. The estimated fee for this work is £8,500. As noted elsewhere within this report, we undertook additional work to test the significant movement in the valuation of Schools. The estimated additional fee for this work is £7,500. We will confirm our final fee for 2017/18 in our Annual Audit Letter.

*** We will complete our work on the Council's Housing Benefit subsidy claim during September and October 2018. We will confirm our final fee for that work following the conclusion of our work on that claim.

9 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 detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	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.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	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, any limitations and the significant risks identified.	Audit planning report – February 2018
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report – July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
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	Audit results report – July 2018
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 • Material misstatements corrected by management	Audit results report – July 2018
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report – July 2018
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit results report – July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Audit results report – July 2018
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of 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 about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit results report – July 2018

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Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report – July 2018 As noted elsewhere within our report, we are currently awaiting receipt of an investment confirmation.
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit results report – July 2018
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit results report – July 2018

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report – July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – July 2018
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report – July 2018
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report – February 2018 Audit results report – July 2018
Certification work	• Summary of certification work	Annual Certification Report

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]
[Date]

Ernst & Young LLP
400 Capability Green
Luton LU1 3LU

This letter of representations is provided in connection with your audit of the consolidated and Council financial statements of London Borough of Havering ("the Group and Council") for the year ended 31st March 2018. 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 consolidated and Council financial statements give a true and fair view of the group and Council's financial position of the London Borough of Havering as of 31st March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Council.

We understand that the purpose of your audit of our consolidated and Council financial statements is to express an opinion there on and that your audit was conducted in accordance with International Standards on Auditing, 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 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 2017/18 for the Council.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and Council financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the consolidated financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have 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 2017/18 for the Group and Council that are free from material misstatement, whether due to fraud or error.

5. We have not corrected the financial statements for the uncorrected audit differences noted in the Audit Results Report:

   [London Borough of Havering Council to provide details of unadjusted audit differences and reason for non-adjustment]

Management representation letter

Management Rep Letter

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group and Council (regardless of the source or form and including without limitation, any allegations by "whistle blowers"), including non-compliance matters:

   - involving the financial statements;
   - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
   - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group and Council's activities, its ability to continue to operate, or to avoid material penalties;
   - involving management, or employees who have significant roles in internal controls, or others; or
   - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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;
   - 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 consolidated and Council financial statements.

3. We have made available to you all minutes of the meetings of the Full Council, Cabinet and Audit Committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 31 July 2018.

Management representation letter

Management Rep Letter

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 year 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 consolidated and Council financial statements.

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.

D. 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 consolidated and Council 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/ or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed to you all guarantees that we have given to third parties.

4. No claims in connection with litigation have been or are expected to be received.

E. Subsequent Events

1. There have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and Narrative Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

Management representation letter

Management Rep Letter

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of non-current 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.

H. Accounting Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate (s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. We confirm that the significant assumptions used in making the estimated valuations of Pension Asset/ Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Group and Council.

3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and Council financial statements due to subsequent events.

I. 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.

Yours faithfully,

____

Chief Operating Officer

____

Chair of the Audit Committee

EY | Assurance | Tax | Transactions | Advisory

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Date 30.07.2018

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Debbie Hanson
Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Dear Debbie,

Havering Pension Fund– Letter of Representation

This letter of representations is provided in connection with your audit of the financial statements of Havering Pension Fund ("the Fund") for the year ended 31 March 2018. 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 transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), 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 2017/18

2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, 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 the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Fund, we believe that the Fund 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 2017/18 that are free from material misstatement, whether due to fraud or error.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. 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.

4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

   - Involving financial improprieties

- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
    - Involving management, or employees who have significant roles in internal control, or others
    - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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.
    - Additional information that you have requested from us for the purpose of the audit.
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date 31 July 2018.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund'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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

D. 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/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and confirm there are no guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

F. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the

limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.

2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

J. Actuarial valuation

1. The latest report of the actuary Hymans Robertson LLP as at 31 March 2016 and dated 31 March 2017 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the 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 faithfully,

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Chief Operating Officer

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Chairman of the Audit Committee

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Jane West
Chief Operating Officer (s151)

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Debbie Hanson
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LU1 3LU

Dear Debbie,

London Borough of Havering – Letter of Representation

This letter of representations is provided in connection with your audit of the consolidated and Council financial statements of London Borough of Havering ("the Group and Council") for the year ended 31st March 2018. 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 consolidated and Council financial statements give a true and fair view of the group and Council's financial position of the London Borough of Havering as of 31st March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Council.

We understand that the purpose of your audit of our consolidated and Council financial statements is to express an opinion there on and that your audit was conducted in accordance with International Standards on Auditing, 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 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 2017/18 for the Council.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and Council financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the consolidated financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have 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 2017/18 for the Group and Council that are free from material misstatement, whether due to fraud or error.

5. We have not corrected the financial statements for the uncorrected audit differences noted in the Audit Results Report in relation to fixed asset valuations. We are satisfied 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. Further, we consider this difference in valuation opinions 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.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group and Council (regardless of the source or form and including without limitation, any allegations by "whistle blowers"), including non-compliance matters:

    - involving the financial statements;

- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group and Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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;
    - 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 consolidated and Council financial statements.
3. We have made available to you all minutes of the meetings of the Full Council, Cabinet and Audit Committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 31 July 2018.
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 year 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 consolidated and Council financial statements.
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.

D. 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 consolidated and Council 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/ or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed to you all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

E. Subsequent Events

1. There have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and Narrative Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of non-current 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.

H: Accounting Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate (s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. We confirm that the significant assumptions used in making the estimated valuations of Pension Asset/ Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Group and Council.
3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and Council financial statements due to subsequent events.

I. 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.

Yours faithfully,

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Chief Operating Officer

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Chair of the Audit Committee

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