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Havering
LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.00 pm	Thursday 24 September 2015	Committee Room 3A - Town Hall

Members 6: Quorum 3

COUNCILLORS:

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

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

For information about the meeting please contact:
James Goodwin 01708 432432
james.goodwin@OneSource.co.uk

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

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

Reporting means:-

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

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

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

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

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

3 DISCLOSURE OF PECUNIARY INTERESTS

Members are invited to declare any pecuniary interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any pecuniary interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 8)

To approve as correct the minutes of the meeting held on 24 June 2015 and authorise the Chairman to sign them.

5 ANNUAL STATEMENT OF ACCOUNTS 2014/2015 (Pages 9 - 142)

To consider the attached report.

6 REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260 (Pages 143 - 202)

To consider the attached report.

7 HEAD OF INTERNAL AUDIT QUARTER 1 PROGRESS REPORT: 6TH APRIL 2015 TO 5TH JULY 2015 (Pages 203 - 260)

To consider the attached report.

8 CORPORATE RISK REGISTER. (Pages 261 - 268)

To consider the attached report.

9 ANTI-FRAUD AND CORRUPTION STRATEGY (Pages 269 - 280)

To note the attached report.

10 ANNUAL GOVERNANCE STATEMENT. (Pages 281 - 296)

To note the attached report.

11 URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

12 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

Andrew Beesley
Committee Administration Manager

MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Committee Room 3B - Town Hall
24 June 2015 (7.30 - 8.40 pm)

Present:

COUNCILLORS:

Conservative Group	Viddy Persaud (in the Chair), Frederick Thompson
Residents' Group	Julie Wilkes (Vice-Chair)
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson
Independent Residents Group	Graham Williamson

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

1 **MINUTES OF THE MEETING**

The minutes of the meeting held on 11 March 2015 were agreed as a correct record and signed by the Chairman.

2 **CLOSURE OF ACCOUNTS TIMETABLE 2014/15**

Officers had advised the Committee that they would meet the deadline for the closure of accounts and these would be available to the Council's Chief Financial Officer; the Group Director of Communities and Resources by no later than 30 June 2015.

As previously advised there had been no significant changes to the code of practice which had affected the 2014/14 closedown. There had, however, been some matters which had required either a change in process or accounting policy this year. These had been:

a) Re-consolidation of Foundation and Voluntary Aided schools;
b) Mid-year launch of the latest version of One Oracle; and
c) First year of accounting for oneSource.

The Committee had been advised that in 2017/18 the statutory closedown period would be brought forward a month (i.e. closure and production of the statement of accounts by 31 May and conclusion of audit by 31 August. To prepare for this officers had planned to introduce changes to the closedown timetable in 2015/16 in order to 'dry run' the early closedown timescales from that year.

The Committee had **noted** the report.

3 **FRAUD PROGRESS REPORT 1 JANUARY TO 31 MARCH 2015**

The Committee had been informed that the transfer of Havering employees to the Department of Work and Pensions (DWP) had been completed on 31 March 2015. Seven of the eight employees had been transferred. One investigator had been moved into the new oneSource Fraud team. Approximately 100 live benefit cases had also been transferred to the DWP. Officers had advised the Committee that external resources would be available to carry out investigations until the new structure had been fully populated with staff.

The DWP had agreed to release ex-employees involved in the 10 Benefit Fraud cases which had been retained and would be completed by the oneSource team.

The Sub-Committee had asked some questions concerning the numbers shown in some of the tables. Officers had been asked to advise members why the quarter 2 caseload for Reactive Fraud Cases was so high compared to the other quarters.

The Committee had expressed concern that a number of duplicate orders and payments had been identified. Officers had explained the problem and had given assurances that steps had been taken to ensure a similar situation could not reoccur.

The report had been **noted**.

4 **INTERNAL AUDIT PROGRESS REPORT 5 JANUARY TO 2 APRIL 2015**

Officers had submitted a report detailing the work of the Internal Audit team during the period 5 January to 2 April 2015. Officers had advised that vacancies were being held in the team as the audit service was currently pending restructure following the oneSource service review. As a result of this a shortfall of 74 days had been recorded against the 2014/15 plan.

There had been five audits that had not been undertaken during 2014/15 due to timing issues and these had been moved to the 2015/16 Audit Plan:

- Car Pool Scheme;
- Pupil Place Planning;
- Remote Access (Draft Terms of Reference issued);
- Offsite storage (Draft Terms of Reference issued); and
- ID Smart Cards.

Two system audits had been completed during the quarter, both receiving a limited assurance on their systems of internal control. These related to Environment Protection and Housing and Housing Rents.

Having considered the report the Committee **noted** the contents and asked that in future the list of recommendations should be grouped as to high, medium or low risk.

5 PAYMENT TO CONTRACTORS (ROAD AND PAVEMENT DEFECTS) 2014/15

As requested at the last meeting officers had reported back on the audit report into the payment to Contractors (Road and Pavement Defects) 2014/15. Significant progress had been made to address the issues and implement the recommendations raised in the audit report.

Officers had confirmed that no other StreetCare contracts had similar problems and no issues had been raised regarding the quality of the work undertaken by Miller Bros. Ltd.

The Committee had been advised that Miller Bros. Ltd. would continue as service provider on the highways maintenance support contract until October 2016 to align with the other highways term maintenance contracts. During this period officers would carry out an option appraisal on the most effective and efficient way in which to package all the term maintenance contracts.

The Committee had **agreed** to sanction the decision to terminate the Miller Bros. Ltd. Contract in October 2016 and **noted** the report.

6 OUTSTANDING AUDIT RECOMMENDATIONS

The Committee had **noted** the report.

7 ANNUAL GOVERNANCE STATEMENT

Officers had advised that the Accounts and Audit Regulations (England) 2011 required the Council to conduct, at least annually, a review of the effectiveness of its system of internal control and to approve an Annual Governance Statement, prepared in accordance with proper practices in relation to internal control.

The Annual Governance Statement had been prepared in accordance with ‘Delivering Good Governance in Local Government: Framework’ produced jointly by CIPFA and SOLACE in 2012, which had been given ‘proper practices’ status by the Department for Communities and Local Government.

The 2014/15 statement had updated the Committee on the significant governance issues raised in the 2013/14 Annual Governance Statement and the status of those issues and of new issues arising as part of the 2014/15 Annual Governance Statement.

The Committee had **agreed** the draft version of the 2014/15 Annual Governance Statement.

8 ANNUAL AUDIT REPORT

Each year the Internal Audit & Corporate Risk Manager was required by the Accounts and Audit Regulations to produce an Annual Report including an overall opinion on the system of internal control. This year’s report had summarised the work of the internal audit team and had covered, inter alia, the following issues:

- Organisational Change;
- One Oracle; and
- Declarations of Interest.

The Committee **had noted** that in the Internal Audit and Risk Manager's opinion, the system of internal control was satisfactory and processes to identify and manage risks were in place.

The Committee **noted** the report.

9 TRAINING PLAN FOR AUDIT COMMITTEE

Officers had produced a proposed training plan for members of the Committee and named substitutes. The proposed plan was as set out below:

Frequency	**Contents**	**Method of Delivery**	**Timing**
Annual	Statement of Accounts	Drop in sessions	September
Once per term unless significant changes	Treasury	Group session	n/a for 2015/16
Annual	Fraud & Corruption • Bribery • Money Laundering • Whistle blowing • Housing Fraud	Group session	December 2015
Annual	Risk Management & Internal Control	E Learning or off-line briefing	February 2016
Twice during term	Corporate Governance	Group session	May 2016

The Committee had **approved** the Training Plan.

10 FORWARD PLAN FOR THE AUDIT COMMITTEE 2015/16

Officers had produced a summary of the expected agenda items for each of our next five planned meetings.

FORWARD PLAN	AGENDA ITEM	PLANNED TRAINING
25th September 2015	• Approval of annual Statement of Accounts 2014/15 • Report to those charged with Governance • Response to Auditors' Report to those charged with Governance • Internal Audit Progress Report Q1 • Fraud Progress Report Q1 • Update of Corporate Risk Register • Treasury Management Update Q1 • Internal Audit Charter and Terms of Reference *(usually presented in March but delayed awaiting restructure)* • Internal Audit Strategy (as for Charter)	Accounts (training will be separate session before evening of committee).
1st December 2015	• Annual Audit Letter • Closure of Accounts Timetable • Internal Audit Progress Report Q2 • Governance Update • Fraud Progress Report Q2 • Annual Review of Fraud & Corruption • Treasury Management Update Q2 • Annual Review of Risk Management	Fraud specific topic TBC
2nd March 2016	• 2014/15 Audit Report of Grant Claims and Returns • External Audit Plan 2015/16 • Update Corporate Risk Register • Internal Audit Draft Plan and Strategy. • Internal Audit Charter and Terms of Reference. • Internal Audit Progress Report Q3 • Fraud Progress Report Q3 • Annual Review of Audit Committee Effectiveness • Treasury Management Update Q3 • Closure of Accounts Timetable 2015/16 • Accounting Policies 2015/16	Risk Management
10th May 2016	• Fraud Progress Report Q4 • Internal Audit Progress Report Q4 • Treasury Management Update Q4 • Outstanding Audit Recommendations • Annual Report of the Audit Committee	Fraud specific topic TBC
June 2016	• Internal Audit Annual Report 2015/16 • Annual Governance Statement 2015/16 • Committee Forward Plan • Member Training Plan • Accounts Closure Update	Corporate Governance

	• Treasury Management Annual Report	

The Committee had **approved** the forward plan.

11 **AUDIT PLAN 2015/16**

Following on from the interim plan presented to the March meeting of the Committee officers had drawn up a proposed audit plan for 2015/16. At the time the report had been produced the service review for internal audit had been completed but the restructure had not been implemented.

Officers had informed the Committee that the Audit Strategy needed to be reviewed once the resources available to deliver the plan were confirmed.

The Committee noted that under the suggested plan the London Borough of Newham would be receiving the majority of the support. Officers had explained that this had been based on existing resources. Once the resources available to deliver the plan had been agreed, and the strategy reviewed, a revised plan would be produced.

On the understanding that a revised plan would be produced once the Audit Strategy had been reviewed the Committee had **approved** the plan.

12 **ANTI-FRAUD AND CORRUPTION STRATEGY 2015**

Officers had submitted for our information the Anti-Fraud and Corruption Strategy which had been last up dated in February 2015. Officers informed the Committee that once the new structure had been staffed the Strategy would be revised. The Acting Director of Finance confirmed that the revised strategy would be submitted to the next meeting of the Committee in September.

The Committee had **noted** the report.

13 **EXCLUSION OF THE PUBLIC**

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

14 ANNUAL TREASURY MANAGEMENT REPORT 2014/15

The Committee had received the Annual Treasury Management report for 2014/15. Although the Council had failed to achieve the budgeted Rate of Return on Investment, the U K Bank Rate had been maintained at 0.5% since March 2009, we had earned just £13k below budget due to higher cash levels deposited by the authority.

The Committee have **noted** the report, prudential and treasury indicators..

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Chairman

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Havering
LONDON BOROUGH

AUDIT COMMITTEE REPORT

24 September 2015

Subject Heading:	Annual Statement of Accounts 2014/2015
Report Author and contact details:	Contact: Mike Board Designation: Corporate Finance and Strategy Manager Telephone: (01708) 432217 E-mail address: Mike.Board@oneSource.co.uk
Policy context:	Audit Committee responsible for approving accounts.
Financial summary:	N/A

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[]
High customer satisfaction and a stable council tax	X

SUMMARY

The Council's Statement of Accounts is required to be published after the conclusion of the external audit of accounts; no later than 30th September 2015. At this stage our auditors, PricewaterhouseCoopers expect to issue an unqualified opinion on the Statement of Accounts.

RECOMMENDATIONS

The Committee is asked to:

a) Approve the Statement of Accounts confirming that no amendments are required to be made to the accounts in respect of the items set out in the auditors' report.

b) note that the audited accounts must be published by 30th September 2015.

c) Note the amendments to the accounting policies arising from the audit of the accounts.

REPORT DETAIL

1. Statement of Accounts 2014/15

Our auditors, PricewaterhouseCoopers, have completed their audit of the Statement of Accounts and expect to issue an unqualified opinion. A formal report on their findings is included as item 6 on the agenda.

The draft Statement of Accounts is shown at Appendix A and incorporates any changes agreed with the auditors.

Following approval by this Committee, the accounts must be signed by the Chair of the Committee and the Group Director of Finance and Commerce.

2. Accounting Policies

The Audit Committee meeting of 11th March noted the accounting policies applicable to the financial year 2014/15, and these are reflected in the draft Statement of Accounts.

As a result of the audit of the accounts, two policies were updated to make them more specific to Havering's accounts. These were:

Policy xvii: Jointly Controlled Operations and Jointly Controlled Asset

This was replaced with a more specific policy, **Interest in Joint Committee**, describing the arrangements in place with regard to oneSource:

> oneSource is a participative arrangement created by the Authority and the London Borough of Newham 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 savings are shared between the two authorities on the basis of an agreed formula and are allocated on an annual basis.

Policy xxii: 'Accounting for Schools

The second paragraph was amended to clarify why academies are not included in the Statement of Accounts:

The Authority includes the income and expenditure of local authority maintained schools within its financial statements on the basis that they remain within the local authority boundary under common control. These are defined as community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools. Assets of these schools are also included in the Authority's Accounts except for non-current assets owned by another legal body acting as a trustee (such as the diocese) and made available for the school's use.

Academies control their own assets and prepare accounts under the Charities' Statement of Recommended Practice. This is a requirement in their Funding Agreements. Academies are therefore excluded from the Authority's Accounts from the date of conversion with any outstanding grant allocations for the financial year of conversion being included as expenditure within the Consolidated Income and Expenditure Statement.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no material financial implications arising directly from the publication of accounts.

Legal Implications and risks:

Regulation 8 of the Accounts and Audit (England) Regulations 2011 requires the approval and subsequent publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2015. Approving the recommendations set out herein will minimise the risk of non-compliance with these requirements"

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Appendix A

London Borough of Havering

Statement of accounts for the financial year 2014/15

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London Borough of Havering

Statement of accounts

For the financial year

2014/15

Contents

Explanatory Foreword and Financial Review

Introduction

I am pleased to introduce the Authority's Statement of Accounts for 2014/15.

The purpose of the Statement of Accounts is to summarise the financial performance for the financial year 2014/15 and the overall financial position of the Authority. This foreword aims to give a general guide to the main features of the information reported within the rest of the accounts and provides a summary of the Authority's overall financial position.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code), and the *Service Reporting Code of Practice (SeRCOP) 2014/15* published by the Chartered Institute of Public Finance and Accountancy (CIPFA), as supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003. The Code sets out the proper accounting practices required by statute to be followed in preparing the statement of accounts.

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 122 to 125 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 net worth of the Authority as a result of incurring expenses, gathering income and from movements in the fair value of the assets. It also analyses the movement between reserves in accordance with statutory provisions;
- **Comprehensive Income and Expenditure Statement (CIES) –** This statement brings together all of the functions of the Authority and summarises all the resources that the Authority has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Authority, before allowing for the concessions provided by statute to raise council tax according to different rules and the ability to divert particular expenditure to be met from capital resources;
- **Balance Sheet –** This records the Authority's year end financial position. It shows the balances and the reserves at the Authority's disposal, its long term debt, net current assets or liabilities, and summarises information on the non-current assets held;
- **Cash Flow Statement –** This summarises the inflows and outflows of cash arising from transactions with third parties for both capital and revenue;
- **Notes to the Financial Statements –** The notes provide more detail about the items contained in the key financial statements, the Authority's Accounting Policies and other information to aid the understanding of the financial statements;
- **Housing Revenue Account (HRA) –** This records the Authority's statutory obligations to account separately for the cost of the landlord role in respect of the provision of the Authority Housing;
- **Collection Fund –** The Authority is responsible for collecting council tax and non-domestic rates; and

- **Pension Fund –** The Pension Fund Accounts show the contributions from the Authority, participating employers and employees for the purpose of paying pensions. The Fund is separately managed by the Authority, acting as trustee, and its Accounts are separate from those of the Authority.

Review of the Year 2014/15

Revenue Budget

During 2014/15 the Authority continued its transformation programme designed to increase efficiency and reduce bureaucracy. The Authority has placed a particular emphasis on sharing services, reducing back-office costs and minimising the impact on front line services.

The Coalition Government announced plans for significant reductions in public expenditure during 2010 in order to reduce the public sector deficit. The 2010 Comprehensive Spending Review (CSR) indicated major reductions in funding over the next four years, and the local government financial settlement for 2014/15 followed the broad approach set out in the CSR, with a further reduction in formula grant.

The Authority has successfully delivered a programme of organisational change over the four year period ending in 2014/15, during which time substantial savings have been delivered. These savings were reflected in the Authority's Medium Term Financial Strategy (MTFS) culminating in the setting of the budget for 2014/15.

Highlights

The following matters are particularly worthy of note:

- Despite significant reductions in grant funding from Central Government the Authority has continued to deliver service improvements and to meet continued growth in demand for our services.
- The Authority entered into a ground breaking partnership with the London Borough of Newham to create oneSource – a joint arrangement which is delivering efficiencies and savings by sharing back-office functions across both authorities. The partnership came into being on 1 April 2014.
- The Authority entered into a business rates pooling arrangement on 1 April 2014 with three other authorities; Barking and Dagenham, Basildon and Thurrock which will enable a greater share of business rate growth to be retained locally.
- Council tax was frozen in 2014/15 for the fourth year in succession.

Revenue Budget

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

	2014/15 **£000**
Community and Resources	43,651
Children's Adults and Housing	101,469
oneSource	4,982
Corporate Finance	17,494
	167,596
Levies	12,745
Non ring-fenced grants	(14,785)
Total Expenditure	**165,556**
Financed by:	
Revenue Support Grant	(38,890)
Business Rates	(30,833)
Council Tax	(95,833)
Total External Income	**(165,556)**
Net Underspend	**-**

The Authority delivered its final outturn in line with budget. The General Fund working balance remains at £11.8m, whilst earmarked reserves increased from £45.1m to £48.6m, reflecting the net movement in funds over the year to support key projects. These sums will be released in future years to fund key work streams; in particular the costs associated with transforming the Authority. Further details of are included at note 9 to the accounts.

The service expenditure headings and figures reported above reflect the Authority's organisational and management structure. These are consistent with but presented differently to the Service headings reported within the Comprehensive Income and Expenditure Statement on page 14, which conform to the SeRCOP requirements. Information is provided in note 28 of the notes to the accounts to reconcile the financial position against the Authority's management structure to that of the Comprehensive Income and Expenditure Statement.

The financing and surplus figures reported above are not the same as those reported in the Comprehensive Income and Expenditure Statement. This is because of a number of accounting adjustments that are required to be reflected in the Comprehensive Income and Expenditure Statement to comply with preparing the Authority's accounts in accordance with prescribed accounting standards.

Capital Expenditure

Capital expenditure relates to the purchase, improvement or enhancement of assets.

Given the pressures on the Authority's financial resources, only essential items were agreed as part of the core programme. The most significant areas of expenditure in 2014/15 included that for schools (increasing the number of pupil places within the Borough's schools and condition and suitability of existing schools buildings infrastructure). The substantial level of expenditure on council housing is supported by Decent Homes Grant and HRA revenue contributions.

Capital expenditure for the year can be analysed as follows:

Service	**2014/15** **£000**
Culture & Leisure	5,253
Streetcare	6,353
Economic Development	2,950
Policy & Community	1,515
Regulatory Services	589
Housing HRA	37,185
Learning & Achievement	472
Children's Services	4,089
Adult Services	40
Resources	11,007
Total	**69,453**

Financed by:

Service	**2014/15** **£000**
Capital Receipts	4,695
Revenue Funds	18,616
Grants and Contributions	46,142
Total	**69,453**

The 2015/16 approved capital programme is based on the application of receipts and external funding as the prime sources of finance. There are no plans to prudentially borrow to fund any capital works. The internally funded core programme for 2015/16 consists of £10.3m split between the following block allocations:

Parks, Libraries, Leisure and Cemeteries	£1.0m
Street Environment	£2.0m
Protection of Assets and Health and Safety	£0.5m
IT Infrastructure	£1.0m
Regeneration	£0.1m
Street Lighting	£2.7m
Capital Contingency	£3.0m

The 2015/16 capital programme also includes £18.7m of education spend predominantly on the expansion of primary schools to address rising primary rolls. This expenditure is being funded from external grants.

In addition to the education grants the Authority has also been allocated grant funding of £2.1m from Transport for London and £0.8m of disabled facilities grant increasing the total approved capital programme to £31.9m.

The approved HRA capital budget for 2015/16 amounts to £25.6m almost entirely funded from the Housing Revenue Account.

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 councils' funding control and are not included in the Authority's accounts; though still operate within all the national requirements for curriculum and standards. As at 31 March 2015, there were twenty-two academies within the Borough (eighteen at 31 March 2014).

Foundation, voluntary aided and voluntary controlled schools operate under a high level of autonomy and were therefore not included in the 2013/14 published accounts. However, CIPFA has issued revised guidance to clarify the criteria for accounting for schools balances and transaction in local government accounts, and the 2013/14 accounts have therefore been restated as detailed in Note 2 on page 28.

Housing Revenue Account

The Statement of Accounts also includes the Housing Revenue Account (HRA), a ring-fenced account to which expenditure incurred and income received in relation to the Authority's housing stock is charged. The HRA made a surplus of £1.7m and increased its working balance to £11.9m. The full details of the Housing Revenue Account and the movements on that account are set out on pages 85 to 89.

Treasury Management

The Authority's treasury management policy is agreed annually at full Council in order to provide the framework for managing its investments and borrowing.

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. Performance is reported regularly to the Cabinet Member for Value, and to the Audit Committee. In 2014/15 deposits were restricted to a limited number of institutions meeting the Authority's lending criteria.

Cash, Investments & Borrowing

Total cash, cash equivalents and deposits held by the Authority at 31 March 2015 amounted to £159m (£129m at 31 March 2014). The average yield from the Authority's cash investments for 2014/15 was 0.67 per cent (0.95 per cent for 2013/14). This reflects the conservative nature of the Authority's investment strategy and historically low interest rates.

Total borrowing stood at £211m as at 31 March 2015 (£211m as at 31 March 2014).

Pension Fund

The Pension Fund's net assets increased by £68.7m in 2014/15. Asset values now stand at £574.7m as compared with £506.0m as at 31 March 2014. This positive result is tempered by the continuing upward pressure on longer term pension fund liabilities.

The last triennial valuation of pension fund assets and liabilities was completed in March 2014. In common with the vast majority of Local Government Pension Schemes, the Authority's fund is in deficit; the deficit being valued at £292m as at 31 March 2013. The next valuation is due to be completed in March 2017, based on a valuation date of 31 March 2016.

The Authority's current share of the net pension fund liability is disclosed in the accounts at a higher level of £421m (£382m at 31 March 2014) based on the requirements of IAS19 rather than on the triennial valuation. The increase in the liability has been caused by the impact of historically low interest rates on the discount rate used for valuation purposes. Further information on the basis of the IAS19 disclosure is included at note 43.

Prospects and Outlook

The Authority has faced an extremely challenging financial environment over recent years. It has successfully implemented a range of savings totalling £36m over the four year period ending in 2014/15 and in doing so it has focused on increased efficiencies whilst minimising the impact on service delivery. In considering the development of a new financial strategy for 2015, Cabinet considered the prospects for the Local Government Financial Settlement given the continuation of the National Government's austerity programme.

Following the local elections in May 2014 the new administration began a process of developing a new financial strategy. The Cabinet report of September 2014 indicated the potential scale of the future budget gap over the four year period, commencing in 2015/16. Taking account of a potential loss of grant funding and increasing pressures on services, a gap of £45m was identified. Following an extensive public consultation exercise Cabinet agreed a range of savings proposals and a financial strategy at its meeting of January 2015 designed to balance the budget over the first two years of the cycle. This enabled the Authority to agree a budget for 2015/16 including a council tax increase of 1.99%, the first increase for five years.

The Coalition Government's Autumn Budget Statement contained no detailed proposals for reducing the size of the Local Government Financial Settlement for 2016/17 and beyond. However the Office for Budget Responsibility reported that the pace of spending reductions in 2016/17 and 2017/18 would be faster and deeper than previously thought. It is anticipated that a further £10bn in Central Government departmental cuts is required in those two years in order to meet the Government's target of achieving a budget surplus by 2018/19. Following the general election of May 2015, and the election of the new Conservative Government, the Cabinet intends to consider the prospects for the Local Government Financial Settlement once again, with a view to balancing its budget over the full four year cycle.

Further information

Further information about the accounts is available from:

Group Director of Communities and Resources

Town Hall

Romford

RM1 3BD

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. For 2014/15 the inspection period takes place between 7 July 2015 and 3 August 2015. These dates were advertised in the local press on 12 June 2015.

Andrew Blake-Herbert, CPFA

GROUP DIRECTOR OF COMMUNITIES AND RESOURCES

24 September 2015

E mail finance@havering.gov.uk
Website www.havering.gov.uk

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Group Director of Communities and Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts.

The Group Director of Communities and Resources' Responsibilities

The Group Director of Communities and Resources 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 Group Director of Communities and Resources has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code.

The Group Director of Communities and Resources 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 2015 and its income and expenditure for the year ended 31 March 2015.

Councillor Viddy Persaud
CHAIRMAN, AUDIT COMMITTEE
24 September 2015

Andrew Blake-Herbert
GROUP DIRECTOR OF COMMUNITIES AND RESOURCES
24 September 2015

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

Movement in Reserves Statement 2014/15

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the provision of services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

	General Fund Balance	General Balances	Earmarked General Fund Reserves	Housing Revenue Account	Capital Grants Unapplied Account	Capital Receipts Reserve	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2013 (restated)	***27,004**	**2,728**	**48,690**	**10,223**	***20,878**	**20,889**	**6,206**	***136,618**	***240,565**	***377,183**
<u>Movement in reserves during 2013/14</u>										
Deficit on provision of services	*(84,339)	-	-	(6,736)	-	-	-	*(91,075)	-	*(91,075)
Other comprehensive expenditure and income	-	-	-	-	-	-	-	-	*19,076	*19,076
Total comprehensive expenditure and income	***(84,339)**	**-**	**-**	**(6,736)**	**-**	**-**	**-**	***(91,075)**	***19,076**	***(71,999)**
Adjustments between accounting basis and funding basis under regulations (Note 8)	*78,451	-	-	*3,467	*(3,520)	15,786	3,536	*97,720	*(97,720)	-
Net (decrease)/increase before transfers to earmarked reserves	***(5,888)**	**-**	**-**	***(3,269)**	***(3,520)**	**15,786**	**3,536**	***6,645**	***(78,644)**	***(71,999)**
Transfers to/(from) Earmarked Reserves (Note 9)	*3,503	119	(3,621)	*(1)	-	-	-	-	-	-
(Decrease)/increase in year	***(2,385)**	**119**	**(3,621)**	**(3,270)**	***(3,520)**	**15,786**	**3,536**	***6,645**	***(78,644)**	***(71,999)**
Balance at 31 March 2014 (restated)	***24,619**	**2,847**	**45,069**	**6,953**	***17,358**	**36,675**	**9,742**	***143,263**	***161,921**	***305,184**
<u>Movement in reserves during 2014/15</u>										
(Deficit)/surplus on provision of services	(32,199)	-	-	11,242	-	-	-	(20,957)	-	(20,957)
Other comprehensive expenditure and income	-	-	-	-	-	-	-	-	41,208	41,208
Total comprehensive expenditure and income	**(32,199)**	**-**	**-**	**11,242**	**-**	**-**	**-**	**(20,957)**	**41,208**	**20,251**
Adjustments between accounting basis and funding basis under regulations (Note 8)	34,502	-	-	(9,358)	(2,047)	18,528	7,525	49,150	(49,150)	-
Net (decrease)/increase before transfers to earmarked reserves	**2,303**	**-**	**-**	**1,884**	**(2,047)**	**18,528**	**7,525**	**28,193**	**(7,942)**	**20,251**
Transfers to/(from) Earmarked Reserves (Note 9)	(3,278)	(99)	3,544	(167)	-	-	-	-	-	-
(Decrease)increase in Year	**(975)**	**(99)**	**3,544**	**1,717**	**(2,047)**	**18,528**	**7,525**	**28,193**	**(7,942)**	**20,251**
Balance at 31 March 2015	**23,644**	**2,748**	**48,613**	**8,670**	**15,311**	**55,203**	**17,267**	**171,456**	**153,979**	**325,435**

* Restated figures – see Note 2

Comprehensive Income and Expenditure Statement 2014/2015

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

		1 April 2014 – 31 March 2015			1 April 2013 – 31 March 2014		
		£000	£000	£000	£000	£000	£000
	Notes	**Gross Expenditure**	**Gross Income**	**Net**	**Gross Expenditure**	**Gross Income**	**Net**
Gross expenditure, gross income and net expenditure of continuing operations							
Central Services to the Public		11,233	(2,353)	8,880	9,831	(3,207)	6,624
Cultural and Related Services		15,997	(1,233)	14,764	14,046	(1,172)	12,874
Environment and Regulatory Services		19,943	(7,108)	12,835	19,473	(6,637)	12,836
Planning Services		8,869	(3,272)	5,597	8,010	(3,373)	4,637
Children's and Education Services		220,593	(148,988)	71,605	*268,400	*(145,060)	*123,340
Highways, Roads and Transport Services		24,453	(6,054)	18,399	25,680	(5,595)	20,085
Local Authority Housing (HRA)		71,724	(78,067)	(6,343)	70,442	(66,036)	4,406
Other Housing Services		105,241	(102,899)	2,342	105,394	(102,651)	2,743
Adult Social Care Services		80,601	(16,815)	63,786	79,388	(13,128)	66,260
Public Health		9,344	(9,783)	(439)	7,983	(8,868)	(885)
Corporate and Democratic Core		5,006	(290)	4,716	4,445	(133)	4,312
Non Distributed Costs		-	(695)	(695)	-	(542)	(542)
Cost of services		**573,004**	**(377,557)**	**195,447**	***613,092**	***(356,402)**	***256,690**
Other operating expenditure	10			10,719			*19,490
Financing and investment income and expenditure	11			18,338			20,674
Taxation and non specific grant income	12			(203,547)			(205,779)
Deficit on provision of services				**20,957**			***91,075**
Surplus on revaluation of property, plant and equipment assets	24a			(68,627)			*(13,389)
Actuarial losses/(gains) on pension assets / liabilities	24d			27,419			(5,687)
Other comprehensive income and expenditure				**(41,208)**			***(19,076)**
Total comprehensive income and expenditure				**(20,251)**			***71,999**

* Restated figures – see note 2

Balance Sheet as at 31 March 2015

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

	Notes	31 March 2015 £000	31 March 2014 £000 (restated)	31 March 2013 £000 (restated)
Property, plant and equipment	13	772,450	*742,165	*820,662
Heritage assets	14	105	106	106
Investment property	15b	37,581	34,619	33,728
Intangible assets	16	1,533	3,220	4,823
Long Term Investments	17	6,000	-	-
Long Term debtors	17	607	1,294	1,433
Long-term assets		**818,276**	***781,404**	***860,752**
Short-term investments	17	138,500	102,501	100,403
Inventories	18	268	297	344
Short-term debtors	19	49,352	*41,955	*45,233
Cash and cash equivalents	20	30,441	*41,665	*28,560
Assets held for sale	15c	1,508	7,519	11,990
Current assets		**220,069**	***193,937**	***186,530**
Bank overdraft	20	-	-	(1,256)
Short-term borrowing	17	(271)	(447)	(13,136)
Short-term creditors	21	(64,724)	*(57,343)	*(45,123)
Current liabilities		**(64,995)**	***(57,790)**	***(59,515)**
Long-term creditors	39	(515)	(670)	-
Provisions	22	(5,612)	(7,882)	(6,462)
Long-term borrowing	17	(211,410)	(210,234)	(211,013)
Other long-term liabilities	43	(421,209)	(382,439)	(385,484)
Capital grants receipts in advance	35b	(9,169)	(11,142)	(7,625)
Long-term liabilities		**(647,915)**	**(612,367)**	**(610,584)**
Net assets		**325,435**	***305,184**	***377,183**
Usable reserves	23	171,456	*143,263	*136,618
Unusable reserves	24	153,979	*161,921	*240,565
Total Reserves		**325,435**	***305,184**	***377,183**

* Restated figures – see note 2

Cash Flow Statement as at 31 March 2015

The Cash Flow statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as; operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2013/14 £000		Note	2014/15 £000
*91,075	Net deficit on the provision of services		20,957
*(180,840)	Adjust net surplus or deficit on the provision of services for non-cash movements	25	(128,528)
59,919	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	67,623
*(29,846)	Net cash flows from Operating Activities		(39,948)
*2,017	Investing activities	26	52,172
13,468	Financing activities	27	(1,000)
*(14,361)	Net (increase) /decrease in cash and cash equivalents		11,224
*(27,304)	Cash and cash equivalents at the beginning of the reporting period	20	*(41,665)
***(41,665)**	**Cash and cash equivalents at the end of the reporting period**	**20**	**(30,441)**

* Restated figures – see note 2

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 2014/15 financial year and its position at the year end of 31 March 2015. The Authority is required to prepare an annual Statement of Accounts by 30 June 2015 (the Accounts and Audit (England) Regulations 2011 require the Accounts 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 2014/15 and the *Service Reporting Code of Practice 2014/15*, 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;
- 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. Following a review of accruals raised over the past three years, the de minimis was raised from £10,000 for 2013/14 to £25,000 for 2014/15; this change has resulted in a reduction in net accruals raised estimated at around £1 million.

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 investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

v. Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible fixed 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. 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 and are charged on an accruals basis to the relevant service line (or in discontinued operations) in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the 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. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education and Public Health Services lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to the Teachers' 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 pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- 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; and
- 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.

vii. 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.

viii. 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.

ix. 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.

x. 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 Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. 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) within the relevant services within the Comprehensive Income and Expenditure Statement.

xi. 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 – see note xviii.

xii. 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.

xiii. 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.

xiv. 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.

xv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Leases for the acquisition of vehicles valued at less than £10,000 (£5,000 for plant and equipment) are treated as operating leases on the basis that the impact of incorrectly classifying the lease would not materially impact upon the accounting disclosures.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

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

Operating Leases

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

Operating Leases

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

xvi. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA SeRCOP 2014*/15*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation; and

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in the SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

xvii. Interest in Joint Committee

oneSource is a participative arrangement created by the Authority and the London Borough of Newham 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 savings are shared between the two authorities on the basis of an agreed formula and are allocated on an annual basis.

xviii. 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 assets valued at depreciated replacement cost.

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 – fair value, determined using the basis of existing use value for social housing (EUV-SH); and

- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets 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 revalued as a minimum every five years, to ensure that their carrying amount is not materially different from their fair value at the year end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

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

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

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

Impairment

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

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is not charged in the year of acquisition but is charged in full during the year of disposal.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – straight-line allocation over a five year period unless a suitably qualified officer determines a more appropriate period; and
- infrastructure – straight-line allocation over 20 years.

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

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

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

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

- capital expenditure of less than £300,000 per scheme; and

- assets valued at less than £3,000,000.

As a consequence of the application of this policy the Authority has not identified any major components with materially different asset lives. However, the application of this policy will be reviewed on an ongoing 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 non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

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

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

xix. 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.

xx. 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.

xxi. 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.

xxii. 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.

xxiii. Accounting for Schools

The Authority includes the income and expenditure of local authority maintained schools within its financial statements on the basis that they remain within the local authority boundary under common control. These are defined as community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools. Assets of these schools are also included in the Authority's Accounts except for non-current assets owned by another legal body acting as a trustee (such as the diocese) and made available for the school's use.

Academies control their own assets and prepare accounts under the Charities' Statement of Recommended Practice. This is a requirement in their Funding Agreements. Academies are therefore excluded from the Authority's Accounts from the date of conversion with any outstanding grant allocations for the financial year of conversion being included as expenditure within the Consolidated Income and Expenditure Statement.

2. Prior Year Restatements

Foundation and Voluntary Aided Schools

The financial transactions of foundation and voluntary aided schools were previously consolidated within the Authority's Statement of Accounts, but from 2010/11 the Authority determined that these schools operate under a high level of autonomy and removed them from its Balance Sheet.

CIPFA has now confirmed its view that "*the single entity financial statements are also defined as including the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools in England and Wales within the control of the local authority*". Local authority maintained schools are defined as community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools. The following schools are therefore included in the restated 2013/14 accounts:

- Foundation schools: Mawney Primary School; Chafford Secondary School (prior to it converting to an academy from 1 November 2013), Sanders Draper, Royal Liberty for Boys, and Marshalls Park Secondary Schools;
- Voluntary controlled: Dame Tipping CE Primary School;
- Voluntary aided: St Edward's CE, La Salette RC, St Patrick's RC, St Joseph's RC, St Peter's RC and St Alban's RC Primary Schools, St Ursula's RC Infant and Junior Schools.

Transactions and assets of these schools were included in the Consolidated Income and Expenditure Account and the Balance sheet, except for non-current assets owned by another legal body acting as trustee (such as the diocese) and made available for the school's use.

Movement on the Housing Revenue Account Balance

In the Movement on the Housing Revenue Account Balance statement on page 86, prior year figures have been restated to move "Capital expenditure funded by the HRA" from "Items not included in the HRA Income and Expenditure Account but included in the HRA balance" to "Adjustments between accounting basis and funding basis under regulations". There were no changes from this to the Balance Sheet or the Consolidated Statement of Income and Expenditure, but a corresponding adjustment of £14,180,000 was made to the Movement in Reserves Statement – Usable Reserves between the General Fund Balance and the Housing Revenue Account against the two rows "Adjustments between accounting basis and funding basis under regulation" and "Transfers to / (from) Earmarked Rows".

This is a technical reclassification which does not impact on the General Fund or Housing Revenue Account balances,

Effect on opening Balance Sheet 1 April 2013

	Opening balances as at 1 April 2013 £000	Restatement £000	Correction required to opening balances as at 1 April 2013 £000
Property, plant and equipment	787,402	820,662	33,260
Short-term debtors	44,969	45,233	264
Cash and cash equivalents	24,244	28,560	4,316
Short-term creditors	(43,605)	(45,123)	(1,518)
Useable reserves	132,675	136,618	3,943
Unusable reserves	208,186	240,565	32,379

Effect on Comprehensive Income and Expenditure Statement 2013/14

Net expenditure on Children's and Education services as recorded in the Comprehensive Income and Expenditure Statement has also been restated to reflect the addition of the revenue transactions listed below.

	As previously stated 2013/14 **£000**	**As restated** **£000**	**Correction 2013/14** **£000**
Children's and Education Services	121,489	123,340	1,851
Other operating expenditure	11,859	19,490	7,631
Surplus on revaluation of property, plant and equipment assets	(9,545)	(13,389)	(3,844)

Movement in Reserves Statement – Usable Reserves 2013/14

	As previously stated 2013/14 **£000**	**As restated** **£000**	**Correction 2013/14** **£000**
Balance as at the end of the previous reporting period – 31 March 2013	**132,675**	**136,618**	**3,943**
Including:			
General Fund Balance	***23,398***	***27,004***	***3,606***
Capital Grants Unapplied	***20,541***	***20,878***	***337***
Surplus or deficit on the provision of services	(81,593)	(91,075)	(9,482)
Including:			
General Fund Balance	*(74,857)*	*(84,339)*	*(9,482)*
Adjustments between accounting basis and funding basis under regulation	89,671	97,720	8,049
Including:			
General Fund Balance	55,970	78,451	22,481
Housing Revenue Account	17,647	3,467	(14,180)
Capital Grants Unapplied	(3,268)	(3,520)	(252)
Transfers to / (from) Earmarked Reserves	-	-	-
Including:			
General Fund Balance	(17,683)	(3,503)	(14,180)
Housing Revenue Account	14,181	1	14,180
Increase/(decrease) in the year	**8,078**	**6,645**	**(1,433)**
***Including*:**			
General Fund Balance	**(1,204)**	**(2,385)**	**(1,433)**
Balance at the end of the current reporting period	**140,753**	**143,263**	**2,510**
***Including*:**			
General Fund Balance	**22,194**	**24,619**	**2,425**
Housing Revenue Account	**6,953**	**6,953**	**-**
Capital Grants Unapplied	**17,273**	**17,358**	**85**

Movement in Reserves Statement – Unusable Reserves 2013/14

	As previously stated 2013/14 £000	As restated £000	Correction 2013/14 £000
Balance as at the end of the previous reporting period – 31 March 2013	**208,186**	**240,565**	**32,379**
Other comprehensive income and expenditure	15,232	19,076	3,844
Adjustments between accounting basis and funding basis under regulation	(89,671)	(97,720)	(8,049)
Decrease in the year	**(74,439)**	**(78,644)**	**(4,205)**
Balance at the end of the current reporting period	**133,747**	**161,921**	**28,174**

Effect on Balance Sheet 31 March 2014

	Closing balances as at 31 March 2014 £000	Restatement £000	Correction required to closing balances as at 31 March 2014 £000
Property, plant and equipment	713,106	742,165	29,059
Short-term debtors	41,608	41,955	347
Cash and cash equivalents	39,128	41,665	2,537
Short-term creditors	(56,084)	(57,343)	(1,259)
Useable reserves	140,753	143,263	2,510
Unusable reserves	133,747	161,921	28,174

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

For 2014/15 the following accounting policy changes that need to be reported relate to:

- IFRS 13 Fair Value Measurement
- IFRIC 21 Levies.
- Annual Improvements to IFRSs 2011–2013 Cycle

Once adopted, these amendments to the standards are not expected to have a material impact on the Authority's financial position as they are largely presentational in nature. We therefore do not expect these changes in accounting standards to have a material impact upon the 2015/16 financial statements.

Other changes adopted in the 2015/16 Code are not expected to require additional disclosure in the 2014/15 or 2015/16 financial statements. Some changes to the Code relate to changes in circumstances. Other changes clarify the requirements of the Code or provide additional guidance, but do not change the requirements of the Code.

The 2016-17 Code of Practice on Local Authority Accounting (The Code) will adopt the measurement requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets*, as amended in 2013 (or any subsequent amendments to that Code that may be issued), i.e. measurement on a Depreciated Replacement Cost basis. This will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 1 *Presentation of Financial Statements* as adopted by this Code.

4. Critical Judgements in Applying Accounting Policies

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

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

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

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

The items in the Authority's Balance Sheet at 31 March 2015 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	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.8m for every year that useful lives had to be reduced. If the asset valuation of all property plant and equipment were to fall by

Item	Uncertainties	Effect if actual results differ from assumptions
	the basis of a five year rolling valuation programme. In the current economic climate, the Balance Sheet valuation of £772m may be subject to fluctuations.	1% a reduction in value of £7.13m 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 and subsequently written off to the Capital Adjustment Account.
Provisions	The Authority has made a provision of £5.6m 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 £0.5m to the provision required.
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £83.6m. However, the assumptions interact in complex ways. During 2014/15, the Authority's actuary advised that changes in actuarial assumptions gave rise to a loss of £78.8m (as compared to a gain of £0.2m in 2013/14) to the Consolidated Income and Expenditure Statement.
Arrears	At 31 March 2015, the Authority had a gross debtors balance of £70.5m. A review of significant balances suggested that an impairment of doubtful debts of 34% (£23.9m) 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 £11.5m to be set aside as an allowance.

6. Material Items of Income and Expense

There were no material items of income and expenditure in the 2014/15 accounts.

7. Events after the Balance Sheet Date

Academies

Marshalls Park Secondary Foundation School is pursuing, and Royal Liberty for Boys Secondary Foundation School is considering, academy status, but the date is not known at present.

Dycorts Special Community School adopted sponsored academy status from 1 September 2015. The Pupil Referral Unit is also pursuing academy status but, again, the date is not known at present.

Authorisation of Accounts for Issue

The Accounts were approved by Andrew Blake-Herbert, Group Director of Communities and Resources on 24 September 2015. No material post Balance Sheet events were identified at that date other than the matters disclosed above.

8. 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 capital expenditure 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					
2014/15	**General Fund Balance**	**Housing Revenue Account**	**Capital Grants Unapplied Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(45,914)	(43,804)	-	-	-	89,718
Movements in the market value of investment properties	1,120	-	-	-	-	(1,120)
Amortisation of intangible assets	(1,898)	-	-	-	-	1,898
Revenue expenditure funded from capital under statute	(1,406)	-	-	-	-	1,406
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	(30,933)	10,481	-	-	-	20,452
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the repayment of debt	1,489	-	-	-	-	(1,489)
Capital expenditure charged against the General Fund and HRA balances	7,531	11,085	-	-	-	(18,616)
Adjustments involving the Capital Grants Unapplied Account:						
Amortisation of deferred grant credited to the Comprehensive Income and Expenditure Statement	19,912	24,183	(44,095)	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	46,142	-	-	(46,142)
Adjustments involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	24,271	-	-	(24,271)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	4,695	-	(4,695)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(1,048)	-	-	1,048	-	-
Adjustments involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(744)	-	-	-	-	744
Adjustment involving the Major Repairs Reserve:						
Reversal of HRA depreciation	-	7,525	-	-	(7,525)	-

2014/15	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Grants Unapplied Account	Capital Receipts Reserve	Major Repairs Reserve	Movement in Unusable Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	97	-	-	-	-	(97)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 43)	(34,068)	(115)	-	-	-	34,183
Employer's pensions contributions and direct payments to pensioners payable in the year	22,832	-	-	-	-	(22,832)
Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	3,547	-	-	-	-	(3,547)
Adjustment involving the Accumulated Absences Account:						
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	710	3	-	-	-	(713)
Total Adjustments	**(34,502)**	**9,358**	**2,047**	**(18,528)**	**(7,525)**	**49,150**

Comparative figures for 2013/14 are as follows:

2013/14	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Grants Unapplied Account	Capital Receipts Reserve	Major Repairs Reserve	Movement in Unusable Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>						
Charges for depreciation and impairment of non-current assets	*(90,345)	(41,754)	-	-	-	*132,099
Revaluation gains on property plant and equipment matching previous loss	550	-	-	-	-	(550)
Movements in the market value of investment properties	435	-	-	-	-	(435)

	Usable Reserves					
2013/14	**General Fund Balance**	**Housing Revenue Account**	**Capital Grants Unapplied Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Amortisation of intangible assets	(2,235)	-	-	-	-	2,235
Revenue expenditure funded from capital under statute	*(1,695)	-	-	-	-	*1,695
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	*(34,498)	3,283	-	-	-	*31,215
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the repayment of debt	1,357	-	-	-	-	(1,357)
Capital expenditure charged against the General Fund and HRA balances	*5,591	*14,180	-	-	-	(19,771)
Adjustments involving the Capital Grants Unapplied Account:						
Amortisation of deferred grant credited to the Comprehensive Income and Expenditure Statement	*20,572	14,248	*(34,820)	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	*38,340	-	-	*(38,340)
Adjustments involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	24,862	-	-	(24,862)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	8,124	-	(8,124)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(952)	-	-	952	-	-
Adjustments involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(115)	-	-	-	-	115
Adjustment involving the Major Repairs Reserve:						
Reversal of HRA Depreciation	-	6,675	-	-	(6,675)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	3,139	(3,139)
Adjustments involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	96	-	-	-	-	(96)

	Usable Reserves					
2013/14	**General Fund Balance**	**Housing Revenue Account**	**Capital Grants Unapplied Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 43)	(35,467)	(107)	-	-	-	35,574
Employer's pensions contributions and direct payments to pensioners payable in the year	32,932	-	-	-	-	(32,932)
Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	301	-	-	-	-	(301)
Adjustment involving the Accumulated Absences Account:						
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	*160	8	-	-	-	*(168)
Total Adjustments	**[x]*(78,451)**	**[x](3,467)**	***3,520**	**(15,786)**	**(3,536)**	***97,720**

* Restated figures – see Note 2

9. Transfers to/from 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 2014/15.

	Balance as at 31 3 2013	**Transfers (from)/to Revenue**	**Transfers between reserves**	**Balance as at 31 3 2014**	**Transfers (from)/to Revenue**	**Transfers between reserves**	**Balance as at 31 3 2015**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Corporate Transformation (incl. Plusage) reserve	**22,966**	(7,317)	277	**15,926**	7,314	-	**23,240**
oneSource	**-**	750	-	**750**	507	-	**1,257**
Insurance reserve	**4,383**	-	-	**4,383**	353	-	**4,736**
Reserves for future capital schemes	**8,715**	(134)	-	**8,581**	349	-	**8,930**

	Balance as at 31 3 2013	Transfers (from)/to Revenue	Transfers between reserves	Balance as at 31 3 2014	Transfers (from)/to Revenue	Transfers between reserves	Balance as at 31 3 2015
	£000	£000	£000	£000	£000	£000	£000
Schools reserves	**1,372**	-	(1,258)	**114**	-	-	**114**
Legal reserve	**105**	(107)	2	**-**	256	-	**256**
Crematorium and Cemetery funds	**632**	(300)	-	**332**	99	-	**431**
Streetcare initiative	**-**	(1,000)	1,000	**-**	-	-	**-**
Social Care funding	**6,696**	1,974	-	**8,670**	(2,937)	-	**5,733**
Public Health reserve	**241**	1,061	-	**1,302**	459	-	**1,761**
Library Book Fund	**640**	(160)	-	**480**	(160)	-	**320**
Whole life costing Transport Fleet reserve	**189**	63	189	**441**	(7)	-	**434**
Other reserves	**2,751**	1,549	(210)	**4,090**	(2,689)	-	**1,401**
Totals	**48,690**	**(3,621)**	**-**	**45,069**	**3,544**	**-**	**48,613**

Corporate Transformation and oneSource Reserves
These reserves will continue to be used to fund strategic projects and the transformation agenda. Salary plusage is paid to officers with 25 years' service and employed by the Authority prior to 24th September 1997.

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.

Schools Reserves
Schools Reserves include School Bridge Funding to allow for the property market and delays in receipts resulting in a need to plan for temporary transitional borrowing prior to receipts being generated.

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. This covers:

(a) Fund created by fees
(b) Cemetery memorial fund

Social Care Funding
This is support for Social Care funding which local authorities receive from the NHS and 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.

Public Health Reserve
This reserve arose out of a transfer of Primary Care Trust funding for Drugs and Alcohol Action Team

services, a prior year accrual for income in 2012/13, and underspends against the Public Health grant. The intention is to use the reserve for Public Health initiatives.

Library Book Fund
This fund supports the renewal of library books.

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

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

10. Other Operating Expenditure

2013/14 £000 Restated		**2014/15 £000**
12,421	Levies	12,746
952	Payments to the Government Housing Capital Receipts Pool	1,048
*6,117	Gains/(losses) on the disposal of non-current assets	(3,075)
***19,490**	**Total**	**10,719**

* Restated figures – see note 2

11. Financing and Investment Income and Expenditure

2013/14 £000		**2014/15 £000**
7,846	Interest payable and similar charges	7,537
17,263	Pensions interest cost and expected return on pensions assets	15,584
(2,022)	Interest receivable and similar income	(1,256)
(2,348)	Income and expenditure in relation to investment properties	(2,407)
(65)	Changes in the fair value of financial assets	-
-	Changes in the fair value of investment properties	(1,120)
20,674	**Total**	**18,338**

12. Taxation and Non Specific Grant Income

2013/14 £000		**2014/15 £000**
(95,975)	Council tax income	(99,119)
(28,522)	National non-domestic rates income	(31,094)
(60,709)	Non ring-fenced government grants	(53,422)
(20,573)	Capital grants and contributions	(19,912)
(205,779)	**Total**	**(203,547)**

13. Property, Plant and Equipment

Movements in Balances 2014/15

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation							
At 31 March 2014	**343,455**	***332,027**	**35,787**	**129,870**	**3,980**	**6,781**	***851,900**
Additions	36,189	13,518	2,927	10,869	-	3,912	**67,415**
Impairment	(36,189)	(9,122)	-	-	-	-	**(45,311)**
Revaluation increases/(decreases) to:							
Revaluation Reserve	51,861	14,841	-	-	32	-	**66,734**
Capital Adjustment Account	1,333	786	-	-	9	-	**2,128**
Consolidated Income and Expenditure Statement	(5,848)	(34,446)	-	-	73	-	**(40,221)**
De-recognition – disposals	(3,604)	(10,166)	(162)	-	-	-	**(13,932)**
Assets reclassified	-	1,322	-	-	151	(3,889)	**(2,416)**
At 31 March 2015	**387,197**	**308,760**	**38,552**	**140,739**	**4,245**	**6,804**	**886,297**
Accumulated Depreciation and Impairment							
At 31 March 2014	**5,848**	***24,316**	**28,682**	**50,694**	**195**	**-**	***109,735**
Depreciation charge	6,572	6,476	1,733	5,712	58	-	**20,551**
Depreciation written out:							
Revaluations	(5,848)	(10,502)	(162)	-	73	-	**(16,439)**
Disposals	-	-	-	-	-	-	**-**
At 31 March 2015	**6,572**	**20,290**	**30,253**	**56,406**	**326**	**-**	**113,847**
Net Book Value							
At 31 March 2015	**380,625**	**288,470**	**8,299**	**84,333**	**3,919**	**6,804**	**772,450**
At 31 March 2014	**337,607**	***307,711**	**7,105**	**79,176**	**3,785**	**6,781**	***742,165**

Movements in Balances 2013/14

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation							
At 31 March 2013	**341,905**	***429,951**	**35,713**	**116,597**	**3,958**	**1,860**	***929,984**
Additions	32,120	*14,918	1,847	13,273	-	4,921	***67,079**
Impairment	(32,120)	(7,456)	-	-	-	-	**(39,576)**
Revaluation increases/(decreases) to:							
Revaluation Reserve	12,720	*(738)	-	-	18	-	***12,000**
Capital Adjustment Account	(10)	551	-	-	8	-	**549**
Consolidated Income and Expenditure Account	(7,903)	(85,959)	-	-	(4)	-	**(93,866)**
De-recognition – disposals	(3,257)	*(15,090)	(1,773)	-	-	-	***(20,120)**
Assets reclassified	-	(4,150)	-	-	-	-	**(4,150)**
At 31 March 2014	**343,455**	***332,027**	**35,787**	**129,870**	**3,980**	**6,781**	***851,900**
Accumulated Depreciation and Impairment							
At 31 March 2013	**5,815**	**31,654**	**26,624**	**45,079**	**150**	**-**	**109,322**
Depreciation charge	5,848	*7,409	3,190	5,615	45	-	***22,107**
Depreciation written out:							
Revaluations	(5,815)	(14,103)	-	-	-	-	**(19,918)**
Disposals	-	(644)	(1,132)	-	-	-	**(1,776)**
At 31 March 2014	**5,848**	***24,316**	**28,682**	**50,694**	**195**	**-**	***109,735**
Net Book Value							
At 31 March 2014	**337,607**	***307,711**	**7,105**	**79,176**	**3,785**	**6,781**	***742,165**
At 31 March 2013	**336,090**	***398,297**	**9,089**	**71,518**	**3,808**	**1,860**	***820,662**

* Restated figures – see note 2

Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in 2015/16.

31 March 2014 £000		31 March 2015 £000
	General Fund	
17,294	Arts, culture, sport and leisure	17,686
2,563	Roads, footways and bridges	2,102
16,487	Education capital schemes	23,702
3,397	Town centre and environmental Improvements	288
1,581	Office accommodation, equipment, ICT and vehicles	1,434
1,504	Housing and Public Protection	-
1,131	Other smaller General Fund schemes	1,419
43,957	**Total General Fund commitments**	**46,631**
11,212	Housing HRA	20,207
55,169	**Total commitments**	**66,838**

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 1 April 2014.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Carried at historical cost	-	-	8,299	84,333	2,108	6,804	**101,544**
Valued at fair value as at:							
1 April 2014	380,625	152,818	-	-	405	-	**533,848**
1 April 2013	-	71,522	-	-	965	-	**72,487**
1 April 2012	-	16,365	-	-	-	-	**16,365**

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
1 April 2011	-	15,057	-	-	302	-	**15,359**
1 April 2010	-	32,708	-	-	139	-	**32,847**
Total cost or valuation	**380,625**	**288,470**	**8,299**	**84,333**	**3,919**	**6,804**	**772,450**

14. Heritage Assets

Carrying value of heritage assets held by the Authority:

Cost or Valuation	Civic Regalia £000	Heritage Buildings £000	Total Assets £000
1 April 2013	**80**	**26**	**106**
Depreciation	-	-	-
31 March 2014	**80**	**26**	**106**
Depreciation	-	(1)	(1)
31 March 2015	**80**	**25**	**105**

15. Investment Properties and Assets Held for Sale

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.

2013/14 £000		2014/15 £000
2,758	Rental income from investment property	2,743
(410)	Direct operating expenses arising from investment property	(336)
2,348	**Net gain**	**2,407**

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.

2013/14 £000		2014/15 £000
33,728	**Opening Balance**	**34,619**
435	Revaluation gains from fair value adjustments	1,120
-	Additions	419
458	Assets reclassified	1,806
(2)	Disposal of investment properties	(383)
34,619	**Balance at end of the year**	**37,581**

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

2013/14 £000		2014/15 £000
11,990	**Opening Balance**	**7,519**
4,063	Revaluation gains from fair value adjustments	(303)
3,691	Assets reclassified	610
-	Depreciation	(18)
(12,225)	Disposal of Assets Held for Sale	(6,300)
7,519	**Balance at end of the year**	**1,508**

16. 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 licencses 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 £1.898m charged to revenue in 2014/15 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:

2013/14 £000	Intangible fixed assets software and system development	2014/15 £000
12,842	Gross carrying amounts	13,474
(8,019)	Less accumulated amortisation	(10,254)
4,823	**Net carrying amount at start of year**	**3,220**
632	Additions - purchases	211
(2,235)	Less amortisation for the period	(1,898)
3,220	**Net carrying amount at end of year**	**1,533**
	Comprising:	
13,474	Gross carrying amounts	13,685
(10,254)	Less accumulated amortisation	(12,152)

17. Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet.

	Long-term		Current	
	31 March 2015 £000	**31 March 2014 £000**	**31 March 2015 £000**	**31 March 2014 £000**
Investments				
Loans and receivables	6,000	-	138,500	102,501
Total investments	**6,000**	**-**	**138,500**	**102,501**
Debtors				
Financial assets carried at contract amounts	607	1,294	30,639	26,722
Total included in debtors	**607**	**1,294**	**30,639**	**26,722**
Borrowings				
Financial liabilities at amortised cost	211,410	210,234	271	401
Total borrowings	**211,410**	**210,234**	**271**	**401**
Finance lease liabilities				
Finance lease liabilities	-	-	-	46
Total finance lease liabilities	**-**	**-**	**-**	**46**
Total Borrowings and Liabilities	**211,410**	**210,234**	**271**	**447**
Creditors				
Financial liabilities at amortised cost	449	795	39,921	39,235
Total included in creditors	**449**	**795**	**39,921**	**39,235**

Fair value of assets and liabilities carried at amortised cost

Loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

For loans from the Public Works Loans Board (PWLB) and other loans payable, premature repayment rates from PWLB have been applied to provide the fair value under PWLB debt redemption procedures:

- no early repayment or impairment is recognised; and
- the fair value of trade debtors and creditors is taken to be the invoiced or billed amount.

Details of carrying amount and fair value are shown below:

	Interest rates	Carrying Amount	Fair Value
	%	31 March 2015 £000	31 March 2015 £000
PWLB debt	3.6	203,566	264,211
Market loan	3.6	7,092	8,307
Other long-term borrowing		752	752
Temporary borrowing	0.4	271	271
Total debt		**211,681**	**273,541**
Creditors less than 1 year		39,921	39,921
Long-term creditors		449	449
Total financial liabilities		**252,051**	**313,911**
Investments		144,500	145,327
Debtors less than 1 year		30,639	30,639
Long-term debtors		607	607
Total liabilities less receivables		**76,305**	**137,338**

Comparative figures as at 31 March 2014 were as follows:

	Interest rates	Carrying Amount	Fair Value
	%	31 March 2014 £000	31 March 2014 £000
PWLB debt	3.6%	203,234	218,658
Market Loan	3.6%	7,000	8,215
Temporary borrowing	0.4%	401	401
Finance lease liability		46	46
Total debt		**210,681**	**227,320**
Creditors less than 1 year		31,644	31,644
Long-term creditors		670	670
Total financial liabilities		**242,995**	**259,634**
Investments		102,501	103,035
Debtors less than 1 year		26,722	26,722
Long-term debtors		1,294	1,294
Total liabilities less receivables		**112,478**	**128,583**

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

The purpose of this valuation is to enable the user to evaluate quantitatively the Authority's financial position and performance.

Methodology and Assumptions

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms. The discount rate used in the NPV calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation. The structure and terms of the comparable instrument should be the same, although for complex structures it is sometimes difficult to obtain.

Discount rates used in NPV calculation

The rates used in this valuation were obtained from financial markets on 31 March 2015, using bid prices where applicable.

Assumptions

It is noted that the following assumptions do not have a material effect on the fair value of the instrument:

- interest is calculated using the most common market convention ACT/365;
- where interest is paid/received every 6 months on a day basis, the value of interest is rounded to 2 equal instalments;
- for fixed term deposits it is assumed that interest is received on maturity, or annually if duration is

greater than one year; and

- the interest value and date has not been adjusted where a relevant date occurs on a non-working day.

18. Inventories

Stocks comprise Highways (tools, clothing, guard rails and materials), Fleet Stores (fuel and vehicle parts), Gritting (salt), and Catering (foodstuffs / perishables).

2013/14 £000		2014/15 £000
344	**Total balance at start of year**	**297**
(47)	Movement in the year	(29)
297	**Total balance at year end**	**268**

19. Short-Term Debtors

31 March 2013 £000		31 March 2014 £000			31 March 2015 £000	
				Collection Fund Debtors		
14,675		12,946		Council tax payers	13,646	
(9,157)	5,518	(8,269)	4,677	*Less* impairment allowance	(7,591)	6,055
-		1,852		Business rate Payers	1,984	
-	-	(1,067)	785	*Less* impairment allowance	(1,065)	919
	614		-	Greater London Authority (GLA)		-
	2,932		-	Central Government (NNDR)		-
				Other Debtors		
	*3,480		*6,351	Government departments		7,353
	12,164		10,502	Capital		13,325
4,784		4,680		Housing	6,111	
(4,194)	590	(3,687)	993	*Less* impairment allowance	(4,402)	1,709
7,284		8,425		Housing benefit	10,645	
(4,389)	2,895	(5,256)	3,169	*Less* impairment allowance	(6,260)	4,385
4,629		5,216		Social Services	6,538	
(1,689)	2,940	(1,463)	3,753	*Less* impairment allowance	(1,212)	5,326
1,939		1,898		Parking	1,823	
(1,470)	469	(1,379)	519	*Less* impairment allowance	(1,347)	476
	1,091		754	Other local authorities		595
	748		915	Health authorities		567
*12,399		*11,628		Other sundry debtors	10,710	
(607)	*11,792	(2,091)	*9,537	*Less* impairment allowance	(2,068)	8,642
	***45,233**		***41,955**	**Total long-term debtors**		**49,352**

* Restated figures – see note 2

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

20. Cash and Cash Equivalents

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

31 March 2013 £000	31 March 2014 £000		31 March 2015 £000
659	2,310	Cash held by the authority	1,333
*13,182	*11,465	Schools – under the LMS cheque book scheme	10,466
14,719	26,478	Short-term deposits with banks – call accounts	14,589
***28,560**	***40,253**	**Cash at hand**	**26,388**
(1,256)	**1,412**	Bank current accounts	**4,053**
***27,304**	***41,665**	**Total cash and cash equivalents**	**30,441**

* Restated figures – see note 2

21. Short-Term Creditors

31 March 2013 £000	31 March 2014 £000		31 March 2015 £000
		Collection Fund creditors	
3,932	4,778	Council tax payers	5,528
-	1,772	NNDR payers	1,111
-	1,580	GLA	1,577
-	3,085	Central Government (NNDR)	1,808
		Other Creditors	
*5,393	*2,838	Central Government	6,521
3,398	3,066	HMRC	2,961
3,475	7,591	Pension Fund	5,298
3,988	4,620	Capital creditors	4,028
*21,245	*23,786	Other sundry creditors	31,914
*3,692	*4,227	Income in advance	3,978
***45,123**	***57,343**	**Total**	**64,724**

* Restated figures – see note 2

22. Provisions

	Self-Insurance £000	Collection Fund £,000	Other Provisions £000	Total £000
Balance at 31 March 2014	**5,729**	**1,765**	**388**	**7,882**
Additional provisions made in 2014/15	-	596	-	**596**
Amounts used in 2014/15	-	(1,466)	-	**(1,466)**
Transfers to revenue	(1,150)	-	(250)	**(1,400)**
Balance at 31 March 2015	**4,579**	**895**	**138**	**5,612**

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 were public and employer's liability (£159,000), motor vehicles (£153,000) and property (£50,000).

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

Collection Fund Provision

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

Other Provisions

These consist of Leasing Dilapidations £133,000 (£133,000 31 March 2014) for office premises previously leased by the Authority and £5,000 (£5,000 31 March 2014) to fund pay equalisation responsibilities towards staff formerly based at Purfleet Depot. The provision of £250,000 (as at 31 March 2014) for Carbon Reduction Commitment was released in 2014/15 as the Authority is no longer deemed to be a high energy user and is therefore not now required to participate in the Government scheme.

23. Usable Reserves

31 March 2013 £000	31 March 2014 £000		31 March 2015 £000
*29,732	*27,466	General Fund balance	26,392
48,690	45,069	Earmarked reserves	48,613
10,223	6,953	Housing Revenue Account balance	8,670
*20,878	*17,358	Capital Grants Unapplied	15,311
20,889	36,675	Capital Receipts Reserve	55,203
6,206	9,742	Major Repairs Reserve	17,267
***136,618**	***143,263**	**Total usable reserves**	**171,456**

* Restated figures – see note 2

The General Fund balance can be further analysed as follows:

31 March 2013 £000	31 March 2014 £000		31 March 2015 £000
11,768	11,766	General Fund	11,766
2,728	2,847	General reserves	2,748
14,496	**14,613**	**Sub Total**	**14,514**
*12,322	*11,164	Schools balances	10,214
2,914	1,689	Centrally held schools balances (see Note 34)	1,664
***29,732**	***27,466**	**Total General Fund balance**	**26,392**

* Restated figures – see note 2

General reserves 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.

24. Unusable Reserves

31 March 2013 £000	31 March 2014 £000		31 March 2015 £000
134,002	*131,704	Revaluation Reserve	192,301
*496,988	*417,148	Capital Adjustment Account	383,766
(1,208)	(1,112)	Financial Instruments Adjustment Account	(1,015)
(385,484)	(382,439)	Pensions Reserve	(421,209)
1,321	1,206	Deferred Capital Receipts Reserve	462
(358)	(57)	Collection Fund Adjustment Account	3,490
*(4,696)	*(4,529)	Accumulated Absences Account	(3,816)
240,565	**161,921**	**Total unusable reserves**	**153,979**

* Restated figures – see note 2

a) Revaluation Reserve

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

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

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

31 March 2014 £000		31 March 2015 £000
134,002	**Balance at 1 April**	***131,704**
*13,389	Net gain on revaluation of fixed assets	68,627
(15,687)	Amount written off to the Capital Adjustment Account	(8,030)
***131,704**	**Balance at 31 March**	**192,301**

* Restated figure – see note 2

b) 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 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2013/14 £000		2014/15 £000
***496,988**	**Balance at 1 April**	***417,148**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
*(132,099)	• Net charges for depreciation and impairment of non-current assets	(89,718)
550	• Reversal of revaluation losses on Property, Plant and Equipment	-
(2,235)	• Amortisation of intangible assets	(1,898)

2013/14 £000		2014/15 £000
*(1,695)	• Revenue expenditure funded from capital under statute	(1,406)
*(31,215)	• 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	(20,452)
15,688	Adjusting amounts written out of the Revaluation Reserve	8,030
***(151,006)**	**Net written out amount of the cost of non-current assets consumed in the year**	**(105,444)**
	Capital financing applied in the year:	
8,124	• Use of the Capital Receipts Reserve to finance new capital expenditure	4,695
3,139	• Use of the Major Repairs Reserve to finance new capital expenditure	-
*38,340	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	46,142
1,357	• Statutory provision for the repayment of debt	1,489
19,771	• Capital expenditure charged against the General Fund and HRA balances	18,616
***70,731**		**70,942**
435	**Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement**	**1,120**
***417,148**	**Balance at 31 March**	**383,766**

* Restated figures – see note 2

c) 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.

2013/14 £000		2014/15 £000
(1,208)	**Balance at 1 April**	(1,112)
96	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	97
(1,112)	**Balance at 31 March**	**(1,015)**

d) 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.

2013/14 £000		2014/15 £000
(385,484)	**Balance at 1 April**	**(382,439)**
5,687	Actuarial gains or (losses) on pensions assets and liabilities	(27,419)
(35,574)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(34,183)
32,932	Employer's pensions contributions and direct payments to pensioners payable in the year	22,832
(382,439)	**Balance at 31 March**	**(421,209)**

e) 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.

2013/14 £000		2014/15 £000
1,321	**Balance at 1 April**	**1,206**
(115)	Transfer to the Capital Receipts Reserve upon receipt of cash	(744)
1,206	**Balance at 31 March**	**462**

f) 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.

2013/14 £000		2014/15 £000
(358)	**Balance at 1 April**	**(57)**
301	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	3,547
(57)	**Balance at 31 March**	**3,490**

g) 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.

2013/14 £000		2014/15 £000
***(4,696)**	**Balance at 1 April**	**(4,529)**
*4,696	Settlement or cancellation of accrual made at the end of the preceding year	4,529
*(4,529)	Amounts accrued at the end of the current year	(3,816)
*167	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	713
***(4,529)**	**Balance at 31 March**	**(3,816)**

* Restated figures – see note 2

25. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2013/14 £000		2014/15 £000
(2,211)	Interest received	(1,173)
7,570	Interest paid	7,623
5,359	**Balance at 31 March**	**6,450**

2013/14 £000		2014/15 £000
*(132,132)	Depreciation, impairment and downward revaluation	(89,718)
(2,235)	Amortisation	(1,898)
*(12,220)	Increase in creditors	(7,381)
(670)	(Increase)/decrease in long-term creditors	155
*1,316	Increase in debtors	1,027
(23)	Decrease in long-term debtors	(687)
(47)	Decrease in inventories	(29)
(2,642)	Movement in pension liability	(11,351)
(1,420)	(Increase)/decrease in provisions	2,270
*(31,215)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(20,452)
448	Other non-cash items charged to the net surplus or deficit on the provision of services	(464)
***(180,840)**	**Net cash flows from operating activities**	**(128,528)**

* Restated figures – see note 2

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

2013/14 £000		2014/15 £000
34,820	Capital grants credited to the Consolidated Income and Expenditure Statement	44,095
25,099	Proceeds from sale of fixed assets	23,528
59,919	**Adjustment for items included in the net surplus or deficit on the provisions of services that are investing and financing activities**	**67,623**

26. Cash Flow Statement – Investing Activities

2013/14 £000		2014/15 £000
*67,712	Purchase of property, plant and equipment, investment property and intangible assets	69,453
747,493	Purchase of short-term and long-term investments	826,785
(24,862)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(23,528)
(39,999)	Capital grants received	(39,299)
(745,395)	Proceeds from short-term and long-term investments	(784,786)
(2,932)	Other receipts from investing activities	3,547
***2,017**	**Net cash flows from investing activities**	**52,172**

* Restated figures – see note 2

27. Cash Flow Statement – Financing Activities

2013/14 £000		2014/15 £000
(101)	Cash receipts of short-term and long-term borrowing	(34,827)
13,569	Repayments of short-term and long-term borrowing	33,827
13,468	**Net cash flows from financing activities**	**(1,000)**

28. Amounts Reported for Resource Allocation Decisions

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

- transfers to and from reserves are included within the Directorate Income and Expenditure Statement whereas these items are excluded from the Comprehensive Income and Expenditure Statement and are subsequently reported within the Movement in Reserves Statement; and
- levies are included within the Directorate Income and Expenditure Statement but are excluded from the Cost of Services line of the Comprehensive Income and Expenditure Statement. These are reported as Other Operating Expenditure within that statement.

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

Directorate Income and Expenditure 2014/15	Communities and Resources £000	Public Health £000	Children, Adults and Housing £000	oneSource £000	oneSource non shared £000	Total £000
Fees, charges and other service income	(17,293)	(66)	(84,719)	(5,047)	(9,679)	**(116,804)**
Government grants	(23,071)	(9,717)	(170,109)	-	(91,481)	**(294,378)**
Total income	**(40,364)**	**(9,783)**	**(254,828)**	**(5,047)**	**(101,160)**	**(411,182)**
Employee expenses	27,370	1,516	143,785	18,995	4,570	**196,236**
Other service expenses	44,136	8,290	246,734	(10,018)	96,693	**385,835**
Total expenditure	**71,506**	**9,806**	**390,519**	**8,977**	**101,263**	**582,071**
Net expenditure	**31,142**	**23**	**135,691**	**3,930**	**103**	**170,889**

Directorate Income and Expenditure 2013/14	Culture, Community and Economic Development £000	Public Health £000	Children, Adults and Housing £000	Resources £000	Total £000
Fees, charges and other service income	(10,281)	(34)	*(19,048)	(10,774)	***(40,137)**
Government grants	(17,794)	(8,833)	(205,936)	(91,032)	**(323,595)**
Total income	**(28,075)**	**(8,867)**	***(224,984)**	**(101,806)**	***(363,732)**
Employee expenses	28,739	1,412	*138,357	27,493	***196,001**
Other service expenses	45,504	7,655	*277,601	11,192	***341,952**
Total expenditure	**74,243**	**9,067**	***415,958**	**38,685**	***537,953**
Net expenditure	**46,168**	**200**	***190,974**	**(63,121)**	***174,221**

* Restated figures – see note 2

Reconciliation to Subjective Analysis

Reconciliation of directorate income and expenditure to cost of services in the comprehensive income and expenditure statement.

2014/15	Directorate Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CI & ES £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	(116,804)	4,783	-	**(112,021)**	-	**(112,021)**
Interest and investment income	-	(97)	-	**(97)**	(4,783)	**(4,880)**

2014/15	Directorate Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CI & ES £000	Cost of Services £000	Corporate Amounts £000	Total £000
Income from council tax	-	-	-	**-**	(99,119)	**(99,119)**
Income from non-domestic rates	-	-	-	**-**	(31,094)	**(31,094)**
Government grants and contributions	(294,378)	(27,730)	-	**(322,108)**	(73,334)	**(395,442)**
Total income	**(411,182)**	**(23,044)**	**-**	**(434,226)**	**(208,330)**	**(642,556)**
Employee expenses	196,236	10,638	-	**206,874**	-	**206,874**
Other service expenses	385,835	(49,721)	(4,187)	**331,927**	-	**331,927**
Depreciation, amortisation and impairment	-	91,616	-	**91,616**	-	**91,616**
Interest payments	-	-	-	**-**	23,121	**23,121**
Levies	-	-	-	**-**	12,746	**12,746**
Payments to Housing Capital Receipts Pool	-	-	-	**-**	1,048	**1,048**
Gain or loss on disposal of fixed assets	-	(744)	-	**(744)**	(3,075)	**(3,819)**
Total expenditure	**582,071**	**51,789**	**(4,187)**	**629,673**	**33,840**	**663,513**
Deficit or (surplus) on the provision of services	**170,889**	**28,745**	**(4,187)**	**195,447**	**(174,490)**	**20,957**

Comparative figures for 2013/14 are as follows:

2013/14	Directorate Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CI & ES £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	*(40,137)	16,785	-	***(23,352)**	-	***(23,352)**
Interest and investment income	-	(96)	4,435	**4,339**	(4,435)	**(96)**
Income from council tax	-	-	-	**-**	(95,975)	**(95,975)**
Income from non-domestic rates	-	-	-	**-**	(28,522)	**(28,522)**
Government grants and contributions	(323,595)	(35,122)	20,573	**(338,144)**	(81,282)	**(419,426)**
Total income	***(363,732)**	**(18,433)**	**25,008**	***(357,157)**	**(210,214)**	***(567,371)**

2013/14	Directorate Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CI & ES £000	Cost of Services £000	Corporate Amounts £000	Total £000
Employee expenses	*196,001	2,470	-	***198,471**	-	***198,471**
Other service expenses	*341,952	(60,894)	-	***281,058**	-	***281,058**
Depreciation, amortisation and impairment	-	*134,082	-	***134,082**	-	***134,082**
Interest payments	-	-	-	**-**	25,109	**25,109**
Levies	-	-	-	**-**	12,421	**12,421**
Payments to Housing Capital Receipts Pool	-	-	-	**-**	952	**952**
Gain on disposal of fixed assets	-	236	-	**236**	*6,117	***6,353**
Total expenditure	***537,953**	***75,894**	**-**	***613,847**	***44,599**	***658,446**
Deficit or (surplus) on the provision of services	***174,221**	***57,461**	**25,008**	***256,690**	***(165,615)**	***91,075**

* Restated figures – see note 2

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2013/14 £000		2014/15 £000
*174,221	Net expenditure in the Directorate analysis	170,889
*82,469	Net expenditure of services and support services not included in the analysis (including movement in Housing Revenue Account balance)	24,558
***256,690**	**Cost of services in Comprehensive Income and Expenditure Statement**	**195,447**

* Restated figures – see note 2

29. Trading Operations

2013/14 (Surplus)/ Deficit £000		2014/15 Income £000	2014/15 Expenditure £000	2014/15 (Surplus)/ Deficit £000
	a) Open Air Market			
(316)	The Authority operates an open air market three days a week	(574)	975	401
	b) Other Trading Accounts			
(330)	Highways	(4,054)	3,666	(388)
800	Schools/Welfare Catering	(6,660)	7,141	481

The Market expenditure figure for 2014/15 includes impairment costs of £277k relating to the Market revaluation adjustment. The comparable figure for 2013/14 was £334k credit.

Highways cost recovery rates were reviewed in 2014/15, resulting in the increase in net surplus of £58k.

The Catering Service has a £441k surplus before overheads and a revenue contribution to capital in 2014/15. The deficit once overheads are applied is £481k. The improvement in financial performance is due mostly to the introduction of universal free school meals which has increased the numbers of meals taken and resulted in a reduction of costs to produce each meal. Income has increased by £924k and expenditure by £672k, a net increase in the trading surplus of £252k. A £200k revenue to capital virement was actioned to invest in ICT to improve the service and reduce waste through increased efficiency in ordering and stock control. Overheads reduced by £67k in 2014/15 to £922k.

30. Pooled Budgets

Mental Health

Under the National Health Services Act 2006 and Local Government Acts 1972 and 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 and Social Care Services, for Adults with Mental Health issues who qualify for such provision.

2013/14 £000		**2014/15 £000**
	Funding	
1,693	Section 75 Joint Pooled Budget between LBH and NELFT	1,693
332	Recharges (excluded from the Pooled Budget)	257
1,198	Non Pooled Budget codes	1,221
3,223	**Total funding**	**3,171**
3,154	**Final outturn**	**3,256**

31. Members' Allowances

Payments in the year were £994,475 including expenses (£1,103,617 in 2013/14). Additionally, payments to co-opted Members totalled £3,106 (£3,340 in 2013/14).

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:

			2014/15			**2013/14**		
Lower Band		Upper Band	Schools	Other	**Total**	Schools	Other	**Total**
£50,000	-	£55,000	42	25	**67**	39	27	**66**
£55,000	-	£60,000	18	11	**29**	31	8	**39**
£60,000	-	£65,000	24	17	**41**	15	18	**33**
£65,000	-	£70,000	22	13	**35**	17	18	**35**

			2014/15			2013/14		
Lower Band		Upper Band	Schools	Other	**Total**	Schools	Other	**Total**
£70,000	-	£75,000	6	4	**10**	8	5	**13**
£75,000	-	£80,000	5	6	**11**	2	4	**6**
£80,000	-	£85,000	6	3	**9**	8	2	**10**
£85,000	-	£90,000	3	2	**5**	2	4	**6**
£90,000	-	£95,000	2	6	**8**	1	4	**5**
£95,000	-	£100,000	1	3	**4**	-	1	**1**
£100,000	-	£105,000	1	1	**2**	-	2	**2**
£105,000	-	£110,000	-	3	**3**	-	2	**2**
£110,000	-	£115,000	-	-	**-**	-	1	**1**
£115,000	-	£120,000	-	-	**-**	-	-	**-**
£120,000	-	£125,000	-	1	**1**	-	-	**-**
£125,000	-	£130,000	-	-	**-**	-	3	**3**
£130,000	-	£135,000	-	-	**-**	-	-	**-**
£135,000	-	£140,000	-	-	**-**	-	-	**-**
£140,000	-	£145,000	-	-	**-**	-	-	**-**
£145,000	-	£150,000	-	1	**1**	-	-	**-**
£150,000	-	£155,000	-	-	**-**	-	1	**1**
£155,000	-	£160,000	-	-	**-**	-	-	**-**
£160,000	-	£165,000	-	-	**-**	-	1	**1**
			130	**96**	**226**	**123**	**101**	**224**

The table includes staff who are the subject of additional disclosures 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 Management 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 2014/15 £	Employer's pension contribution £	Total Remuneration including pension contributions 2014/15 £
Chief Executive - C Coppell	1	138,785	19,955	**158,740**	-	**158,740**
Group Director of Culture, Community and Economic Development	2	120,779	-	**120,779**	7,851	**128,630**
Group Director of Communities and Resources	3	67,292	-	**67,292**	10,498	**77,790**
Group Director of Resources and Joint Managing Director of oneSource	4	65,000	-	**65,000**	10,140	**75,140**
Group Director of Children, Adults and Housing		149,167	-	**149,167**	23,270	**172,437**
Assistant Chief Executive Legal and Democratic Services	5	35,455	-	**35,455**	5,531	**40,986**
Group Director of Public Health	6	80,640	-	**80,640**	-	**80,640**
Total		**657,118**	**19,955**	**677,073**	**57,290**	**734,363**

Note 1 The Chief Executive (Cheryl Coppell) reduced her working days from 5 days to 3 days a week from the beginning of December 2014. At the same date, she also took a voluntary reduction in remuneration, at which point her full time equivalent salary fell from £163k to £147k.

In her role as the Returning Officer, the Chief Executive received a sum of £19kfor the Local Elections and the European Parliamentary Elections in May 2014.

Note 2 The Group Director of Culture, Community and Economic Development (CCED) left the Authority in December 2014. Her full time equivalent salary would have been £130k.

Note 3 Following the departure of Group Director of CCED, the Authority carried out a directorate level restructure. The Group Director of Resources assumed responsibility for the new Directorate of Communities and Resources. The full time equivalent salary for the new role is £137k.

Note 4 The Group Director of Resources was also Joint Managing Director of oneSource until the beginning of October 2014. His full time equivalent salary in this role would have been £130k.

Note 5 The Assistant Chief Executive Legal and Democratic Services left the Authority in June 2014. His full time equivalent salary would have been £114k. The post is being covered on an agency basis until the recruitment process has been completed.

Note 6 The acting Director of Public Health was in this role until mid-February 2015. His full time equivalent salary in this role would have been £92k.

The comparative figures for 2013/14 are as follows:

Post Holder Information	Salary £	Other Payments £	Total Remuneration excluding pension contributions 2013/14 £	Employer's Pension contribution £	Total Remuneration including pension contributions 2013/14 £
Chief Executive – C Coppell	163,920	-	**163,920**	-	**163,920**
Group Director of Culture, Community and Economic Development	130,000	-	**130,000**	20,280	**150,280**
Group Director of Resources	130,000	-	**130,000**	20,280	**150,280**
Group Director of Children, Adults and Housing	150,000	-	**150,000**	23,400	**173,400**
Assistant Chief Executive Legal and Democratic Services	111,390	-	**111,390**	17,377	**128,767**
Group Director of Public Health	129,670	-	**129,670**	-	**129,670**
Total	**814,980**	**-**	**814,980**	**81,337**	**896,317**

33. External Audit Costs

The following fees relating to external audit and inspection were included in the 2014/15 accounts:

2013/14 £000		2014/15 £000
221	Fees payable with regard to external audit services carried out by appointed auditor	202
23	Fees payable for the certification of grant claims and returns carried out by the appointed auditor	22
244	**Total for year**	**224**

An additional charge of £38k for other services provided by external auditors during 2014/15 will be paid in 2015/16.

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 2014/15 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	Individual Schools Budget £000	Totals £000
Final DSG for 2014/15 before academy recoupment			193,934
Less academy figure recouped for 2014/15			(72,861)
Total DSG after academy recoupment for 2014/15			**121,073**
Plus: brought forward from 2013/14			1,689
Less: carry forward to 2014/15 agreed in advance			-
Agreed initial budgeted distribution for 2014/15	**22,922**	**99,840**	**122,762**
In year adjustments	(1,698)	1,698	-
Final budgeted distribution for 2014/15	**21,224**	**101,538**	**122,762**
Actual central expenditure	(19,560)	-	(19,560)
Actual ISB deployed to schools	-	(101,538)	(101,538)
Carry forward to 2015/16	**1,664**	**-**	**1,664**

£247k has been received in 2015-16 in respect of 2014/15 Early Years Funding; this is therefore not showing on the note and is not part of the carry forward.

Comparative figures for 2013/14 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	Individual Schools Budget £000	Totals £000
Final DSG for 2013/14 before academy recoupment			189,313
Less academy figure recouped for 2013/14			(66,628)
Total DSG after academy recoupment for 2013/14			122,685
Plus: brought forward from 2012/13			2,914
Less: carry forward to 2013/14 agreed in advance			-

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure	**Individual Schools Budget**	**Totals**
Agreed initial budgeted distribution for 2013/14	**22,297**	**103,302**	**125,599**
In year adjustments	(3,013)	3,013	-
Final budgeted distribution for 2013/14	**19,284**	**106,315**	**125,599**
Actual central expenditure	(17,595)	-	(17,595)
Actual ISB deployed to schools	-	(106,315)	(106,315)
Carry forward to 2014/15	**1,689**	**-**	**1,689**

35. Grant Income

a) The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

2013/14 £000		**2014/15** £000
Credited to Taxation and Non Specific Grant Income		
45,378	Revenue Support Grant	38,890
9,032	Redistributed Business Rates	9,208
1,098	Council Tax Freeze Grant	1,083
14,234	Non ring fenced Grant	13,449
20,573	Capital Grants	19,912
90,315	**Total**	**82,542**
Credited to Services		
	Rent Allowances	56,113
35,267	HRA Rent Rebates	34,327
14,248	Decent Homes Grant	24,183
8,833	Public Health Grant	9,717
122,685	Dedicated Schools Grant	121,130
7,341	Learning Skills Authority's / Young People Learning Agency	9,214
-	Universal Free School Meals	1,598
-	Additional Funding For Schools –Primary School Sports Funding	513
1,449	Revenues and Benefits	19
3,403	Other	3,656
248,526	**Total**	**260,470**

Current Liabilities

b) Capital Grants – receipts in advance:

2013/14 £000		2014/15 £000
7,625	Brought forward	11,142
6,215	Amounts received in year	1,895
(2,698)	Amounts applied to meet new capital investment	(3,868)
11,142	**Carried forward**	**9,169**

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.

Organisations	Member	Payments to Organisations by the Authority £000	Balance Outstanding £000	Income £000	Income Outstanding £000
East London Waste Authority	Cllr S Kelly Cllr R Benham	12,738	500	972	59
Age Concern: Havering	Cllr V Persaud Cllr J Alexander Cllr S Kelly	798	1	(1)	-
Havering Theatre Trust	Cllr R Ramsey Cllr G Ford Cllr P Rumble	484	-	-	-
BT Global Services[1]	Cllr M White	255	-	54	-
First Step	Cllr L Van den Hende	161	2	2	-
Havering College of Further Education[2]	Cllr P Rochford	103	-	32	-
Havering Association for People with Disabilities	Cllr L Van den Hende Cllr N Dodin Cllr S Kelly	93	-	-	-
Local Government Association	Cllr G Ford Cllr C Barrett	59	-	-	-
Veolia North Thames Trust	Cllr R Benham	12	-	-	27
Havering Museum Ltd	Cllr F Thompson Cllr W Brice-Thompson	9	-	-	-
Havering Arts Council	Cllr J Chapman Cllr D White Cllr L Hawthorn	4	-	-	-
Essex Wildlife Trust[3]	Cllr G Starns	1	-	49	-

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.

2. Related party transactions relate to the period of April and May 2014, as Cllr P Rochford was not re-elected in the May 2014 elections.
3. Related party transactions relate to the period of April and May 2014, as Cllr G Starns was not re-elected in the May 2014 elections.

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 10 Other operating expenditure: levies ;
Note 12 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

On 1 April 2014, the London Boroughs of Havering and Newham created a new public sector shared back-office support service which is supported by members through a joint committee who receive key reports and make strategic decisions about its operation. oneSource has brought together 22 services and 1350 staff from both authorities. oneSource was created with a view to making savings by eliminating duplication, reducing senior management costs and introducing more efficient processes. oneSource provides almost all the support services for the two authorities including HR, ICT, Finance, Legal services, Exchequer and Transactional, Asset Management and Business services

The oneSource out-turn for 2014/15 is disclosed below indicating the share falling to each of the authorities. The LBH share is charged against the Consolidated Income and Expenditure Statement.

oneSource	**£000**
Net Expenditure	
Exchequer and Transactional Services	17,636
Finance	8,009
Business Services	1,361
Legal and Governance	4,957
ICT	10,092
Asset Management	2,438
Strategic and Operational HR	3,251
Total Net Expenditure	**47,744**
Cost Sharing:	
London Borough of Newham	28,823
London Borough of Havering	18,921

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

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

Shared OneSource role	Employing organisation	Period
Managing Director	London Borough of Newham	October 2014 to March 2015
Joint Managing Director	London Borough of Newham	April 2014 to October 2014
Joint Managing Director	London Borough of Havering	April 2014 to October 2014
Director of Asset Management	London Borough of Havering	April 2014 to March 2015
Director of Exchequer and Transactional	London Borough of Havering	April 2014 to March 2015
Acting Director of Legal and Governance	London Borough of Havering	April 2014 to March 2015
Director of Human Resources	London Borough of Havering	April 2014 to March 2015
Director of Business Development	London Borough of Havering	April 2014 to March 2015
Director of Finance	London Borough of Newham	April 2014 to March 2015
Director of ICT	London Borough of Newham	April 2014 to March 2015

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:

2013/14 £000	Capital Expenditure	2014/15 £000
66,795	Property, plant and equipment	67,835
632	Intangible fixed assets	212
1,695	Revenue expenditure funded from capital under statute	1,406
69,122	**Total capital expenditure**	**69,453**
	Less financed from	
(8,124)	Capital receipts	(4,695)
(3,139)	Major repairs	-
(19,771)	Revenue funds	(18,615)
(38,088)	Grants and contributions	(46,143)
-	**Increase in need to borrow supported by Government**	**-**

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

31 March 2014 £000	Capital Financing Requirement	31 March 2015 £000
755,350	Tangible fixed assets	811,645
3,219	Intangible assets	1,533
(127,860)	Revaluation Reserve	(192,301)
(391,933)	Capital Adjustment Account	(383,766)
(762)	Finance lease and other long-term liabilities	(586)
238,014	**Net requirement**	**236,525**

38. Leases

<u>Authority as Lessee</u>

Finance Leases

The Authority acquired vehicles and plant under finance leases. Additionally, a number of Schools entered into operating lease arrangements for ICT and other equipment prior to the implementation of IFRS on *1 April 2010 and these were* subsequently re-categorised as finance leases. These leases came to an end in 2014/15.

The assets acquired under these leases were carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2014 £000	Vehicles, Plant, Furniture and Equipment	31 March 2015 £000
22	Schools	-
22	**Net asset values**	**-**

The Authority was committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remained outstanding. There were no payments in 2014/15.

31 March 2014 £000	Finance lease liabilities (net present value of minimum lease payments)	31 March 2015 £000
46	Current	-
17	Finance costs payable in future years	-
63	**Minimum lease payments**	**-**

The minimum lease payments payable over the following periods are as follows:

	Finance Lease Liabilities		Minimum Lease Payments	
	31 March 2014 £000	**31 March 2015 £000**	**31 March 2014 £000**	**31 March 2015 £000**
Not later than one year	46	-	63	-
Later than one year	-	-	-	-
	46	**-**	**63**	**-**

Operating Leases

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

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

31 March 2014 £000		**31 March 2015 £000**
305	Not later than one year	890
314	Later than one year and not later than five years	1,594
-	Later than five years	382
619	**Minimum Lease Payments**	**2,866**

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

2013/14 £000		**2014/15 £000**
323	Children's and Education Services	969
63	Highways, Roads and Transport Services	43
386	**Minimum lease payments**	**1,012**

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 2014 £000		**31 March 2015 £000**
179	Not later than one year	202
609	Later than one year and not later than five years	508
-	Later than five years	134
788	**Minimum lease payments**	**844**

The minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.219m (£0.356m in 2013/14). In most cases these rents are charged to Central Support Services and subsequently recharged to the appropriate Service in accordance with the *SeRCOP*.

39. Long-term Creditors

On the 16th May 2003 the Authority entered into a Public Private Partnership (PPP) with Johnson Controls Limited (the provider) for the provision of an essential energy project at three secondary schools (Bower Park, Brittons and Hall Mead). The provider is responsible for upgrading, managing and the maintenance of energy services and controls. The duration of the contract is 15 years.

The initial capital investment was £3.2m from the Authority and £1.6m from the provider. Completion of the capital investment was on 18th November 2005 for Hall Mead and 26h April 2005 for the other two schools.

The schools involved in the PPP contract have now converted to academies and are therefore not included in the Authority's Balance Sheet. The Authority has therefore had to dispose of the assets under the PPP contract in line with other academy conversions but the PPP liabilities remain with the Authority.

The assets had a net book value of £640k prior to disposal at zero consideration, therefore the full amount was charged to the Comprehensive Income and Expenditure Statement in 2013/14 as loss on disposal.

Contract payments in 2014/15 total £164,000, of which £34,000 was allocated to financing costs and £130,000 to reduce the liability in accordance with requirements of the IFRS Code of Practice.

The PPP liabilities have been reclassified as a long-term creditor on the Balance Sheet and amounts repayable are detailed in the table below.

Total Liability Payable Under the PPP Contract:

31 March 2014 £000		31 March 2015 £000
130	Not later than one year	136
585	Later than one year and not later than five years	449
715	**Total**	**585**

Long-term creditors also include the Mayoral Community Infrastructure Levy (CIL). The Mayor of London has exercised his power to charge CIL across the whole of London, specifically to assist in the funding of the Crossrail project.

31 March 2014 £000		31 March 2015 £000
585	PPP Lease liability	449
85	Mayoral CIL	66
670	**Long-term creditors**	**515**

40. Impairment Losses

During 2014/15, the Authority has recognised an impairment loss of £23.9m in the Comprehensive Income and Expenditure Statement in relation to its revaluation of assets. A breakdown of this impairment by asset class can be found in the table below:

Asset Class	Impairment Loss Charged to the CI&ES £ 000
Council dwellings	-
Other land and buildings	23,944
Community assets	-

The majority of the impairment charge of £23.9m is due to the revaluation of schools, and this is included as expenditure in the Children's and Education line of the Comprehensive Income and Expenditure Statement.

41. Termination Benefits

The numbers of exit packages with total cost per band and total cost of the 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	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
£0 - £20,000	66	31	7	5	73	36	525,393	316,743
£20,001 - £40,000	9	4	3	3	12	7	310,115	178,192
£40,001 - £60,000	1	1	-	-	1	1	41,356	41,356
Total	**76**	**36**	**10**	**8**	**86**	**44**	**876,864**	**536,291**

Note:

The Authority terminated the contracts of a number of employees in 2014/15, incurring costs of £536,291 (£876,864 in 2013/14). The majority of the redundancies that occurred in 2014/15 are as a result of the Havering transformation programme.

42. 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 Department for Education (DfE). It provides teachers with defined benefits upon their retirement and the Authority contributes towards these costs by making contributions based upon a percentage of member's personal salaries.

The Teachers Pension scheme is a defined benefit 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 2014/15 the Authority paid £6.15m (£4.65m 2013/14) to Teachers Pensions in respect of teachers pension contributions. This represented 14.1% of teachers' pensionable pay (14.1% in 2013/14). 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 the 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 2014/15 the Authority paid £52,415 (£66,255 2013/14) to NHS Pensions in respect of public health pension contributions. This represented 14% of pensionable pay (14% in 2014/15). There were no contributions remaining payable at the end of the period.

43. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Authority participates in two post-employment schemes:

- the Local Government Pension Scheme, administered locally by London Borough of Havering. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

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

1. State Street (SSgA)
2. Baillie Gifford
3. Royal London Asset Management
4. UBS
5. Ruffer
6. GMO

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

Discretionary Post-retirement Benefits

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

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and the Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2013/14 £000		2014/15 £000
	Comprehensive Income and Expenditure Statement	
	Cost of services:	
	Service Cost Comprising:	
18,853	• Current service cost	19,294
573	• Past service costs	496
(1,115)	• Gain from settlements	(1,191)
	Financing and Investment Income and Expenditure	
17,263	Net interest expense	15,584
35,574	**Total post-employment benefits charged to the surplus or deficit on the provision of services**	**34,183**

2013/14 £000		2014/15 £000
	Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	
	Re-measurement of the net defined benefit liability comprising:	
(12,909)	• Return on plan assets (excluding the amount included in the net interest expense)	(43,911)
(193)	• Actuarial gains and losses arising on changes in financial assumptions	78,168
7,415	• Other	(6,838)
(5,687)	**Total post-employment Benefits charges to the Comprehensive Income and Expenditure Statement**	**27,419**
	Movements in Reserves Statement	
(35,574)	• Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(34,183)
	Actual amount charged against the General Fund Balance for pensions in the year:	
32,932	• Employers' contributions payable to scheme	22,832
(2,642)	**Net movement in Pensions Reserve**	**(11,351)**

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:

2013/14 £000		2014/15 £000
	Local Government Pension Scheme	
(816,810)	Present value of the defined benefit obligation	(911,242)
434,371	Fair value of plan assets	490,033
(382,439)	**Net liability arising from defined benefit obligation**	**(421,209)**

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

2013/14 £000		2014/15 £000
	Local Government Pension Scheme	
397,054	Opening fair value of scheme assets	434,371
17,745	Interest income	17,676

2013/14 £000		2014/15 £000
	Re-measurement gain (loss):	
12,909	• The return on plan assets, excluding the amount included in the net interest expense	43,911
-	• Other	-
32,932	Contributions from employer	22,832
5,157	Contributions from employees into the scheme	5,457
(30,396)	Benefits paid	(32,982)
(1,030)	Other – effect of settlements	(1,232)
434,371	**Closing fair values of scheme assets**	**490,033**

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

2013/14 £000		2014/15 £000
	Funded liabilities: Local Government Pension Scheme	
782,538	Opening balance at 1 April	816,810
18,853	Current service cost	19,294
35,008	Interest cost	33,260
5,157	Contributions from scheme participants	5,457
	Re-measurement (gains) and losses:	
(193)	• Actuarial gains/ losses arising from changes in financial assumptions	78,168
7,415	• Other	(6,838)
573	Past service cost (Including curtailments)	496
-	Liabilities assumed on entity combinations	-
(30,396)	Benefits paid	(32,982)
(2,145)	Liabilities extinguished on settlements	(2,423)
816,810	**Closing balance at 31 March**	**911,242**

Local Government Pension Scheme assets comprised:

2013/14					2014/15			
Quoted Prices in Active Markets £000	Quoted Prices not in Active Markets £000	Total £000	Percentage of Total assets %	Asset Category	Quoted Prices in Active Markets £000	Quoted Prices not in Active Markets £000	Total £000	Percentage of Total assets %
				Equity Securities				
4,441.6	-	**4,441.6**	1	Consumer	3,896.0	-	**3,896.0**	1
3,807.2	-	**3,807.2**	1	Manufacturing	2,877.3	-	**2,877.3**	1
2,132.6	-	**2,132.6**	1	Energy and utilities	651.4	-	**651.4**	-
6,372.4	-	**6,372.4**	1	Financial institutions	10,360.1	-	**10,360.1**	2
589.9	-	**589.9**	-	Health and Care	403.5	-	**403.5**	-
6,087.1	-	**6,087.1**	1	Information technology	3,896.8	-	**3,896.8**	1
-	15.5	**15.5**	-	Other	-	17.0	**17.0**	-
				Debt Securities				
49,794.0	-	**49,794.0**	11	Corporate bonds (investment grade)	58,575.0	-	**58,575.0**	12
9,986.5	-	**9,986.5**	2	UK Government	14,784.8	-	**14,784.8**	3
46,015.6	-	**46,015.6**	11	Other	49,561.6	-	**49,561.6**	10
				Real Estate				
20,119.2	-	**20,119.2**	5	UK Property	22,441.5	-	**22,441.5**	5
				Investment Funds and Unit Trusts				
276,042.3	-	**276,042.3**	64	Equities	299,942.3	-	**299,942.3**	60
				Cash and Cash Equivalents				
8,967.4	-	**8,967.4**	2	All	22,625.7	-	**22,625.7**	5
434,355.8	**15.5**	**434,371.3**	**100**	**Totals**	**490,016.0**	**17.0**	**490,033.0**	**100**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

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

2013/14 £000		2014/15 £000
	Local Government Pension Scheme	
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.1 years	Men	22.1 years
24.1 years	Women	24.1 years
	Longevity at 65 for future pensioners:	
24.2 years	Men	24.2 years
26.7 years	Women	26.7 years
2.6%	Rate of inflation	3.0%
3.4%	Rate of increase in salaries	3.0%
2.6%	Rate of increase in pensions	2.1%
4.1%	Rate for discounting scheme liabilities	3.1%

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 2015	Approximate % increase to Employer Liability	Approximate Monetary amount £000
0.5% decrease in Real Discount Rate	9%	83,579
1 year increase in Member Life Expectancy	3%	27,337
0.5% Increase in the Salary Increase Rate	3%	22,838
0.5% Increase in the Pension Increase Rate	7%	59,552

Impact on the Authority's Cash Flows

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

The Authority anticipated to pay £18.4m expected contributions to the scheme in 2015/16.

The weighted average duration of the defined benefit obligation for scheme members is 16.2 years, 2014/15 (16.2 years 2013/14).

44. Contingent Liabilities

Contractual

There are on-going discussions with a former contractor over a number of issues arising out of the housing repairs contract which terminated in 2013. The Contractor claims approx. £3m and the Council has a potential counterclaim for in excess of £2m. Adjudication has been threatened by the contractor but not yet issued.

There is a potential risk of another contractor claiming for construction work on a building, but in this event the Authority would counterclaim on a second site. The company has since been taken over and no legal procedures have been initiated.

A High Court claim for in excess of £1 million for misrepresentation in that a building was not demolished within the timescales notified was rejected. However, in an associated case an employee of the same company has brought two sets of proceedings, one in the Employment Tribunal and the other in the High Court, claiming damages for breach of TUPE rights. The High Court claim exceeds £1m. The Employment Appeal Tribunal has ordered that the Employment Tribunal case be reconsidered following an initial decision in the Council's favour. The Employment Tribunal proceedings are likely to take precedence on the issue of liability. The Authority is continuing to contest the claims although negotiations have been undertaken

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 has been 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 £338k in respect of the 15% levy due. Outstanding claims continue to be paid with a 15% contribution from the Authority in respect of the continuing levy under the terms of the scheme of arrangement. The total paid to 31 March 2015 is £427k and additional demands for further levy contributions above the 15% may be made. The Authority has made provision for the levy within the Insurance Earmarked Reserve.

Adult Social Care Services

The Authority has received the Secretary of State determination in respect of the challenge around ordinary residence of an Adult Social Services client. The outcome was not in favour of this local authority, and therefore the liability has been realised. The liability is higher than initially projected, as the other local authority is claiming backdated fees to the date the client moved to the borough rather than when this local authority was notified. The matter is currently being reviewed by Legal Services.

NNDR Appeals

The Authority has made a provision for NNDR appeals based upon its best estimates of the actual liability as at the year end in known appeals. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office so there is a risk to the Authority that national and local appeals may have a future impact on the Accounts.

45. Nature and Extent of Risks Arising from Financial Instruments

Key Risks

The Authority's activities expose it to a variety of financial risks, the key risks are:

- credit risk – the possibility that other parties might fail to pay amounts due to the Authority;
- liquidity risk – the possibility that the Authority might not have funds available to meet its commitment to make payments;
- re-financing and maturity risk – the possibility that the Authority might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms; and
- market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rate movements.

Overall Procedures for Managing Risk

The Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and the associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Authority to manage risk in the following ways:

1. By formally adopting the requirements of The Code of Practice;
2. By approving annually in advance, prudential indicators for the following three years limiting:
    - the Authority 's overall borrowing;
    - its maximum and minimum exposure to fixed and variable rates;
    - its maximum and minimum exposure to the maturity structure of its debt; and
    - its maximum annual exposure to investments beyond a year.
3. By approving an Investment Strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government guidance.

These are required to be reported and approved at or before the Authority's annual Council Tax Setting meeting. These items are reported with the Annual Treasury Management Strategy which outlines the approach to managing risk in relation to the Authority's financial instrument exposure. Actual performance is also reported annually to Members.

These policies are implemented by the Group Director of Communities and Resources. The Authority maintains written principles for risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management Practices. The Treasury Management Practices are a requirement of the Code of Practice and are regularly reviewed.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is addressed within the Treasury Management Strategy Statement (TMSS) approved annually at Full Council. The version relating to these accounts was approved in February 2014. This requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria (i.e. as identified by credit rating agencies such as Fitch and Moody's). The TMSS also imposes a maximum sum to be invested with a financial institution located within each category. Whilst a great deal of reliance is placed on credit rating agencies the Authority recognises that this must not form the sole basis for assessing counterparty eligibility. Market intelligence is gathered from a variety of sources and is reviewed by officers. More details on the Authority's strategy can be found in the TMSS which is available on the Authority's website.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Authority.

The analysis shown on the following page summarises the Authority's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Authority's experience over the last five financial years, adjusted to reflect current market conditions:

	Amount at 31 March 2015	**Historical experience of default**	**Estimated maximum exposure to default and un-collectability**	**Estimated maximum exposure at 31 March 2015**
	£000	**%**	**%**	**£000**
Deposits with banks and financial institutions:				
Banks with a long-term rating of AA- or higher	16,000	0.03%	0.03%	4
Banks with a long-term rating of A- to A+	82,500	0.07%	0.07%	57
Local government	46,000	0.03%	0.03%	13
Customers (debtors)	70,928	34%	34%	23,945

The Authority does not normally allow credit for its customers; however, £24.8m of the £73.9m shown in the table below is past its due date and is in excess of one year in arrears. The Authority actively pursues all debtors in accordance with its debt management policy and does not write debt off until it has exhausted all options for recovery. The Authority regularly reviews its levels of debt, which includes considering the adequacy of its provision for bad debts. Amounts due from customers can be analysed by age as follows:

2013/14 £000		2014/15 £000
32,578	Less than three months	27,527
2,650	Three to six months	3,308
2,770	Six months to one year	4,313
26,824	More than one year	38,149
1,294	Long-term debtors	607
66,116		**73,904**

Debts to the value of £1.5m are secured by way of a legal charge.

Liquidity Risk

The Authority has ready access to borrowings from the Money Markets to cover any day to day cash flow needs. If unexpected movements happen the Authority also has ready access to borrowings from the Public Works Loans Board. The Authority is also required by the Local Government Finance Act 1992 to provide a balanced budget which ensures that sufficient monies are raised to cover annual expenditure. There is therefore, no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the Treasury and Investment Strategy reports), as well as through cash flow management procedures required by the Code of Practice.

Re-financing and Maturity Risk

The Authority maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the re-financing risk procedures, longer term risk to the Authority relates to managing exposure to replacing financial instruments as they mature. This risk relates to the maturing of longer term financial liabilities.

The approved prudential indicator limits for the maturity structure of debt and the limits on investments placed for greater than one year are key parameters used to address this risk. The Authority approved Treasury and Investment Strategies address the main risks and the Corporate Finance Team addresses the operational risks within the approved parameters.

The maturity analysis of loans is as follows:

2013/14 £000		2014/15 £000
401	Less than one year	430
-	Between one and two years	-
-	Between two and five years	592
210,234	More than five years	210,234
210,635		**211,256**

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest rate risk

The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance a rise in variable and fixed interest rates would have the following effects:

- borrowing at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowing at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise;
- investments at fixed rates – the fair value of assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so normal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and will affect the General Fund Balance.

The Annual Treasury Management Strategy brings together the Authority's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposures. The Corporate Finance Team will monitor market and forecast interest rates within the year to adjust exposure appropriately.

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

2013/14 £000		2014/15 £000
(32)	Increase in interest payable on variable borrowings	(3)
1,614	Increase in interest receivable on investments	875
1,582	**Impact upon Comprehensive Income and Expenditure Statement**	**872**

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

46. Heritage Assets: Five-year Summary of Transactions

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

47. 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 2014	6,500	147,369
Receipts	25	557
Payments	(25)	(557)
Balance 31 March 2015	**6,500**	**147,369**

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 2014/15

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.

2013/14 £000		**Notes**	**2014/15 £000**
	Income		
(43,500)	Dwelling rents		(45,569)
(449)	Non-dwelling rents		(421)
(6,240)	Charges for services and facilities		(6,368)
(1,599)	Contributions towards expenditure		(1,526)
(14,248)	Decent Home Grant	6	(24,183)
(66,036)	**Total Income**		**(78,067)**
	Expenditure		
8,042	Repairs and maintenance		7,190
19,630	Supervision and management		19,647
440	Rents, rates, taxes and other charges		417
275	Increased provision for bad/doubtful debts		363
41,754	Depreciation and Impairment of tangible fixed assets	4	43,804
51	Debt management		53
70,192	**Total Expenditure**		**71,474**
4,156	**Net expenditure or income of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(6,593)**
250	**HRA Services' share of Corporate and Democratic Core**		**250**
4,406	**Net Expenditure of HRA Services**		**(6,343)**
	HRA Share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement		
(3,283)	Net gain on HRA assets		(10,481)
5,755	Interest payable and similar charges		5,771
(142)	Interest and investment income		(189)
6,736	**Surplus/(Deficit) for the year on HRA Services**		**(11,242)**

Movement on the Housing Revenue Account Balance during 2014/15

2013/14 £000		2014/15 £000
(10,225)	**Housing Revenue Account balance brought forward**	**(6,953)**
6,736	Surplus/(deficit) for the year on the HRA Income and Expenditure Account	(11,242)
*(3,467)	Adjustments between accounting basis and funding basis under regulations	9,358
***(6,956)**	**HRA balance before transfer to earmarked reserves**	**(8,837)**
*3	Transfers to earmarked reserves	167
(6,953)	**Housing Revenue Account balance carried forward**	**(8,670)**

Note to the Statement of Movement on the Housing Revenue Account Balance 2014/15

2013/14 £000	Notes	2014/15 £000
	Items included in the HRA Income and Expenditure Account but excluded from the movement in the HRA balance	
(41,754)	Depreciation and impairment of fixed assets	(43,804)
14,248	Amortisation of deferred grant	24,183
8	Accumulated compensated absences	3
3,283	Gain on fixed assets	10,481
*14,180	Capital expenditure charged against the HRA balance	11,085
(107)	Net charge made for retirement benefits	(115)
6,675	Net contribution to the major repairs reserve	7,525
***(3,467)**	**Adjustments between accounting basis and funding basis under regulations**	**9,358**
	Items not included in the HRA Income and Expenditure Account but included in the movement in the HRA balance	
***3**	**Transfers to earmarked reserves**	**167**
(3,464)	**Net additional amount required by statute to be debited or credited to the HRA balance**	**9,525**

* Prior year figures restated to show “Capital expenditure funded by the HRA” against “Adjustments between accounting basis and funding basis under regulations” instead of “Items not included in the HRA Income and Expenditure Account but included in the HRA balance”.

1. Information on Housing Fixed Assets

a) Number of Dwellings

31 March 2014 Number		31 March 2015 Number
	Flats	
2,945	1 bedroom	2,927
2,366	2 bedrooms	2,342
388	3 bedrooms	381
21	4 or more bedrooms	20
	Houses	
335	1 bedroom	328
1,144	2 bedrooms	1,132
2,436	3 bedrooms	2,412
156	4 or more bedrooms	156
9,791	**Total Number of Dwellings**	**9,698**

b) Balance Sheet Value of HRA Tangible Fixed Assets

31 March 2014 £000		31 March 2015 £000
	Operational	
337,607	Dwellings	380,625
17,706	Other land and buildings	20,130
390	Vehicles, plant and equipment	303
2,862	Infrastructure	2,527
358,565		403,585
	Non-operational	
1,451	Investment properties	1,139
680	Held for sale	680
2,131		1,819
360,696	**Total Tangible Fixed Assets**	**405,404**

c) Valuation of Council Dwellings at Year End

31 March 2014 £m		31 March 2015 £m
1,350	Vacant possession value	1,522
1,013	Excess of vacant possession value over Balance Sheet value	1,142

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

2013/14 £000		2014/15 £000
6,206	**Balance brought forward at start of**	**9,742**
6,675	Total depreciation from Capital Adjustment Account	7,525
(3,139)	Less MRR used to fund Capital Expenditure on HRA dwellings	-
9,742	**Balance carried forward at end of year**	**17,267**

3. a) Total Capital Expenditure and Funding

2013/14 £000		2014/15 £000
	Capital expenditure on HRA property and other assets:	
32,120	Dwellings	36,325
-	Other land and buildings	(18)
134	Equipment	-
126	Infrastructure	-
32,380	**Total expenditure**	**36,307**
	Financed from:	
3,139	Major Repairs Reserve	-
15,061	Grants and contributions	25,222
14,180	Revenue contributions	11,085
-	Capital receipts	-
32,380	**Total funding**	**36,307**

b) HRA Capital Receipts

2013/14 £000		2014/15 £000
6,543	Right to Buy sales	6,509
4,066	Other property sales	7,973
10,609	Total cash receipts	14,482
(952)	Transferred for Pooling	(1,048)
9,657	**Total new usable Capital Receipts**	**13,434**

4. Depreciation and Impairment Charge

The depreciation charged to the HRA breaks down as follows:

2013/14 £000		2014/15 £000
5,849	Dwellings	6,572
393	Other buildings	531
89	Equipment	87
344	Infrastructure	335
6,675	**Total HRA depreciation**	**7,525**
35,079	Impairment charge	**36,279**
41,754	**Total HRA depreciation and impairment charge**	**43,804**

An impairment charge of £36,189k in respect of council dwellings and £90k for other land and buildings was determined by the Council's external valuer, Wilks Head and Eve, as a part of the rolling revaluation programme.

5. Rent Income, Arrears and Bad Debts

2013/14		2014/15
£89.91	Average weekly rent (including service charges unpooled)	£95.93

The increase in average weekly rents was 6.7%.

31 March 2014 £000		31 March 2015 £000
2,662	Rent arrears at 31 March	2,710
(2,085)	Bad debts provision at 31 March	(2,105)
577	**Total**	**605**

6. Decent Homes Grant

Central Government introduced a new bidding regime for decent homes in 2010, where councils could bid for funding to clear the backlog of homes needing decent homes improvements. Havering Council were allocated two tranches of £14.2m for Decent Home Grant Funding in 2012/13 and 2013/14, and a final tranche of £24.2m in 2014/15.

Collection Fund 2014/2015

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 2014/15

2013/14			2014/15	
Business Rates	**Council Tax**		**Business Rates**	**Council Tax**
£000	**£000**		**£000**	**£000**
		Income		
-	(121,499)	Income from Council Tax	-	(123,771)
(72,754)	-	Income from Business Rates	(71,015)	-
-	(41)	Prompt payment discounts	-	(49)
441	2	Transitional relief	(400)	1
(2,179)	-	Income collectable from Business Rate Supplement	(1,971)	-
(74,492)	**(121,538)**	**Total Income**	**(73,386)**	**(123,819)**
		Expenditure		
		Previous Year Surplus / (Deficits)		
-	(477)	London Borough of Havering	(920)	913
-	-	Central Government	(1,534)	-
-	(123)	Greater London Authority	(613)	232
		Precepts		
20,742	94,898	London Borough of Havering	21,632	95,833
34,569	-	Central Government	36,054	-
13,828	24,059	Greater London Authority	14,421	23,975
		Charges to Collection Fund		
1,279	1,226	Write-offs	1,223	810
(92)	7	Increase/(decrease) in bad debt provision	(8)	(910)
5,885	-	Increase in provision for appeals	(2,902)	-
-	-	Deferrals	(123)	-
274	-	Cost of collection	272	-
		Business Rate supplement		
2,169	-	Payment to Greater London Authority	1,962	-
10	-	Cost of Collection	9	-
78,664	**119,590**	**Total Expenditure**	**69,473**	**120,853**
4,172	(1,948)	Movement in fund balance	(3,913)	(2,966)
-	455	Net deficit/(surplus) at start of year	4,172	(1,493)
4,172	**(1,493)**	**Net deficit/(surplus) carried forward (notes 3a and 3b)**	**259**	**(4,459)**

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 2014/15 at £1,494.18 for band D properties. The number of band D equivalent properties in each band making up the council tax base was as follows:

Band	Number of Band D Equivalent Properties
A1	2
A	1,780
B	4,462
C	16,702
D	29,003
E	16,065
F	8,347
G	4,712
H	538
Allowance for losses in collection 1.75%	(1,428)
Tax Base	**80,183**

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 £182.0m at 31 March 2015 (£185m at 31 March 2014) multiplied by uniform rates for large and small businesses. In 2014/15 the rate was 48.2p for large businesses (47.1p in 2013/14) and 47.1p for small (46.2p in 2013/14). The total amount, less certain reliefs and other deductions, are shared between Central Government, Havering and The Greater London Authority (GLA). In addition to the multiplier used to calculate business rates, all London local authorities are required to collect from businesses with a rateable value in excess of £55,000 an additional 2p supplement, which is payable to the GLA. Under these arrangements the amounts included in these Accounts can be analysed as follows:

2a) Income collectable from Non Domestic Rates

2013/14 £000		2014/15 £000
79,195	Gross NNDR due in year	82,857
(6,441)	Less: allowances and other adjustments	(11,842)
72,754		**71,015**

2b) Income collectable from Business Rate Supplement

2013/14 £000		2014/15 £000
2,334	Gross Supplement due in year	2,213
(155)	Less: allowances and other adjustments	(242)
2,179		**1,971**

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 produce to determine how the pools resources would be allocated. For the 2014/15 financial year, no benefits were realised.

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 during 2014/15 and 2015/16.

3a) Council Tax

2013/14 £000		2014/15 £000
(1,194)	London Borough of Havering	(3,567)
(299)	Greater London Authority	(892)
(1,493)	**(Surplus) / Deficit**	**(4,459)**

3b) Business Rates

2013/14 £000		2014/15 £000
1,252	London Borough of Havering	78
2,086	Central Government	129
834	Greater London Authority	52
4,172	**Deficit**	**259**

PENSION FUND

Pension Fund Account for the year ended 31March 2015

Restated 2013/14 £000		Note	2014/15 £000
	Contributions and benefits		
45,007	Contributions	7	35,704
2,258	Transfers in from other pension funds	8	1,573
47,265			**37,277**
(32,387)	Benefits	9	(33,499)
(1,129)	Payments to and on account of leavers	10	(1,506)
(2,985)	Management expenses*	11	(3,334)
(36,501)			**(38,339)**
10,764	**Net (withdrawals) / additions from dealings with members**		**(1,062)**
	Returns on investments		
9,279	Investment income	13	6,651
25,401	Profit and losses on disposal of investments and changes in the market value of investments*	15	63,061
34,680	**Net returns on investments**		**69,712**
45,444	**Net Increase in the net assets available for benefits during the year**		**68,650**
460,575	Net assets of the Fund at start of year		506,019
506,019	**Net assets of the Fund at end of year**		**574,669**

Net Asset Statement as at 31 March

2014 £000		Note	2015 £000
501,812	Investment Assets	15	567,992
(1,036)	Investment Liabilities	15	(903)
7,854	Current Assets	21	8,339
(2,611)	Current Liabilities	22	(759)
506,019	**Net assets of the Fund available to fund benefits at end of the year**		**574,669**

*2013/14 figures have been restated to reflect the treatment of management & investment expenses as per CIPFA LGPS management costs guidance

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 20 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 Group Director Communities and Resources.

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 2014/15 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

The Pension Fund is a contributory defined benefits scheme which provides benefits for employees (excluding teachers) which include retirement pensions, spouse, civil partners and children's pensions, death grants and other lump sum payments.

A new LGPS came into force from 1 April 2014 which will see retirement benefits based on a Career Average Revalued Earnings (CARE) scheme. Members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with Consumer Price Index.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. Contributions are made by active members of the Fund in accordance with LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2015. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2013. Employer contribution rates range from 17.3% to 28.7% of pensionable pay.

Employers in the Fund

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.

There are 35 employer organisations within the Havering Pension Fund including the Authority. During 2014/15 four primary schools converted to Academies and a new College became new employers to the Fund.

In addition to the London Borough of Havering, the other employers in the Pension Fund are as follows:

Scheduled Bodies:

Havering College of Further Education
Havering Sixth Form College
NEW: ELUTECH College of Design and Engineering (joined 1 September 2014)

Secondary Schools:

Drapers' Academy (Academy from 1 September 2010)
Abbs Cross academy and Arts College (Academy from 1 April 2011)
The Brittons Academy Trust (Academy from1 April 2011)
Coopers' Company & Coborn School (Academy from1 April 11)
The Albany School (Academy from 1 August 2011)
The Campion School (Academy from 1 August 2011)
Hall Mead School (Academy from 1 August 2011)
Sacred Heart of Mary Girl's School (Academy from 1 August 2011)
St Edwards Church of England School & Sixth Form (Academy from 1 August 2011)
Emerson Park Academy (Academy from 1 September 2011)
Redden Court School (Academy from 1 September 2011)
The Frances Bardsley Academy for Girls (Academy from 1 July 2012)
Bower Park Academy (Academy from 1 February 2013)
The Chafford School (Academy from 1 November 2013)

Primary School:

Upminster Junior Academy (Academy from 1 November 2012)
Upminster Infant School (Academy from 1 November 2012)
Langtons Junior Academy (Academy from 1 April 2013)
Oasis Academy Pinewood (Academy from 1 October 2013)
NEW – Drapers' Brookside Junior School (Academy from 1 June 2014)
NEW - Rise Park Infant School (Academy from 1 September 2014
NEW – Rise Park Junior School (Academy from 1 September 2014)
NEW – Pyrgo Priory Primary School (Academy from 1 February 2015)

Admitted Bodies:

Havering Citizens' Advice Bureau
Mears (ceased 1 Sept 2014)
Sports and Leisure Management Ltd – Fitness and Health
Sports and Leisure Management Ltd – Charitable Trust
Sports and Leisure Management Ltd – Food & Beverage
KGB Cleaners
Volker (ceased 31 March 2014)
Family Mosaic (joined 1 November 2012)
Sodexo Catering (joined 1 January 2014 – pending legal agreement)
Breyer Group Repairs (joined 1 March 2014 - pending legal agreement)
Breyer Group Voids (joined 1 June 2014 – pending legal agreement)

The Havering Pension Fund also has the following bodies:

Designated Bodies:

Trust Schools

Corbets Tey Special School

Foundation Schools:

Marshall Park School (Foundation from 1 September 2011)
The Royal Liberty School
Sanders School
The Mawney School

Voluntary Aided Schools:

St Alban's Catholic Primary
St Edwards Church of England Voluntary Aided Primary School

St Joseph’s Catholic Primary School
St Mary’s Catholic Primary School
St Patrick’s Catholic Primary School
St Peter’s Catholic Primary School
St Ursula’s Catholic Junior School
St Ursula’s Catholic Infant School
La Salette Catholic Primary School

Membership

The membership of the Pension Fund is as follows:

31 March 2014		31 March 2015
	Number of employees in scheme	
4,756	Havering	4,897
1,301	Scheduled bodies	1,468
149	Admitted bodies	119
6,206	**Total**	**6,484**
	Number of pensioners and dependants	
5,347	Havering	5,432
237	Scheduled bodies	280
57	Admitted bodies	67
5,641	**Total**	**5,779**
	Deferred pensioners	
4272	Havering	4,465
557	Scheduled bodies	700
45	Admitted bodies	59
4,874	**Total**	**5,224**
16,721		**17,487**

2 Basis of Preparation

The Financial Statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting* in *the United Kingdom* 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3 Summary of Significant Accounting Policies

Fund Account - Income

(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. This is then broken down to show the amount allocated for the deficit funding (past service costs).

Pension strain contributions (augmentation) 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 (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.

(c) Investment Income

i) Interest Income

Interest income is recognised in the Fund as it accrues.

ii) Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an Investment asset.

iii) Distribution from Pooled Funds

Distributions from pooled funds are recognised at the date of issue.

iv) Property- Related Income

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

v) Movement in the Net Market Value of Investments

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

Fund Account – Expense Items

(d) Benefits payable

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

(e) Taxation

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

(f) Management Expenses

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

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. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

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.

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

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 as follows:

(i) Market-Quoted Investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

(ii) Fixed Interest Securities

Fixed interest securities are recorded at net market value based on their current yields.

(iii) Unquoted Investments

The fair value of investments for which market quotations are not readily available is determined as follows:

Investments in private equity funds are valued on the Fund's share of the net assets in the private equity fund.

(iv) Pooled Investment Vehicles

Pooled investment vehicles are valued at the closing bid price if both the bid and offer prices are published; or if single priced, at the closing single price.

(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.

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.

(m) Additional Voluntary Contributions

AVC's are not included in the accounts in accordance with section 492 (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23)

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 majority of admitted and scheduled bodies in the Fund in the intervening years. The methodology used in the annual updates is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the administrative body 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 net asset statement at 31 March 2015 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
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, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied	The effects on the 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% • 1 year increase in member life expectancy could result in an increase of 3% • 0.5% increase in salary increase rate could result in an increase of 3% • 0.5% increase in the pension increase rate could result in an increase of 7%

6. Events after the Reporting Date

None

7. Contributions Receivable

2013/14 £000		2014/15 £000
	Employers	
	Normal:	
11,941	Havering	12,470
3,672	Scheduled Bodies	5,127
681	Admitted Bodies	576
	Deficit funding:	
21,590	Havering	*10,056
	Augmentation:	
493	Havering	288
77	Scheduled Bodies	248
20	Admitted Bodies	-
38,474	**Employer Total**	**28,765**
	Members	
	Normal:	
5,154	Havering	5,401
1,113	Scheduled bodies	1,323
190	Admitted bodies	152
	Additional contributions:	
66	Havering	53
9	Scheduled bodies	9
1	Admitted bodies	1
6,533	**Members Total**	**6,939**
45,007		**35,704**

*The £10.06m deficit funding reflects additional contributions made by the Authority to the Pension Fund. It consists of £5.9m past service contribution as a cash amount and £4.16m planned contributions.

8. Transfers in from Other Pension Funds

2013/14 £000		2014/15 £000
2,258	Individual transfers in from other schemes	**1,573**

9. Benefits Payable

2013/14 £000		2014/15 £000
	Pensions	
24,975	Havering	26,137
664	Scheduled Bodies	782
431	Admitted Bodies	482
26,070	**Pension Total**	**27,401**
	Commutation and Lump Sum Retirements	
5,060	Havering	4,997
472	Scheduled Bodies	471
343	Admitted Bodies	208
5,875	**Commutation Total**	**5,676**
	Lump Sum Death Benefits	
380	Havering	410
42	Scheduled Bodies	85
20	Admitted Bodies	(73)
442	**Death Benefits Total**	**422**
32,387		**33,499**

10. Payments To and On Account of Leavers

2013/14 £000		2014/15 £000
2	Refunds to members leaving service	68
1,127	Individual transfers to other schemes	1,438
1,129		**1,506**

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

11. Management Expenses

*2013/14 £000		2014/15 £000
710	Administrative Costs	450
1,976	Investment Management Expenses**	2,618
299	Oversight and Governance Costs	253
-	Local Pension Board	13
2,985		**3,334**

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 (see note 12) also includes £797k in respect of transaction costs (2013/14 £719k)

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 Note15).

**2013/14 figures for Management and Investment Expenses have also been restated to reflect the CIPFA guidance.

12. Investment Management Expenses

****2013/14 £000**		**2014/15 £000**
1,918	Management Fees	2,571
45	Custody Fees	34
13	Performance Monitoring Service	13
1,976		**2,618**

**2013/14 figures for Management and Investment Expenses have been restated to reflect the CIPFA LGPS Management Costs guidance.

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

13. Investment Income

2013/14 £000		**2014/15 £000**
2,994	Equity Dividend	754
**3,844	Fixed Interest Securities	*3,918
1,291	Pooled Property Income	1,196
950	Foreign Exchange Gains	404
86	Interest on Cash and Deposits	47
114	Other Income	332
9,279		**6,651**

***** Income includes Index linked Interest of £432k (2013/14 £464k)

14. Taxes on Income

None

15. Analysis of Investments

2013/14 £000		2014/15 £000
	Investment Assets	
	Equities	
6,707	UK Quoted	3,906
18,013	Overseas Quoted	20,485
24,720		**24,391**
	Fixed Interest Securities	
12,535	UK Public Sector	13,913
55,547	UK Private (Corporate)	68,003
-	Overseas Public Sector	-
68,082		**81,916**
	Index-Linked Securities	
41,558	UK Public Sector	49,766
642	UK Private (Corporate)	731
11,444	Overseas PublicSector	13,094
53,644		**63,591**
	Derivative Contracts	
183	Forward Currency Contracts	21
183		**21**
	Pooled Investment Vehicles	
	UK Managed Funds	
322,366	UK Quoted	360,314
16	UK Unquoted	19
696	Overseas	318
1,554	Property	550
	UK Unit Trust	
22,888	UK Property	26,341
347,520		**387,542**
	Cash Instruments	
-	UK	-
-		**-**
	Cash Deposits	
5,951	Managers	9,044
5,951		**9,044**
344	Outstanding Sales	-
1,178	Investment Income	1,236
190	Outstanding Dividend and Recoverable Withholding Tax	258
-	Investment Income due	-
1,712		**1,494**
501,812	**Total Investment Assets**	**567,999**

2013/14 £000		2014/15 £000
	Investment Liabilities	
	Derivative Contracts	
(74)	Forward FX Contracts	(550)
(960)	Outstanding Purchases	(355)
(2)	Investment Income Due	(5)
(1,036)	**Total Investment Liabilities**	**(910)**
500,776	**Total Net Investments**	**567,089**

	Market Value at 31 March 2014	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 2015
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Equities	24,720	8,136	(11,533)	3,068	-	24,391
Fixed Interest Securities	68,082	30,756	(26,439)	9,517	-	81,916
Index-linked Securities	53,644	185,632	(186,914)	11,229	-	63,591
Pooled Investment Vehicles	347,520	204,674	(204,540)	39,888	-	387,542
Derivatives	109	260,038	(260,038)	(638)	-	(529)
Cash Deposits (fund managers)	5,951	-	-	(1)	3,094	9,044
	500,026	**689,236**	**(689,464)**	**63,063**	**3,094**	**565,955**
Other Investment Balances	750	-	-	(2)	386	1,134
	500,776	**689,236**	**(689,464)**	**63,061**	**3,480**	**567,089**

	Market Value at 31 March 2013	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 2014
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Equities	107,401	29,913	(122,847)	10,253	-	24,720
Fixed Interest Securities	65,506	58,535	(54,397)	(1,562)	-	68,082
Index-linked Securities	53,541	160,203	(157,261)	(2,839)	-	53,644
Pooled Investment Vehicles	222,996	169,946	(5,979)	19,057	(58,500)	347,520
Derivatives	(387)	238,342	(238,342)	496	-	109
Cash instruments	1,055	10,052	(11,107)	-	-	-
Cash Deposits (fund managers)	5,719	-	-	-	232	5,951
	455,831	**666,991**	**(589,933)**	**25,405**	**(58,268)**	**500,026**
Other Investment Balances	1,502	-	-	(4)	(748)	750
	457,333	**666,991**	**(589,933)**	**25,401**	**(59,016)**	**500,776**

* Sales and Change in Market Values during the year ending 31 March 2014 has been restated to reflect treatment of management fees as per the CIPFA Guidance.

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.

The cash and other movements include assets that were transferred between fund managers as part of the investment restructuring.

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 £797k, including transition costs (2013/14 £719k restated). 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.

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. 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 2015 is given below.

Open forward currency contracts

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value (Unrealised Gain) £000	Liability Value (Unrealised Loss) £000
Up to one month	JPY	344,552	GBP	1,933	3	-
Up to one month	JPY	454,717	GBP	2,564	-	(9)
Up to one month	JPY	555,241	GBP	3,144	-	(24)
Up to one month	GBP	8,471	JPY	1,518,696	-	(62)
Up to one month	GBP	1,581	JPY	287,835	-	(37)
Up to two months	GBP	14,816	USD	22,578	-	(398)
Up to two months	GBP	327	USD	504	-	(12)
Up to three months	GBP	1,763	EUR	2,441	-	(5)
Up to three months	GBP	1,038	EUR	1,408	18	-
Up to three months	GBP	640	USD	952	-	(1)
Up to three months	GBP	485	USD	722	-	(2)
Gross open forward currency contracts at 31 March 2015					**21**	**(550)**
Net forward currency contracts at 31 March 2015					**-**	**(529)**
Prior year comparative						
Gross open forward currency contracts at 31 March 2014					**183**	**(74)**
Net forward currency contracts at 31 March 2014					**109**	**-**

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2015 were as follows:

Value 31 March 2014		Manager	Mandate	Value 31 March 2015	
£000	**%**			**£000**	**%**
99,454	19.86	Royal London	Investment Grade Bonds	119,855	21.13
23,166	4.63	UBS	Property	26,671	4.70
64,853	12.95	Ruffer	Absolute Return	72,851	12.85
46,634	9.31	State Street Global Assets	Passive UK/Global Equities	55,502	9.79
11,547	2.31	State Street Global Assets	Sterling Liquidity Fund	11,682	2.06
85,594	17.09	Baillie Gifford	Pooled Global Equities	101,846	17.96
97,978	19.57	Barings DAAF	Multi Asset	17	-
71,029	14.18	Baillie Gifford DGF	Multi Asset	76,732	13.53
-	-	GMO	Multi Asset	101,882	17.97
521	0.10	Other		51	0.01
500,776	**100.00**	**Total Fund**		**567,089**	**100.00**

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

Market Value 31 March 2014	% of total fund	Security	Market Value 31 March 2015	% of total fund
£000			**£000**	
97,978	19.36	Barings Dynamic Asset Allocation Fund	-	-
-	-	GMO	101,882	17.73
85,594	16.92	Baillie Gifford Global Alpha Pension Fund	101,846	17.72
71,029	14.04	Baillie Gifford Diversified Growth Fund	76,732	13.35
46,634	9.22	SSGA MPF All World Equity Index	55,502	9.66

16. Stock Lending

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

17. Financial Instruments

(a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2014				31 March 2015		
Designated as fair value through fund account	**Loans and receivables**	**Financial liabilities at amortised cost**		**Designated as fair value through fund account**	**Loans and receivables**	**Financial liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
24,720	-	-	Equities	24,391	-	-
68,082	-	-	Fixed Interest Securities	81,916	-	-
53,644	-	-	Index linked securities	63,591	-	-
183	-	-	Derivative contracts	14	-	-
324,632	-	-	Pooled investment Vehicles	361,201	-	-
22,888	-	-	Property	26,341	-	-
-	5,951	-	Cash	-	9,044	-
-	9,566	-	Debtors	-	9,525	-
494,149	**15,517**	**-**	**Financial Assets Total**	**557,454**	**18,569**	**-**
			Financial Liabilities			
(74)	-	-	Derivative contracts	(543)	-	-
-	-	(3,573)	Creditors	-	-	(811)
(74)	-	(3,573)	**Financial Liabilities Total**	(543)	-	(811)
494,075	**15,517**	**(3,573)**	**Grand total**	**556,911**	**18,569**	**(811)**

(b) Net gains and losses on financial instruments

2013/14 £000		2014/15 £000
	Financial assets	
24,427	Fair value through fund account	63,061
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
	Financial liabilities	
-	Fair value through fund account	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
24,427	**Total**	**63,061**

(c) Fair Value of financial instruments carried out at fair value

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values

2013/14			2014/15	
Carrying Value	**Fair Value**		**Carrying Value**	**Fair Value**
£000	**£000**		**£000**	**£000**
		Financial assets		
494,149	494,149	Fair value through fund account	557,454	557,472
15,517	15,517	Loans and receivables	18,569	18,551
509,666	**509,666**	**Total financial assets**	**576,023**	**576,023**
		Financial liabilities		
(74)	(74)	Fair value through fund account	(543)	(543)
(3,573)	(3,573)	Financial liabilities at amortised cost	(811)	(811)
(3,647)	**(3,647)**	**Total financial liabilities**	**(1,354)**	**(1,354)**

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

(d) Valuations of financial instruments carried out at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments 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

Financial instruments 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 and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments 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 2015	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	531,112	19	26,341	557,472
Loans and receivables	18,551	-	-	18,551
Total Financial Assets	**549,663**	**19**	**26,341**	**576,023**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(543)	-	-	(543)
Financial liabilities at amortised cost	(811)	-	-	(811)
Total Financial Liabilities	**(1,354)**	**-**	**-**	**(1,354)**
Net Financial Assets	**548,309**	**19**	**26,341**	**574,669**

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2014	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	471,245	16	22,888	494,149
Loans and receivables	15,517	-	-	15,517
Total financial Assets	**486,762**	**16**	**22,888**	**509,666**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(74)	-	-	(74)
Financial liabilities at amortised cost	(3,573)	-	-	(3,573)
Total Financial Liabilities	**(3,647)**	**-**	**-**	**(3,647)**
Net Financial Assets	**483,115**	**16**	**22,888**	**506,019**

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.

(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 administrating 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 administrating 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 2014/15 reporting period:

Asset Type	31 March 2015 Potential market movements (+/-)	31 March 2014 Potential market movements (+/-)
UK Equities	-	8.91%
Global Pooled inc. UK	9.04%	11.31%
Fixed Interest Bonds	7.74%	6.74%
Index Linked Bonds	11.26%	10.49%
Property	4.86%	4.17%
Cash	0.01%	0.02%

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 2015 £000	Change %	Value on Increase £000	Value on Decrease £000
UK Equities	-	-	-	-
Global Pooled inc.UK	385,592	9.04	420,450	350,734
Fixed Interest Bonds	81,916	7.74	88,256	75,576
Index linked Bonds	63,591	11.26	70,751	56,431
Property	26,341	4.86	27,621	25,061
Cash	9,044	0.01	9,045	9,043
Total	**566,484**		**616,123**	**516,845**

Asset Type	Value as at 31 March 2014 £000	Change %	Value on Increase £000	Value on Decrease £000
UK Equities	6,707	8.91	7,305	6,109
Global Pooled inc.UK	342,645	11.31	381,398	303,892
Fixed Interest Bonds	68,082	6.74	72,671	63,493
Index linked Bonds	53,644	10.49	59,271	48,017
Property	22,888	4.17	23,842	21,934
Cash	5,951	0.02	5,952	5,950
Total	**499,917**		**550,439**	**449,395**

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 2015 and 31 March 2014 is set out in the following table. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2015 £000	As at 31 March 2014 £000
Bond Securities	145,507	121,726
Cash and Cash Equivalents	9,044	5,951
Cash Balances	-	-
Total	**154,551**	**127,677**

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 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

Asset Type	Value as at 31 March 2015	Change in year in the net assets available to pay benefits	
		+100BPS	-100BPS
	£000	£000	£000
Bond Securities	145,507	1,465	(1,465)
Cash and Cash Equivalents	9,044	90	(90)
Total Change in Asset Value	**154,551**	**1,555**	**(1,555)**

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.

The table below summarises the Fund’s currency exposure by asset type

Currency Exposure by Asset Type	Value as at 31 March 2015 £000	Value as at 31 March 2014 £000
Overseas Equities	20,485	18,013
Overseas Pooled	2,249	2,971
Overseas Index Linked Bonds	13,094	11,444
Overseas Cash	140	113
Total Overseas Assets	**35,968**	**32,541**

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 7.37% over a rolling 36 month period.

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

A 7.37% 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:

Currency Exposure by Asset Type	Value as at 31 March 2015	Change to net assets available to pay benefits	
		+7.37%	-7.37%
	£000	£000	£000
Overseas Equities	20,485	21,995	18,975
Overseas Pooled	2,249	2,415	2,083
Overseas Index Linked Bonds	13,094	14,059	12,129
Overseas Cash	140	150	130
Total	**35,968**	**38,619**	**33,317**

Currency Exposure by Asset Type	Value as at 31 March 2014	Change to net assets available to pay benefits	
		+7.36%	-7.36%
	£000	£000	£000
Overseas Equities	18,013	19,339	16,687
Overseas Pooled	2,971	3,190	2,752
Overseas Index Linked Bonds	11,444	12,286	10,602
Overseas Cash	113	121	105
Total	**32,541**	**34,936**	**30,146**

(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 Administrating 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.

19. Funding Arrangements

London Borough of Havering ("the Fund")

Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. 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). 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 (N.B. this will also minimise the costs to be borne by council tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

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

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £461 million, were sufficient to meet 61% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £292 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 2013 valuation report published 31 March 2014.

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 2013 valuation were as follows:

	31 March 2013	
Assumptions	**Nominal**	**Real**
Discount Rate for Period	4.8%	2.3%
Pay increases *	3.3%	0.8%
Price inflation/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	**Females**
Current Pensioners	22.1 years	24.1 years
Future Pensioners	24.2 years	26.7 years

** Currently aged 45*

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from the London Borough of Havering, Administrating Authority to the Fund.

Experience over the period since April 2013

Experience has been mixed over the two years to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been offset by the effect of strong asset returns, meaning that funding levels are likely to have increased marginally over this period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Employers' contribution rates for the Authority, in line with the actuary's recommendation are as shown below:

	Future Service %	Past Service %	Total Pensionable Pay %
April 14 to March 15	15.6	6.4	22.0
April 15 to March 16	15.6	6.4	22.0
April 16 to March 17	15.6	6.4	22.0

The employer contributions for the other employers in the Fund range from 17.3% to 28.7% of pensionable pay.

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.

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).

Balance Sheet

Year Ended	31 March 2015	31 March 2014
	£m	£m
Present Value of Promised Retirement Benefits	1,019	898

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. It is estimated that this liability at 31 March 2015 comprises £460m in respect of employee members, £164m in respect of deferred pensioners and £395m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. No allowance has been made for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. 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 as required by the Code of Practice. These are given below. It is estimated that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £92m.

Financial assumptions

The actuaries recommended financial assumptions are summarised below:

Year Ended	31 March 2015	31 March 2014
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.10	2.60
Salary Increase Rate	3.00	3.40
Discount Rate	3.10	4.10

Longevity assumption

As discussed in Note 19, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.1 years
Future Pensioners	24.2 years	26.7 years

*Future pensioners are assumed to be currently aged 45

Please note the longevity assumptions are identical to those used for the previous 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.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 24 April 2015. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

21. Current Assets

2013/14 £000		2014/15 £000
	Debtors:	
8	Pension Grants	8
-	Other Local Authorities	7
184	Contributions due from employers	345
71	Contributions due from members	71
-	Pension Fund Bank Account Balances	2,608
-	Debtors Refund	2
7,591	Cash deposit with LB Havering	5,298
7,854	**Current Assets**	**8,339**

2013/14 £000	Analysis of Debtors	2014/15 £000
8	NHS Bodies	8
-	Other local authorities	7
184	Public corporation and trading funds	345
71	Other entities and individuals	73
263	**Total Debtors**	**433**

22. Current Liabilities

2013/14 £000		2014/15 £000
	Creditors:	
(439)	Unpaid Benefits	(188)
(241)	Accrued Expenses	(263)
(1,931)	Pension Fund Bank Account Balance	-
-	Income Tax Recoveries	(305)
-	Holding Accounts	(3)
(2,611)		**(759)**

2013/14 £000	Analysis of Creditors	2014/15 £000
(680)	Other entities and individuals	(759)
(680)	**Total**	**(759)**

23. Additional Voluntary Contributions

Market Value 2013/14	AVC Provider	Market Value 2014/15
£000		**£000**
717	Prudential	803
145	Standard Life	160

Some employees made additional voluntary contributions (AVC's) of £62,496 (2013/14 £62,167) 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 2014/15 were £47,380 (2013/14 £48,592) to the Prudential and £15,116 (2013/14 £13,575) to Standard Life.

24. 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 administered by Havering Council and consequently there is a strong relationship between the Authority and the Pension Fund. In 2014/15, £0.411m was paid to the Authority for the cost of administrating the Fund (£0.693m in 2013/14).

The Authority is also the largest employer in the Fund and in 2014/15 contributed £22.526m (£33.500m in 2013/14) to the Pension Fund in respect of employer's contributions.

Several employees of Havering Council hold key positions in the financial management of the Fund. As at 31 March 2015 these included the Group Director of Communities and Resources, Head of Finance and Procurement, Corporate Finance Manager and the Pension Fund Accountant. All of these managers are members of the Pension Fund. In 2014/15 the Pension Fund contributed £0.143m for the cost of the financial management of the Fund (£0.143m 2013/14).

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 2015 cash holdings totalled £7.6m (2013/14 £5.7m), earning interest over the year of £47k (2013/14 £41k).

Governance

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

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

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

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

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

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2015 totalled £186k (2013/14 £186k). This relates to an outstanding commitment due on an unquoted private equity fund.

26. Contingent Assets

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

Two new admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.5m.

27. Impairment Losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2015.

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 account, deferred grant and capital financing 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 Account 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.

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 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 year.

Post Balance Sheet Events Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts are approved for issue by the Group Director, Communities and Resources.

Precept The charge made by one authority (e.g. Greater London Authority) on another authority (e.g. Havering) to finance its net expenditure.

Private Finance Initiative A Government initiative that enables authorities to carry out capital projects, through partnership with the private sector.

Provisions Amounts set aside to fund known liabilities chargeable to the current year's Accounts where the exact amount or timing of the payment are not yet certain.

Prudential Code Since April 2004 local authorities have been subject to a self-regulatory "prudential system" of capital controls. This gives authorities freedom to determine how much capital investment they can afford to fund through borrowing. The objectives of the code are to ensure that authorities' capital spending plans are affordable, prudent and sustainable, with authorities being required to set specific prudential indicators.

Public Works Loans Board (PWLB) Central Government Agency which funds much of Local Government borrowing.

Revenue Expenditure The day to day expenditure of the Authority, e.g. salaries, goods and services and depreciation.

Revenue Expenditure Funded from Capital Under Statute Expenditure which would otherwise be classified as revenue, but which is classified as capital expenditure for control purposes. Examples include items such as improvement grants and loan redemption expenses.

Revenue Support Grant The main grant paid by the Government to local authorities.

Service Reporting Code of Practice (SeRCOP) SeRCOP establishes proper practices with regard to consistent financial reporting for services. It is an official CIPFA statement – all local authorities in the United Kingdom are expected to adopt its mandatory requirements and detailed recommendations.

Statement of Movements in Reserves 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 HRA subsidy or Revenue Support Grant.

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Havering
LONDON BOROUGH

AUDIT COMMITTEE REPORT

24 September 2015

Subject Heading:	**Report To Those Charged With Governance** **International Standard of Auditing (ISA) 260**
Report Author and contact details:	Contact: Mike Board Designation: Corporate Finance & Strategy Manager Telephone: (01708) 432217 E-mail address: Mike.Board@oneSource.co.uk
Policy context:	Audit Committee responsible for approving accounts.
Financial summary:	N/A

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[]
High customer satisfaction and a stable council tax	X

SUMMARY

The draft ISA 260 report from the external auditor PWC is shown as Appendix A. It summarises their findings from the 2014/15 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate. Officers' responses are shown in the section "Summary of significant internal control deficiencies", beginning at page 20 of the ISA 260 report.

The draft of the Letter of Representation is included as appendix B.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2015.

RECOMMENDATIONS

To note the contents of the Report to Those Charged with Governance (ISA260) and the draft Letter of Representation and consider any issues raised by the external auditor.

REPORT DETAIL

Regulation 11 of the Accounts and Audit regulations requires the publication of the Statement of Accounts after the conclusion of the audit, but in any event no later than the 30th September 2015.

The draft report from the external auditor, Appendix A, summarises their findings from the 2014/15 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate.

The Committee is also asked to consider the draft Management letter, Appendix B, setting out the assurances required of the Group Director of Finance and Commerce by the auditors.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2015.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. Any financial consequences arising from the outcome of the audit of accounts and recommendations set out by the external auditor will be addressed as part of the Council's response.

Legal Implications and risks:

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Appendix A

Report to the Audit Committee of the authority on the audit of the statement of accounts and pension fund accounts for the year ended 31 March 2015 (ISA (UK&I)) 260)

Appendix B

Representation letter – audit of the London Borough of Havering's ("the Authority") Statement of Accounts for the year ended 31 March 2015

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www.pwc.co.uk

London Borough of Havering

Report to those charged with governance

Report to the Audit Committee on the audit for the year ended 31 March 2015
(ISA (UK&I)) 260)

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PwC Government Industry Group

September 2015

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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Contents

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Executive summary

Background

This report tells you about the significant findings from our audit of the London Borough of Havering ("the Authority") and the London Borough of Havering Pension Fund ("the Pension Fund").

We presented our plan to the Audit Committee in March 2015, which as part of its remit considers external audit. We reviewed the plan following our interim visit and concluded that it required amendment to reflect a change in our risk assessment. This explained further on page 3.

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts by 30 September 2015.

The key outstanding matters, where our work has commenced but is not yet finalised, are:

- receipt of outstanding bank and investment confirmations;
- testing of journals;
- review of Property, Plant and Equipment ("PPE") valuations;
- audit of documentation received in relation to related party transactions, payroll and collection fund reconciliations,
- approval of the statement of accounts and letters of representation;
- completion procedures including subsequent events review; and
- review of the final draft of the statement of accounts and Pension Fund Annual Report.

Our work on our value for money conclusion is also in progress.

We will provide a verbal update to the Audit Committee on these matters.

We have provided details on the key accounting issues which we consider require the attention of those charged with governance – further details are set out starting on page 11.

On 1 April 2015, the Audit Commission ceased to exist. A novation of the original contract was signed, whereby the Commission's responsibilities have transferred to the Public Sector Audit Appointments Limited ("PSAA"). Therefore, all references to Audit Commission and PSAA in this report refer to the same body.

This is the final year of the Audit Commission framework contract, and therefore, our final year as your external auditor. However, we remain committed to providing you with a high quality service and will work with your incoming auditors to ensure a smooth transition.

Please note that this report will be sent to PSAA in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 24 September 2015. Attending the meeting from PwC will be Ciaran McLaughlin.

Acknowledgements

We would like to thank Andrew Blake-Herbert, Mike Board, Nigel Foster, Mark White, Alison Umoh and Debbie Ford and the whole finance team for the considerable help and assistance provided to us during the audit.

We thank the management and staff of the Authority for their co-operation and assistance during the course of our term of appointment.

We note that the first draft of the accounts provided to us at the commencement of the audit was of a good quality. The working papers supporting the audit trail from the general ledger to the accounts were also of good quality.

We worked with management to deliver the audit in accordance with the timetable we agreed with management. Audit queries were answered promptly.

Audit approach

Main Authority

Our audit approach was set in our audit plan which we presented to the Audit Committee in March 2015.

Since we communicated our audit plan, we have amended our audit approach for the main Authority accounts audit to reflect the changes described in the table below:

Risk	Risk Level	Response to new risk/change in risk level	Reason for change
Valuation of Property, Plant and Equipment ('PPE') and **Investment Properties**	Original – Elevated Revised – Significant	The response to the risk remains the same as that detailed in our audit plan. The extent of the work carried out to address the risk has increased to gives us the required assurance over the higher risk. Our full response to the risk is detailed on page 4.	We have revised our assessment of the risk of material misstatement to significant reflecting guidance from the Audit Quality Review Team that PPE is normally considered a significant risk for public sector entities. This is due to the size of the PPE and Investment Properties balance (£997.5m) relative to the rest of the balance sheet and also the judgements applied in determining the valuation of the balance.

We have summarised on the next page the significant and elevated risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Risk	Risk level	Audit approach	Results of work performed
Risk of fraud and management override of controls	Significant	As part of our assessment of your control environment we considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We have: • Tested the appropriateness of journal entries and other adjustments to the general ledger. • Tested accounting judgements that affect the General Fund for bias, such as bad debts, accruals and provisions. • Considered if there have been significant transactions outside the normal course of business, and whether their rationale suggests fraudulent financial reporting or asset misappropriation. • Tested that expenditure has been recorded in the correct financial year. • Considered whether any segregation of duties weaknesses gave rise to a significant risk of material misstatement. • Tested that the reversal of items debited or credited to the Comprehensive Income and Expenditure Statement were in accordance with statute. • Reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and • Performed unpredictable procedures targeted on fraud risks.	Our audit work in relation to journal entries is ongoing at the date of drafting this report. We will provide a verbal update to the Audit Committee. We have no other issues to report to you.

Risk	Risk level	Audit approach	Results of work performed
Risk of fraud in revenue and expenditure recognition	Significant	We performed detailed testing of revenue and expenditure transactions, focussing on the areas we considered to be of greatest risk. These are detailed below. For income, we considered that sales, fees and charges are areas of significant risk. We did not consider grant income, Council Tax and Business Rate income or interest income to be significant risks. For expenditure, we considered that non payroll service expenditure was an area of significant risk. We did not consider that housing and council benefits, payroll expenditure, depreciation and impairment, pension costs recognised due to the requirements of IAS 19, or interest expenditure to be significant risks. We have: • Evaluated the accounting policies for income and expenditure recognition to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting. • Conducted tests of detail to obtain a high level of assurance over the significant risks described above. • Conducted tests of detail over accounting estimates for income and expenditure (for example, provisions). • Obtained an understanding and evaluate the controls relevant to the significant risks described above. We also considered recent guidance from the Financial Reporting Council on the audit of complex supplier arrangements. We did not identify any such arrangements in our audit of the authority.	We did not identify any issues to report to you as a result of our work.

Risk	Risk level	Audit approach	Results of work performed
Valuation of Property, Plant and Equipment ('PPE') and Investment Properties	Significant	We have: • Challenged how management has satisfied itself that the key assumptions driving the revaluation of PPE and Investment Properties at 31 March 2015 are appropriate for the circumstances of the Authority. • Utilised our own valuation experts to review the work of the valuation experts engaged by the Authority. • Tested the source data used by the valuation experts engaged by the Authority. • Challenged how management has satisfied itself that the element of PPE portfolio not subject to a formal revaluation at as 31 March 2015 is materially correct.	Key areas of judgement considered during our work are discussed in the section "Audit and accounting matters" on page 11. At the time of drafting this report our work in this area was still in progress. We will provide a verbal update to the committee.
Accounting for schools' assets	Elevated	We have audited the Authority's approach to addressing the guidance in the LAAP 101 bulletin. We have checked that the Authority has obtained sufficient evidence to enable it to form a conclusion as to whether the non-current assets of individual schools should be included within its balance sheet.	At the time of drafting this report our work in this area was still in progress. We will provide a verbal update to the committee.
Oracle system	Elevated	We have: • Understood and evaluated the controls in place around the migration to the new Oracle system. • Understood the changes to and updated our understanding of business process controls via walkthroughs. • Understood the changes to the IT environment. • Tested the migration of data to ensure completeness and accuracy of transferred data. We have understood the controls in place to ensure the complete and accurate transfer of data. • Tested the opening Trial Balance (TB) on the upgraded system to ensure that it agrees to the closing TB on the old system. • Reviewed Internal Audit's work in relation to the controls in the new system and consider the impact on our audit approach of any issues arising.	We did not identify any issues to report to you as a result of our work.

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Pension Fund

Our audit approach was set in our audit plan which we presented to the Audit Committee in March 2015.

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Risk	Categorisation	Audit approach	Results of work performed
Risk of management override of controls	Significant	As part of our assessment of your control environment we considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We have: • Reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards. • Tested the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus. • Reviewed accounting estimates for bias and evaluate whether judgment and estimates used were reasonable (for example pension scheme assumptions, valuation and impairment assumptions). • Evaluated the business rationale underlying significant transactions outside the normal course of business. • Considered whether any segregation of duties weaknesses gave rise to a significant risk of material misstatement • Performed unpredictable procedures targeted on fraud risks.	Our audit work in relation to journal entries is ongoing at the date of drafting this report. We will provide a verbal update to the Audit Committee. We have no other issues to report to you.

Risk	Categorisation	Audit approach	Results of work performed
Risk of fraud in revenue recognition	Significant	We have performed detailed testing of revenue transactions, focussing on the areas we consider to be of greatest risk. This is over contributions and investment income journals. We have: • Evaluated the accounting policies for income recognition to ensure that these are consistent with the requirements of the Code of Practice on Local Authority Accounting. • Conducted tests of detail to obtain a high level of assurance over the significant risk areas described above. • Obtained an understanding and evaluated the controls relevant to the significant risks described above.	We did not identify any issues to report to you as a result of our work.
Valuation of pooled investment vehicles	Elevated	We have: • Obtained independent confirmation from the fund managers of valuations. • Obtained evidence that confirmed prices reflect realisable value, by obtaining details of transactions in the fund close to the year-end (where available) and compare the transacted price to the year-end price. • Obtained a copy of fund manager's report on internal controls and identify whether there are any weaknesses in the controls over the pooled vehicle valuation process. • Obtained the audited accounts for the fund, where available, and compare the audited unit price to the unaudited price provided by the fund manager or custodian.	At the time of drafting this report our work in this area was still in progress. We will provide a verbal update to the committee.

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Value for money

Our audit approach was set in our audit plan which we presented to the Audit Committee in March 2015.

We have summarised below the significant risk we identified in our audit plan, the audit approach we took to address the risk and the outcome of our work.

Risk	Categorisation	Audit approach	Results of work performed
Savings plans – financial resilience criterion	Significant	We have reviewed your medium term financial plans and considered: • How you manage the plan. • Your record in delivering savings. • How arrangements in Onesource contribute to financial governance, financial control and financial planning. • The governance structure in place to deliver the targets (including extent of Member involvement). • The level and extent of accountability. • Project management arrangements. • Monitoring and reporting. • Progress on delivering the plan. We have also considered the accounting implications of your savings plans and the impact of the efficiency challenge on the recognition of both income and expenditure.	At the date of drafting this report, we had not identified any issues to report to you as a result of our work, which remains in progress. We will provide a verbal update to the committee.

Intelligent scoping

In our audit plan presented to the Audit Committee in March 2015 we reported our planned overall materiality which we used in planning the overall audit strategy.

Our materiality varied upon receipt of the draft 2014/15 financial statements as our planned overall materiality was based upon the 2013/14 financial statements. The change did not have a significant effect on our testing strategy for either the Authority or the Pension Fund audits.

Our original and revised materiality levels are as follows:

	Benchmark	Planned overall materiality (£)	Final overall materiality (£)	Planned 'clearly trivial' reporting de minimis (£)	Final 'clearly trivial' reporting de minimis (£)
Main Authority	2% Total Expenditure	12,200,000	11,460,000	500,000	500,000
Pension Fund	2% Net Assets	10,100,000	11,500,000	500,000	500,000

Overall materiality for the Authority audit has been set at 2% of actual expenditure for the year ended 31 March 2015.

Overall materiality for the Pension Fund audit has been set at 2% of net assets for the year ended 31 March 2015.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Audit Committee at its meeting in March 2015. The Authority and Pension Fund de minimis levels remain unchanged.

Significant audit and accounting matters

Accounts

We have completed our audit, subject to the following outstanding matters:

- receipt of outstanding bank and investment confirmations;
- testing of journals;
- review of Property, Plant and Equipment ("PPE") valuations;
- audit of documentation received in relation to related party transactions, payroll and collection fund reconciliations,
- approval of the statement of accounts and letters of representation;
- completion procedures including subsequent events review; and
- review of the final draft of the statement of accounts and Pension Fund Annual Report.

Subject to the satisfactory resolution of these matters, the finalisation of the Statement of Accounts and the approval of these, we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we are also examining the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government. We will provide a verbal update to the audit committee on this work.

Accounting issues

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

We identified accounting issues during the course of our work that we wish to draw to your attention, relating to the valuation of PPE in the Authority accounts. No issues are raised here with regards to the Pension Fund.

Valuation of PPE and Investment Properties

In the application of the Authority's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of PPE and Investment Properties. These are based upon a revaluation exercise performed at each year-end which is discussed in more detail in the 'Judgements and accounting estimates' section on pages 13 and 14 below.

We identified one control issue in the course of the audit. We have also tested the "inputs" into the valuation. For PPE, the valuation is based upon the gross internal area ("GIA") of the Authority's land and buildings. This is held on a database by Property Services and shared with the Authority's external valuers.

We were unable to corroborate the GIA's to supporting documentation (such as detailed building plans) as these are not retained by the Authority. We have instead tested the information within the Property Services database to satisfy ourselves that the valuations are appropriate. At the time of drafting this report this work was in progress. We will provide a verbal update to the Audit Committee.

Prior period adjustments

The Authority has made two prior period adjustments in the statement of accounts. These are described in Note 2 to the accounts.

The first adjustment relates to accounting for schools. CIPFA have issued revised guidance on accounting for schools to clarify the criteria for accounting for schools balances and transaction in local government accounts. £33.3m has been added to the value of PPE on the balance sheet as at 1 April 2013 to reflect two foundation schools being added to the Authority's accounts. We will give a verbal update to the committee on the appropriateness of the adjustments made.

The second adjustment relates to a reclassification of £14.2m in the Note to the Statement of Movement on the Housing Revenue Account Balance. There is no effect on the general fund balance and the adjustment is presentational only.

Payroll reconciliations

While the Authority has addressed the prior year control recommendation and has put a place a monthly process for reconciling payroll expenditure to the general ledger, owing to the transfer to a new instance of ORACLE in August 2014, the payroll reconciliation for the financial year did not reconcile.

Management have prepared a new reconciliation which we are, at the time of drafting this report, in the process of auditing. We will give a verbal update to the Audit Committee on this matter.

VfM conclusion – Medium term financial strategy

The Authority has set out a financial strategy from 2015/16 to 2018/19. There is a notable "budget gap" in the financial forecast in 2017/18 and 2018/19, as reported to Cabinet in September 2015 and detailed below:

Financial year	Cumulative budget gap (£m)
2015/16	0
2016/17	0
2017/18	7.5
2018/19	16.0

We are aware the Authority is in the process of determining actions to reduce the medium term "budget gap". We understand this will take into account the Spending Review when published in November 2015 and the Local Government Finance Settlement in December 2015.

However, there are still outstanding issues and areas of uncertainty remaining in closing the budget gap in 2016/17 and beyond. We therefore formally recommend that management continues to ensure that actions are underway and progress continues to be monitored appropriately.

We also note that the 9 September 2015 Cabinet report includes a forecast of an overspend of £6.7m for the 2015/16 financial year, including a £7.6m forecast overspend in Children's, Adults and Housing. The report notes that further analysis of the causes of the variance is being undertaken. We recommend that this work is undertaken promptly so that mitigating actions can be taken where possible.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial.

At the date of drafting this report we had not identified any uncorrected misstatements. We will provide a verbal update to the Audit Committee.

Please refer to Appendix 1 for further information..

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

We have reviewed the appropriateness and application of accounting policies in the Statement of Accounts, with no issues noted.

Judgements and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Continuing operations – 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 or for discontinued operations as it reduces levels of service provision. We have considered this as part of our 'value for money' work and have no matters to raise with you.

Valuation of Property, Plant and Equipment and investment properties **-** In line with its accounting policy, the Authority has re-valued a proportion of its land and buildings in 2014/15.

The Authority has utilised the expertise of external valuers in valuing its PPE and investment properties. We have used our own internal valuation specialists to review the assumptions and methodologies used by the external valuers, and have noted the following points (these are the same points noted in the audit of the 2012/13 and 2013/14 statement of accounts):

1) The external valuers have not deducted purchaser's costs from their valuations, which is a departure from usual market practice. Purchaser's costs comprise stamp duty, agents and legal fees and VAT (on these fees).

   However, the external valuers have suggested that their approach is appropriate because the yields they use are adjusted to reflect the fact that purchasers' costs are not deducted. We have concluded that this approach is reasonable.

2) The external valuers have used an approach of apportioning land values as a percentage of building costs in their valuation.

   However, our valuers would adopt an approach that derived the land values by using a land value per acre based on market comparables.

At the date of drafting this report we are discussing land valuation benchmarks with the Authority's property services team in order to gain comfort that the land values produced by the external valuers are materially correct. We will provide a verbal update to the committee on this work.

We have also challenged management regarding the value of PPE recorded in the accounts that has not been subject to a formal revaluation in 2014/15. While the CIPFA Code of Practice permits a five-year rolling programme for valuations to be formally undertaken, we require sufficient evidence that that the accounts are not materially misstated. To obtain this assurance, we have asked management to provide further evidence that a sample population of PPE not revalued this year is not materially misstated. We will provide an update to the Audit Committee on this work.

For non-property assets such as vehicles, plant and equipment with a short useful life, low value, or both, the Authority uses depreciated historical cost as a proxy for fair value. Infrastructure assets are also recorded at depreciated historical cost. We concluded this was a reasonable technique to use for the Authority's portfolio of assets.

Valuation of Pensions Liability - The Authority engaged the actuary Hymans Robertson LLP to estimate the value of the Pension Liability on the balance sheet at 31 March 2015. The calculation involves a number of complex judgements, including appropriate discount rates to be used, mortality rates, expected return on pension fund assets, salary changes and estimates of future retirement ages. We have considered these assumptions against actuarial guidance and have agreed those used to be within a reasonable range.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 2.

Financial standing

We have not identified any material uncertainties related to events and conditions that may cast significant doubt on the entity's financial standing.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We performed detailed testing over related parties including a public record search of Directors and Members (including those leaving office during the year) to identify any additional relationships by comparing related entities to supplier and customer listings.

At the time of drafting this report our work in this area was still in progress.

We will provide a verbal update to the Audit Committee.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Authority

We are not aware of any relationships between PwC and the Authority that in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Audit Committee and a review of the annual report. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Authority:

Support provided by PwC	Value (£)	Threats to independence and safeguards in place
Certification of claims and returns Our procedures will consist of certifying the 2014/15 Housing Benefit Subsidy Claim in accordance with the certified instructions issued by the Audit Commission.	21,570	**Self-Review Threat:** The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors. There is no self-review threat as we are certifying management completed grant returns and claims. **Self-Interest Threat:** As a firm, we have no financial or other interest in the results of the Authority. We have concluded that this work does not pose a self-interest threat. **Management Threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy Threat:** We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat. **Familiarity Threat:** Work complements our external audit appointment and does not present a familiarity threat. **Intimidation Threat:** We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism.
Work outside the scope of the Audit Commission Code of Audit Practice – procedures on the 2013/14 Teachers' Pensions Return	9,750	**Self-interest threat:** fees are not material in relation to the audit fees and PwC's total income. **Self-review threat:** this does not arise as the work we undertook provided reasonable assurance over the accuracy of the teachers' pension return for 2013/14 and will not be relied upon by the PwC audit team as part of the audit of the main accounts for 2014/15. **Management threat:** this does not arise as PwC are not taking decisions which are the responsibility of management. **Advocacy threat:** this does not arise as the work will be limited to the testing of information provided by the Client and does not result in advocacy. PwC are carrying out reasonable assurance procedures and not providing assurance or advocacy on behalf of the client. **Familiarity threat**: this does not arise as a separate team from the audit team is being used to carry out this work. **Intimidation Threat:** We have concluded that this work does not pose an intimidation threat.
Work outside the scope of the Audit Commission Code of Audit Practice – agreed upon procedures on the 2013/14 Decent Homes funding	8,000	**Self-interest threat:** fees are small in relation to the audit fees and PwC's total income. **Self-review threat:** this does not arise as the work we undertook was agreed upon procedures in respect of the Decent Homes funding and will not be relied upon by the PwC audit team as part of the audit of the main accounts. **Management threat:** this does not arise as PwC are not taking decisions which are the

Support provided by PwC	Value (£)	Threats to independence and safeguards in place
		responsibility of management. **Advocacy threat:** this does not arise as the work will be limited to the testing of information provided by the Client and does not result in advocacy. PwC are carrying out reasonable assurance procedures and not providing assurance or advocacy on behalf of the client. **Familiarity threat**: this does not arise as a separate team from the audit team is being used to carry out this work. **Intimidation Threat:** We have concluded that this work does not pose an intimidation threat.
Work outside the scope of the Audit Commission Code of Audit Practice – ORACLE gate review	20,000	**Self-interest threat:** fees are not material in relation to the audit fees and PwC's total income. **Self-review threat**: The work does not involve provide advice on a particular accounting treatment or audit standards. While the audit team will have regard to the outcome of the review to assess whether there are any implications for the audit, the audit team will not perform an audit over PwC's work. **Management threat:** this does not arise as PwC are not taking decisions which are the responsibility of management. **Advocacy threat:** this does not arise as the work will be limited to the testing of information provided by the Client and does not result in advocacy. PwC are carrying out reasonable assurance procedures and not providing assurance or advocacy on behalf of the client. **Familiarity threat**: this does not arise as a separate team from the audit team is being used to carry out this work. **Intimidation Threat:** We have concluded that this work does not pose an intimidation threat

At the date of this report we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2015 is included on page 24. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Executive, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We ask the Audit Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Economy, efficiency and effectiveness

Our 'value for money' code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

At the time of drafting this report our work in this area was still in progress.

We will provide a verbal update to the committee.

To date, we have identified the following matters which we wish to bring to your attention:

- The Authority will need to ensure actions are underway to resolve the "budget gap" as identified by its medium term financial strategy up until 2018/19.

- The Authority should undertake prompt analysis of the root causes of the forecast £7.6m overspend in Children's, Adults and Housing in 2015/16 to enable mitigating actions to be taken.

Other reporting requirements

In auditing the accounts of a Local Authority, the auditors must consider:

- Whether we need to report on any questions or objections made to us as auditors.

We have not received any objections to the accounts.

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

Summary of control recommendations – Main authority audit

Deficiency	Recommendation	Management's response
Gross Internal Area of Assets Revalued [A control point may be added here depending on the outcome of our testing].		
Bank reconciliations We noted that two bank accounts showed unreconciled differences of £38,765.43 and £99.57. For the purposes of this audit, management produced manual reconciliations for all accounts to show how these differences are reconciled.	The reconciliations should be reviewed and any unreconciled balances should be investigated by the management.	All balances on this reconciliation were reconciled, we were aware of the difference/balance referred to. However, at the time of uploading the reconciliation to the PWC system we unfortunately failed to upload the supporting documentation, which explained the balance. As soon as this was pointed out, the documentation, which explained and evidenced the balance, was provided immediately. There was no time wasted or lost on this matter. This bank account was fully reconciled throughout the year and any balances were investigated, explained and documented. It was a simple oversight that the backing documentation

	was not uploaded until requested.

Summary of control recommendations – Pension Fund audit

Deficiency	Recommendation	Management's response
Following up on NFI results on a timely basis Every two years, LBH sends a list of all pensioners to the Audit Commission's NFI Team. The Audit Commission then uses information from DWP to inform LBH of any pensioners that have become deceased. The Commission sent a list of 42 pensioners that had become deceased to LBH on 29/01/2015. However, the Council had not suspended the payroll for all deceased pensioners by March 15 and so overpayments were made to deceased pensioners. We found two such exceptions in our sample of 5. In one instance, a request for the return of overpayment had not been sent at the time of testing (18/08/2015).	NFI results should be followed up promptly by the Authority.	NFI are promptly followed up by the Authority. The HR, Payroll and Pensions Manager did not receive the referred list until 25 June 2015 and dealt with any identified death actions by the required deadline of 31 July 2015. To progress with any type of recovery the Pensions administration Team need to obtain a death certificate, which can in some cases take up to eighteen month after death. The Department of Work and Pensions responsible for the Tell Us Once (TUO) service is being extended to include public sector pension schemes. The TUO collect information from registrars in real time following the death of a citizen. The Authority has agreed to participate in this service, which should significantly reduce the risk of overpayment.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

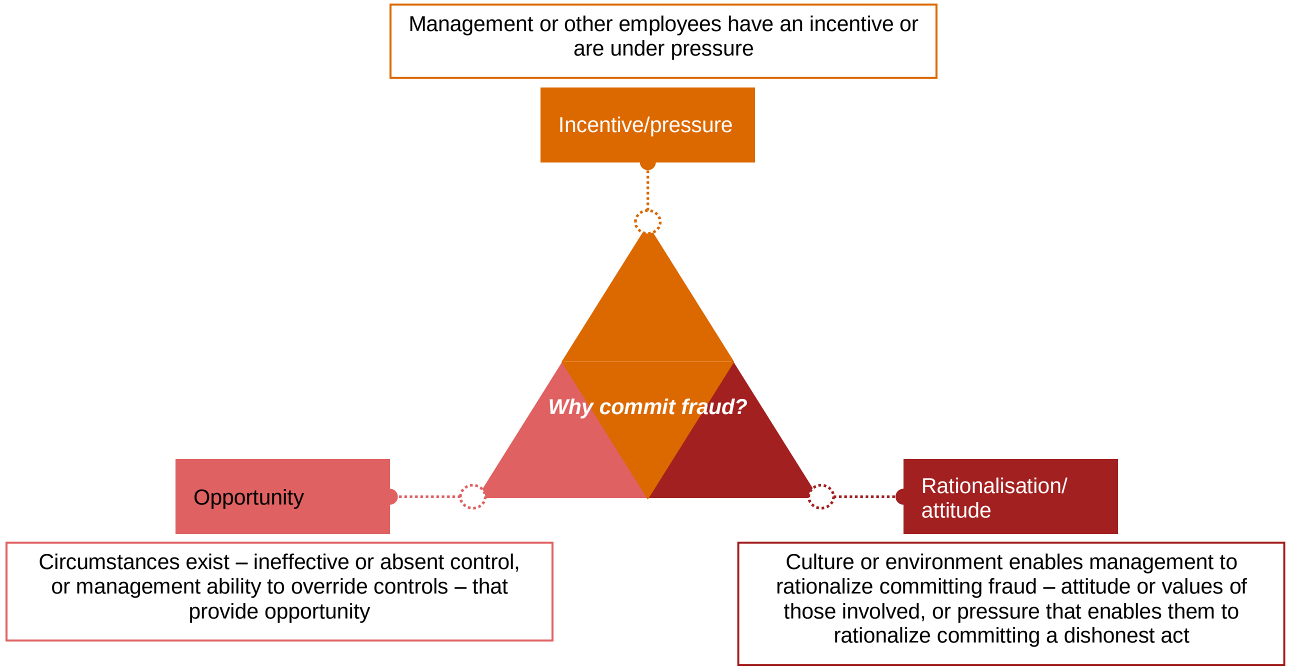
- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Audit Committee in March 2015, we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.



Fees update

Fees update for 2014/15

We reported our fee proposals in our audit plan in March 2015.

Our actual fees were in line with our proposals.

Our fees to be charged are therefore:

	2014/15 outturn (£)	2014/15 fee proposal (£)
Audit work performed under the Code of Audit Practice - Statement of Accounts - Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources - Whole of Government Accounts	202,459	202,459
Pension Fund	24,000	24,000
Certification of Claims and Returns	21,570 *	21,570
Total Audit Code work	**246,729**	**246,729**
Planned non-audit work (outside of the scope of the Code of Audit Practice	37,750	37,750
Total fees (audit and non-audit work)	**284,479**	**284,479**

**Our fee for certification of grants and claims is yet to be finalised for 2014/15 as our work is ongoing at the time of writing this report. It will be reported to the within the Certification Report to Management in relation to 2014/15 grants which will be issued to the authority later in the year.*

Appendices

Appendix 1: Summary of uncorrected misstatements

Authority Audit

Uncorrected misstatements

We are pleased to report that we do not have any misstatements which remain unadjusted.

Uncorrected disclosure adjustments

At the time of writing this report, we have yet to perform our final quality review of the final version of the financial statements. We will provide a verbal update to the Committee.

Pension Fund Audit

Uncorrected misstatements

We are pleased to report that we do not have any misstatements which remain unadjusted.

Uncorrected disclosure adjustments

At the time of writing this report, we have yet to perform our final quality review of the final version of the financial statements. We are happy to provide a verbal update to members.

Appendix 2: Letter of representation

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6NN

Dear Sirs

Representation letter – audit of the London Borough of Havering's ("the Authority") Statement of Accounts for the year ended 31 March 2015

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2015 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15.

I acknowledge my responsibilities as Group Director of Communities and Resources for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15; in particular the Statement of Accounts give a true and fair view in accordance therewith.

- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.

- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.

- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements, grouped by category, is attached to this letter.

- The restatement made to correct a material misstatement in the prior period Statement of Accounts that affects the comparative information has been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

- The Statement of Accounts disclose all matters of which we are aware that are relevant to the Authority's ability to continue as a going concern, including all significant conditions and events, mitigating factors and the Authority's plans. The Authority also has the intent and ability to take actions necessary to continue as a going concern. We confirm the following plans for future action to ensure that the Authority will continue as a going concern:

    - The Council recognises that there are significant financial risks associated with a continuing reduction in Central Government funding allied to increasing pressure on services from demographic growth. The Council's MTFS is currently being updated for the three year period up to 2018-19, reflecting our forecast of increasing financial pressures. We have set in place a process of identifying specific savings and income generation proposals which will bridge the gap in the strategy. We expect to approve the new strategy in February 2017.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.

- I have provided you with:

    – access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
    – additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the Statement of Accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

The Authority pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Related party transactions

I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All material transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Except as disclosed in the statement of accounts, no transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on the Local Authority Accounting in the United Kingdom 2014/15 have been entered into.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

The Authority has complied with all aspects of contractual agreements that could have a material effect on the Statement of Accounts in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the Statement of Accounts in the event of non-compliance.

I have disclosed all material agreements that have been undertaken by the Authority in carrying on its business.

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Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Using the work of experts

I agree with the findings of Wilks, Head & Eve LLP, experts in evaluating the valuation of investment property and property, plant and equipment, and Hymans Robertson LLP, experts in evaluating the net pensions liability. I have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2015, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2015 have been properly valued and that valuation incorporated into the Statement of Accounts.

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The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.

Pension fund registered status

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

Bank accounts

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Subsequent events

Other than as described in the Statement of Accounts, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Retirement benefits

- All significant retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority’s actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.
- The authority participates in the Teachers’ Pension Scheme that is a defined benefit scheme. I confirm that the authority’s share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.
- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

    - Longevity at 65 for current pensioners is estimated to be 22.1 years for men and 24.1 years for women
    - Longevity at 65 for future pensioners is estimated to be 24.2 years for men and 26.7 years for women
    - The rate of inflation and the rate of increase in pensions is anticipated to be 3.0%
    - The rate of increase in salaries is anticipated to be 3.0%
    - The discount rate is estimated at 3.1%

Provisions

- Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the statement of accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the authority's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.
- Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the Statement of Accounts.

Assets and liabilities

- The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- I confirm our intention to dispose of assets disclosed as assets held for sale within the next 12 months.
- The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Disclosures

- Where appropriate, the following have been properly recorded and adequately disclosed in the Statement of Accounts:

  - The identity of, and balances and transactions with, related parties.
  - Losses arising from sale and purchase commitments.
  - Agreements and options to buy back assets previously sold.
  - Assets pledged as collateral.

- I confirm that the Authority has recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.

- I confirm that the Authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the statement of accounts all guarantees that we have given to third parties, including oral guarantees made by the Authority on behalf of an affiliate, member, officer or any other third party.

Items specific to Local Government

I confirm that the Authority does not have plans to implement any redundancy/early retirement programmes for which we should have made provision in the Statement of Accounts.

I confirm that the Authority has determined a prudent amount of revenue provision for the year under the Prudential Framework.

I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

As minuted by the Audit Committee at its meeting on 24 September 2015.

……………………………… ……………………

Group Director of Communities and Resources Date

……………………………… ……………………

Chairman of the Audit Committee Date

Appendix 1 - Related parties

Complete list of the Authority's related parties:

Entities

Age Concern Havering (tapestry)
Barking, Havering and Redbridge NHS Trust
Bower Park Academy
BT Global Services
East London Waste Authority
First Step
Havering Arts Council
Havering Association for People with Disabilities
Havering Bands and Majorettes Association
Havering Museum Ltd
Havering Theatre Trust
LGA
Lucas Children's Play Charity
Mardyke Youth & Community Association
NELFMT
Veolia North Thames Trust
Havering Over 50's Forum
Havering College of Further Education
Romford Combined Charity
Poyntz Charity
Essex Wildlife Trust

Individuals

Officers

Andrew Blake-Herbert

Cheryl Coppell

Joy Hollister

Deborah Hindson

Councillors

June Alexander

Clarence Barrett

Robert Benham

Raymond Best

Wendy Brice-Thompson

Michael Deon Burton

Joshua Chapman

John Crowder

Philippa Crowder

Keith Darvill

Meg Davis

Ian De Wulverton

Osman Dervish

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Nic Dodin

Alex Donald

David Durant

Brian Eagling

Gillian Ford

Jason Frost

Jody Ganly

John Glanville

Linda Hawthorne

Philip Hyde

David Johnson

Steven Kelly

Phil Martin

Barbara Matthews

Robbie Misir

Ray Morgan

Barry Mugglestone

John Mylod

Stephanie Nunn

Ron Ower

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Gary Pain

Dilip Patel

Viddy Persaud

Roger Ramsey

Keith Roberts

Patrica Rumble

Carol Smith

Frederick Thompson

Linda Trew

Jeffery Tucker

Linda van den Hende

Melvin Wallace

Lawrence Webb

Roger Westwood

Damian White

Michael White

Reginald Whitney

Julie Wilks

Graham Williamson

Darren Wise

John Wood

Michael Armstrong

Rebecca Bennett

Sandra Binion

Jeff Brace

Denis Breading

Andrew Curtin

Keith Darvill

Roger Evans

Georgina Galpin

Peter Gardner

Pam Light

Mark Logan

Paul McGeary

Eric Munday

Pat Murray

Dennis O'Flynn

Barry Oddy

Fred Osborne

Paul Rochford

Geoff Starns

Billy Taylor

Barry Tebbutt

Keith Wells

150908-223124-CH-UK

Andrew Blake-Herbert
Group Director of
Communities & Resources
London Borough of Havering
Town Hall, Main Road, Romford
RM1 3BD

t 01708 432201
e Andrew.Blake-Herbert@havering.gov.uk
Date 24 September 2015

www.havering.gov.uk

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6NN

Dear Sirs

Representation letter – audit of the London Borough of Havering's ("the Authority") Statement of Accounts for the year ended 31 March 2015

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2015 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15.

I acknowledge my responsibilities as Group Director of Communities and Resources for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.

- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements, grouped by category, is attached to this letter.
- The restatement made to correct a material misstatement in the prior period Statement of Accounts that affects the comparative information has been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
- The Statement of Accounts disclose all matters of which we are aware that are relevant to the Authority's ability to continue as a going concern, including all significant conditions and events, mitigating factors and the Authority's plans. The Authority also has the intent and ability to take actions necessary to continue as a going concern. We confirm the following plans for future action to ensure that the Authority will continue as a going concern.
- The Council recognises that there are significant financial risks associated with a continuing reduction in Central Government funding allied to increasing pressure on services from demographic growth. The Council's MTFS is currently being updated for the three year period up to 2018-19, reflecting our forecast of increasing financial pressures. We have set in place a process of identifying specific savings and income generation proposals which will bridge the gap in the strategy. We expect to approve the new strategy in February 2017.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Authority’s accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the Statement of Accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority’s Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority’s ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

The Authority pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Related party transactions

I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All material transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Except as disclosed in the statement of accounts, no transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on the Local Authority Accounting in the United Kingdom 2014/15 have been entered into.

Employee Benefits
I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements
All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

The Authority has complied with all aspects of contractual agreements that could have a material effect on the Statement of Accounts in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the Statement of Accounts in the event of non-compliance.

I have disclosed all material agreements that have been undertaken by the Authority in carrying on its business.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Using the work of experts

I agree with the findings of Wilks, Head & Eve LLP, experts in evaluating the valuation of investment property and property, plant and equipment, and Hymans Robertson LLP, experts in evaluating the net pensions liability. I have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2015, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2015 have been properly valued and that valuation incorporated into the Statement of Accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.

Pension fund registered status

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

Bank accounts

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Subsequent events

Other than as described in the Statement of Accounts, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Retirement benefits

- All significant retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.
- The authority participates in the Teachers' Pension Scheme that is a defined benefit scheme. I confirm that the authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.
- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

  - Longevity at 65 for current pensioners is estimated to be 22.1 years for men and 24.1 years for women
  - Longevity at 65 for future pensioners is estimated to be 24.2 years for men and 26.7 years for women
  - The rate of inflation and the rate of increase in pensions is anticipated to be 3.0%
  - The rate of increase in salaries is anticipated to be 3.0%
  - The discount rate is estimated at 3.1%

Provisions

- Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the statement of accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the authority's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.
- Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the Statement of Accounts.

Assets and liabilities

- The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- I confirm our intention to dispose of assets disclosed as assets held for sale within the next 12 months.
- The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Disclosures

- Where appropriate, the following have been properly recorded and adequately disclosed in the Statement of Accounts:
  - The identity of, and balances and transactions with, related parties.
  - Losses arising from sale and purchase commitments.
  - Agreements and options to buy back assets previously sold.
  - Assets pledged as collateral.
- I confirm that the Authority has recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or

other arrangements involving restrictions on cash balances and line of credit or similar arrangements.

- I confirm that the Authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the statement of accounts all guarantees that we have given to third parties, including oral guarantees made by the Authority on behalf of an affiliate, member, officer or any other third party.

Items specific to Local Government

I confirm that the Authority does not have plans to implement any redundancy/early retirement programmes for which we should have made provision in the Statement of Accounts.

I confirm that the Authority has determined a prudent amount of revenue provision for the year under the Prudential Framework.

I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

As minuted by the Audit Committee at its meeting on 24 September 2015.

....	....
Group Director of Communities and Resources	Date
....	....
Chairman of the Audit Committee	Date

Appendix 1 - Related parties

Complete list of the Authority's related parties:

Age Concern Havering (tapestry)
Barking, Havering and Redbridge NHS Trust
Bower Park Academy
BT Global Services
East London Waste Authority
First Step
Havering Arts Council
Havering Association for People with Disabilities
Havering Bands and Majorettes Association
Havering Museum Ltd
Havering Theatre Trust
LGA
Lucas Children's Play Charity
Mardyke Youth & Community Association
NELFMT
Veolia North Thames Trust
Havering Over 50's Forum
Havering College of Further Education
Romford Combined Charity
Poyntz and other charities
Essex Wildlife Trust

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Havering
LONDON BOROUGH

AUDIT COMMITTEE
24 September 2015

Subject Heading:	Head of Internal Audit Quarter 1 Progress Report: 6th April 2015 to 5th July 2015
CMT Lead:	Deborah Hindson Acting Managing Director oneSource
Report Author and contact details:	Sandy Hamberger Interim Head of Internal Audit Tel: 01708 434506 E-mail: sandy.hamberger@onesource.co.uk
Policy context:	To inform the Committee of progress on the Assurance work undertaken in quarter one of 2015/16.
Financial summary:	N/A

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	[x]
People will be safe, in their homes and in the community	[x]
Residents will be proud to live in Havering	[x]

SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 6th April 2015 to 5th July 2015.

RECOMMENDATIONS

1. To note the contents of the report.

2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

This progress report contains an update to the Committee regarding Internal Audit activity. The report is presented in three sections.

Section 1 **Introduction, Issues and Assurance Opinion**

Section 2 **Executive Summary** A summary of the key messages from quarter one

Section 3 **Appendices** Provide supporting detail for members information

Appendix A Detail of Quarter one Internal Audit Work (6^{th} April - 5^{th} July 2015)
Appendix B Summary of Audit Reports
Appendix C List of High Priority Audit Recommendations

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. Such failures may result in financial losses for the Council.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report. Any implications or risks arising from the planned restructure of the service will be picked up under the change management procedures and identified within the restructure report.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

N/A

Section 1: Introduction, Issues & Assurance Opinion

1.1 Introduction

1.1.1 This first composite report brings together all aspects of internal audit and anti-fraud work undertaken in Quarter 1 2014/15 in support of the Audit Committee's role.

1.1.2 The main body of the report provides the Head of Audit's ongoing assurance opinion on the internal control environment and highlights key outcomes from audit and anti-fraud work and provides information on wider issues of interest to the Council's Audit Committee. The Appendices provide greater detail for the committee's information.

1.1.3 The 2015/16 Audit Planned days is 800, this has reduced by 12.5% (67) compared to 2014/15. This is line with the 2013/14 London Average of 900 days. A benchmarking exercise has been undertaken to underpin the planned transformation restructure.

1.1.4 With effect from 1st April 2015 responsibility for HB Fraud investigation has transferred to the Department for Work and Pensions and thus this activity is no longer reported to this Committee. Arrangements are now in place for all HB Fraud referrals to be directed to the National Benefit Fraud Hotline. Subsequently the resources transferred over on 1st April 2015.

1.1.5 The oneSource service transformation restructure is due to be formally consulted on in October 2015. This will deliver the savings and efficiencies required in line with the Joint Committee Business Case. The future Audit TOR, Charter and Strategy to launch that will be brought to the Audit Committee in 2016.

1.1.6 There is a new oneSource Fraud Strategy that will be presented in a separate report.

1.2 Current/Future Key Issues

1.2.1 The new Accounts and Audit Regulations 2015 for local Authorities in England came into effect on 1st April 2015. Key changes from April 2015 include:

1.2.2 The existing requirement to have internal audit has been amended to undertake an effective internal audit 'to evaluate the effectiveness of its risk management, control and governance processes, and taking into account Public Sector Internal Auditing Standards or Guidance'.

1.2.3 There are some changes to the access rights of internal audit requiring the organisation to supply internal audit with the documents, records and information and explanations as are considered necessary by the internal auditors.

1.2.4 Organisations are no longer required to undertake an annual review of effectiveness, though the requirements of the Public Sector Internal Audit

Standards but to have an ongoing programme of quality assessment and improvement.

1.2.5 With the demise of the Audit Commission from April 2015, Councils are required to consider how they will procure External Audit. The LGA have set up a company to oversee the exiting contracts and councils will be required to determine if they wish to remain part of that arrangement or look at an alternative. There will be an information report presented at the December Committee.

1.2.6 The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued a consultation closing on 28th September that will inform future governance requirements and the future Annual Governance Statement presented to this committee.

1.2.7 There is a new hub being established by all London Boroughs to share data that will help deter and prevent crime. Progress will be reported to future committee meetings.

1.3 Level of Assurance

1.3.1 In September 2014, Members received the Head of Internal Audit's opinion based upon the work undertaken in 2014/15 which concluded that reasonable assurance could be given that the internal control environment is operating adequately.

1.3.2 Based upon the work undertaken since the last update to Members, no material issues have arisen which would impact on this opinion. One Nil and one Limited assurance reports have been issued:

Section 2. Executive Summary of work undertaken in Quarter 1 2015/16

2.1.1 Delivery of the Audit Plan is progressing as anticipated. There were no changes to the 2015/16 Audit Plan in quarter one. One Nil (Members' Allowance Payments) and one Limited (Manor Green Pupil Referral Unit [MGPRU]) compliance reports have been issued:

- It is recommended that there is a full review of the arrangements for the Members' Allowance Payments process, which was changed in 2014.
- There has been a follow-up Audit undertaken of the MGPRU. This will be reported at the December Committee Meeting.

2.1.2 Of the 69 Audit recommendations, 14 (Appendix C sets out the list) were categorised as "High Priority". Ten of these were completed and four are in progress.

2.1.3 The performance against key performance indicators is within acceptable variances.

2.2.1 A revised Proactive Audit work plan for 2015/16 is shown within Appendix A.

2.2.2 The National Fraud Initiative data made available during 2015 generated 11,329 High Risk matches. Four frauds have been identified and are currently under recovery action. This is a compulsory and labour intensive activity.

2.2.3 The proactive audit work received 7 new referrals in quarter one, 3 were passed to the criminal investigation team. From these £1,778 savings and £993 losses were identified. Sixty Nine recommendations were made to improve the control environment.

2.3.1 During quarter 1 the criminal investigation team:

- have recovered three housing properties with a nominal saving of £54,000;
- are in the process of recovering one Housing Benefit overpayment of £26,946.52 and one Housing Benefit prosecution of £168,251.83

2.3.2 At the end of the quarter the criminal investigations team had 70 outstanding cases.

2.4.1 The Council’s high claim Insurance areas are Highways, Housing and tree roots.

2.4.2 The Council’s Corporate Risk Register which is reported separately is showing no high risk areas post control action.

Appendix A: Quarter One Internal Audit Work (6th April 2015 to 5th July 2015)

1.1.1 Excluding the Interim Head of Internal Audit the established structure of the team delivering this work is six full time equivalent posts. The structure of the team is used to determine the number of days in the audit plan.

1.1.2 The team undertake:
- Risk based systems audits;
- Review grant claims;
- Provide consultancy advice for new and developing systems;
- Provide assurance with regard to compliance with policy and procedure;
- Undertake school probity audits; and
- Undertake audit health checks on schools on behalf of the Head of Learning and Achievement. The schools work generates an income for the team
- Proactive and reactive audits/investigations as required

1.1.3 With the transfer of Havering employees to the Department for Work and Pensions (DWP), the residual workload has been incorporated into the team and has been classified into four headings:
- Proactive Audit Investigations;
- Reactive Audit Investigations;
- Criminal / fraud Investigations and
- HR Investigations.

1.1.4 In June 2015 the Audit Committee approved an Annual Audit Plan for the 2015/16 financial year totalling 560 days to Havering Audits, 110 days to auditing oneSource service across both authorities and 185 days for Proactive audits. The table below compares the approved audit plan for this year and the previous two years.

	2013/14	2014/05	2015/16
oneSource (110 /2=55 days)	-	-	55
Havering Risk Based Systems Audits	980	844	560
Havering Proactive	180	235	185
Total	1160	867	800

1.1.5 There have been no risk based systems audits removed from or added to the 2015/16 approved audit plan during quarter one.

1.2 Risk Based Systems and School Audits

1.2.1 As at the 5th July 2015, 15 assignments had been completed and nine were in progress but had not reached final report stage. The table below details the final reports issued in quarter one.

Report	Assurance	Recommendations				Ref
		High	Med	Low	Total	
Systems Audit						
Waste Contract Management *	Substantial	1	1	1	3	B (1)
Council Tax *	Full	0	0	0	0	B (2)
Housing Benefits *	Full	0	0	0	0	B (3)
Members Allowance Payments *	Limited	1	0	0	1	B (4)
Service Charges *	Substantial	2	2	2	6	B (5)
Manor Green Pupil Referral Unit *	No	17	11	0	28	B (6)
Payroll	Substantial	0	0	0	0	B (7)
Pensions	Substantial	0	0	0	0	B (8)
Budgetary Control	Substantial	0	0	0	0	B (9)
Housing Rents Follow Up	Substantial	N/A	N/A	N/A	N/A	B (10)
TMO's Follow Up	Substantial	N/A	N/A	N/A	N/A	B (11)
Gas Safety (Home Ownership) Follow Up	Substantial	N/A	N/A	N/A	N/A	B (12)
School Audits						
Ardleigh Green Infant	Full	0	1	3	4	B (13)
Rainham Village Primary	Full	0	2	6	8	B (14)
St. Josephs RC Primary	Substantial	2	6	4	12	B (15)
Total		**23**	**23**	**16**	**62**	

* Last Year's Audits Final Reports issued in Quarter 1

1.2.2 Management summaries for the 12 system reports and three school reports are included under Appendix B: Audit Report Summaries.

1.2.3 Work nearing completion at the end of June included three risk based systems audits, three computer audits and four school audits:

1.3 Key Performance Indicators

1.3.1 The table below details the profiled targets and the performance to date at the end of June 2015. The total number of audits, where there will be a standard approach to deliverables for 2015/16 is 45.

Performance Indicator	Quarter 1 Target	Quarter 1 Actual	Quarter 1 Variance
Percentage of Audit Plan Delivered	25	26	+1
Number of Briefs Issued	21	25	+4
Number of Draft Reports Issued	15	14	-1
Number of Final Reports Issued	10	12	+2

1.4 Outstanding Audit Recommendations Update

1.4.1 Internal audit follow up all recommendations with management when the deadlines for implementation pass. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations in systems where limited assurance was given is verified through a follow up audit review.

1.4.2 This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any high priority recommendations.

1.4.3 Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:

- High: Fundamental control requirement needing implementation as soon as possible.
- Medium: Important control that should be implemented.
- Low: Pertaining to best practice.

1.4.4 The list of what the High Priority Risks are is shown in Appendix C; the current level of implementation is shown in the table below.

1.5 Outstanding Audit Recommendations

Audit Year	Area Reviewed	HoS Responsible	Assurance Level	No. of Recommendations in the Original Report H	M	L	Position as at 05/07/15 Complete	In Progress
12/13	iProcurement	Internal Shared Services	Limited	0	2	1	2	1 ◆
12/13	Transport	Asset Management	Substantial	1	4	2	5	2
12/13	Debt Management	Exchequer Services	Substantial	0	1	0	0	1◆
12/13	Accounts Payable	Internal Shared Services	Substantial	0	1	0	0	1◆
12/13	Contracts & Procurement	Finance & Procurement	Substantial	0	1	0	0	1◆
			2012/13 Totals	**1**	**9**	**3**	**7**	**6**
13/14	Tenancy Management	Homes & Housing	Limited	0	14	0	13	1
13/14	Compliance with Corporate Policy: Fees and Charges	Finance / Asset Management	N/A	0	2	0	1	1
			2013/14 Totals	**0**	**16**	**0**	**14**	**2**
14/15	Gas Safety (Building Services)	Homes & Housing	Substantial	1	4	3	4	4
14/15	Gas Safety (Home Ownership)	Homes & Housing	Limited	3	2	0	3	2
14/15	TMO's	Homes & Housing	Limited	3	4	0	5	2
14/15	Payments to Contractors (Road & Pavement Defects)	StreetCare	Limited	3	4	3	9	1
14/15	Housing Rents	Homes & Housing	Limited	3	7	0	7	3
			2014/2015 Totals	**13**	**21**	**6**	**28**	**12**
			Totals	**14**	**46**	**9**	**49**	**20**

◆ Implementation of these recommendations has been dependent on the implementation of the One Oracle system which went live in August 2014.

2.1 Proactive Audit Investigations

2.1.1 A revised proactive work plan for 2015/16 is shown below:

Description	Risks	Plan days	Quarter 1 Status
Grants	Identification of grants provided to charity organisations to inspect and confirm that supporting documentation for expenditure is valid and used for the purpose intended in the original application or as stipulated by the Council on approval of the grant. Review formal acceptance documentation and payment and bank records to ensure payments are accounted for.	20	On Hold
Payment of Election expenses	Review appointment of staff, entitlement, and payment of fees/arrangements including postal votes and counting. Completion of claims and receipt.	10	In progress
NNDR	A full review of the NNDR process to gain a position statement and establish the recovery levels to date and possible weaknesses in system particularly with Charities and 'Pop Up Shops'	20	Delayed due to Restructure
Direct Payment Assessments	This to include the assessment and payment calculations and follow ups with the Care Assessors to establish processes and evaluate controls.	15	Planned
Employee Applications	This could involve any applications, including attempts, to gain employment or subsequently where any of the details prove to be false including, including but not limited to: false identity, immigration (no right to work or reside); false qualifications; or false CVs.	20	Planned
NFI	The match identifies addresses where the householder is claiming a council tax single person discount on the basis that they are the only occupant over 18 years of age yet the electoral register suggests that there is somebody else in the household who is already or approaching 18 years of age. This may or will make the SPD invalid.	30	In progress

Description	Risks	Plan days	Quarter 1 Status
NAFN	National Anti-Fraud Network	5	Ongoing
Whistleblowing	All whistleblowing referrals	10	Ongoing
Investigation Recommendations	The recording of all investigation recommendations, follow ups and assurance of implementation.	15	Ongoing
Freedom of Information Requests	To undertake all Freedom of Information Requests relating to Internal Audit Investigations.	5	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately.	5	Ongoing
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance.	15	Ongoing
Advice to Local Authorities	All Data Protection Act requests via Local Authorities, Police etc.	15	Ongoing
	TOTAL	**185**	

2.1.2 The proactive audit investigation work comprises three elements:

- Co-ordinating the Authority's investigation of the National Fraud Initiative (NFI) data; and
- A programme of proactive audit investigations;
- Following up the implementation of recommendations made in previous corporate fraud investigation and proactive audit reports.

2.1.3 The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud and is conducted every two years. The 2014 NFI matches are available in 2015 and comprise of 11,329 High Risk matches of which four frauds have been identified and are currently under recovery action as shown in the table below.

Report Title	Recommended Matches	Total All Matches	Status	In Progress	Frauds	Outcomes / Savings
Pensions/ Pension Gratuity to DWP Deceased	11	42	Open	0	3	£6,829.75
Waiting List to In-Country Immigration	0	3	Closed	0	1	£18,000.00
	3,186	11,329		2,673	4	£24,829.75

2.2 Reactive Audit Investigation Cases

2.2.1 The table below provides the total cases at the start and end of the period as well as referrals, cases closed and cases completed.

Caseload Quarter 1 2015/16						
Cases at start of period	Referrals received	Referred To Criminal Fraud Team	Referred to HR	Audit Investigations		
				Not Proven Cases	Successful Cases	Cases at end of period
14	7	3	2	2	8	6

2.2.2 The table below provides information on the sources of Audit Investigation referrals received.

Source and Number of Referrals Quarter 1 2015/16	
Number of Referrals/ Type	**IA Reports Qtr 1**
Anonymous Whistleblower	3
External Organisations / Members of the Public	1
Internal Departments	3
Total	**7**

2.2.3 The table below shows the number and categories of Audit Investigation cases at the end of the Quarter 1, compared to the quarter 4 totals.

Reports by Category		
Audit Investigation Category	**Previous Cases Qtr 4**	**Current Cases end of Qtr 1**
PC – Misuse and Abuse	0	0
Breach of Code of Conduct	4	2
Breach of Council Procedures	5	1
Misuse of Council Time	0	2
Direct Payments	0	0
Theft	0	0
Disabled Facility Grant	0	0
Procurement Fraud	0	1
Money Laundering	2	0
Total	**11**	**6**

2.2.4 The table below shows the case outcomes for the Internal Audit Investigations from April to June 2015.

Case Outcomes	
Outcome	**Qtr 1**
Management Action Plan	4
Resigned	1
Disciplinary	2
No case to answer	3
Withdrawn Application	0
Total	**13**

2.3 Savings and Losses

2.3.1 The investigations carried out by Audit Investigations provide the Council with value for money through:

- ➢ The identification of monies lost through fraud and the recovery of all or part of these sums; and
- ➢ The identification of potential losses through fraud in cases where the loss was prevented.

2.3.2 The table below shows the savings and losses identified during 2015/16.

Case details	Qtr	Savings Identified	Losses Identified	Actual Savings	Details
Timesheet Abuse	1		£238.70		
Falsification of Flexi Records	1		£162.90		
Overcharge Gas Safety 2013	1	£866		£866	Contractor overcharge and poor internal check and control
Overcharge Gas Safety 2014	1	£912			Management currently recovering.
Mileage Claim	1		£133.62		Officer falsified mileage claims disciplinary action taking place
Internet Misuse	1		£457.88		28.13 hours on the internet during Council time. Time Lost.

2.4 Audit Investigation Recommendations

2.4.1 In 2014/15 there were 15 ‘Recommendations Not Yet Due’ carried forward. Fifty four recommendations were made at the end of June 2015 and none are outstanding to the agreed implementation date.

Quarter 1 Audit Investigation Recommendations		APR	MAY	JUN
Total Recommendations		38	44	54
Recommendations Implemented		18	24	29
Recommendations Not Yet Due		19	18	24
Recommendations Slipped		0	1	0
Of Which High Priority		0	1	0

3.1 Criminal Investigations Team

3.1.1 The table below provides the total cases at the start and end of the period as well as referrals, cases closed and cases completed

C/F from 14 / 15	Referrals			Housing Outcomes	Housing Benefit		Fraud not proven	Cases O/S
	Received	Passed to DWP	Rejected		Over-payments	Prose-cution		
74	18	0	6	3	1	1	11	70

3.1.2 The three housing properties recovered during the quarter have a nominal saving of £18,000 each, total £54,000.

3.1.3 The team are currently in the process of recovering one Housing Benefit overpayment of £26,946.52. There is also currently one Housing Benefit prosecution of £168,251.83.

3.1.4 The table below shows the number and categories of investigations cases at the end of the Quarter 1, compared to the quarter 4 totals.

Category	Cases as at Qtr 4	Current Cases End of Qtr 1
Direct Payments	2	2
Financial proceedings	7	7
Blue Badge misuse	2	2
Capital	3	3
Contrived Tenancies	2	2
Income from other sources	2	2
Living Together	8	8
Other	5	1
Non – Residency	15	15
Subletting	23	23
Right to Buy	1	1
False Housing Apps	4	4
	74	70

Appendix B Summary of Audit Reports

Waste Contract Management	Schedule B (1)

1.1 Introduction

1.1.1 The audit of Waste Contract Management forms part of the agreed 2014/2015 Internal Audit plan.

1.1.2 Household Waste (Refuse and Recycle) collection services are a statutory function of the Council as set out in the Environment Protection Act 1990. Delivering a statutory waste collection service is one of the top priorities for the Council.

1.1.3 The waste contract was awarded to Serco Direct Services from the 3rd August 2014 for a period of seven years, with the option to extend for a further 3 years subject to performance. The service remains a weekly collection service with rubbish in black bags and recycling placed in orange sacks.

1.1.4 The annual value of the core work is £3,961,632 with additional payments for supplementary work and in year one the commercial waste option payment. The total contract value including the optional 3 year extension will be £39,616,320 for core work plus supplementary work.

1.1.5 To reduce CO_2 emissions, the new contract uses ‘split-body’ lorries meaning that both black and orange sacks can be collected together but placed in separate compartments. This has no negative effect on the amount of waste that gets recycled as the bags are treated separately.

1.1.6 The Refuse and Recycle collection teams serve 86,485 low level properties e.g. houses and 14,600 properties that use bulk containers for the storage of waste each week.

1.2 Objectives and Scope

1.2.1 The objective of the audit is to provide the Authority’s management and the Audit Committee assurance regarding:

- Compliance with relevant Legislation and / or Council Rules and Procedures.
- The robustness of contract monitoring activity; and
- The accuracy of payments made to contractor.

1.2.2 The audit will concentrate on examining the controls applied to address the risks identified in the following areas:

- Non-compliance with Legislation and / or Councils Rules and Procedures;
- Non-compliance, poor quality work or inaccurate reporting by the contractors;
- The service is disrupted or ceases due to failure of the contractor;
- Overpayments on contract values occur; and
- Timeliness and Quality of Performance / Management Information.

1.3 Summary of Audit Findings

1.3.1 The Council strategy is based on the LBH Municipal Solid Waste Management Strategy 2006 to 2020 & ELWA Strategy Report approved in 2006. The Group Manager, Waste Environment Services is aware that the Strategy is outdated and requires review and is planned for review in 2020. However, the resultant Action Plan is updated each year.

1.3.2 At the time of the review the contract had been signed by Serco but not yet by the Council. After the contract had been signed it was identified that there was an ambiguity within Section 5: the Deed of Guarantee. A revision was made to the contract and reissued to Serco for resigning but this has not yet been signed by either party. The Group Manager, Waste Environment Services is actively pursuing this matter.

1.3.3 The Contract Management Officer was unaware of the Councils Contract Monitoring Guidance; this was supplied during the review. However, both the Group Manager and the Waste & Recycling Manager are aware of the Councils Contract Monitoring Procedures. The Contract Management Officer also has a background in Contract Management and is to undertake further training.

1.3.4 In the initial stages of the contract monitoring was undertaken on a reactive basis dealing with specific issues and targeting areas of concern. Scheduled weekly crew inspections undertaken by the Contracts Management Support Officer didn't begin until the 27/01/15, where inspections on both Operational and Health & Safety aspects are undertaken. Inspections are planned to be undertaken on a weekly basis, where possible, with reactive monitoring continuing as and when required.

1.3.5 At the time of the review there had been no joint scheduled Health & Safety inspections, although Serco undertake their own Health and Safety inspection as do Officers from Havering, which would highlight any concerns. Joint inspections for all operational and Health and Safety issues have occurred from day one of the contract where issues have arisen. The inspection sheets are not submitted to / requested by Waste Environment Services.

1.3.6 Operational / Liaison Meetings with a set agenda should be held on a monthly basis. Operational meetings have occurred since contract start and were included in the Mobilisation meetings attended by senior officers from both parties, as well as the Contracts Management Officer. There have been three Liaison meetings, held between the Contracts Management Officer, Contract Management Support Officer and Serco Supervisors since the start of the contract on the 24/10/14, 19/11/14 & 27/02/15. Monthly operational / liaison meetings have been diarised although the monthly (diarised) Mobilisation meetings also continue to address operational issues.

1.3.7 From August 2014 to the end of January 2015, 85 complaints were received of which:

- Sixty four were responded within 10 days;
- Sixteen were responded to after 10 days; and

- Five were still showing as outstanding. These were followed up with the Group Manager and
  - two have now been closed;
  - two were raised in error; and
  - the remaining one is still active and is with the Group Manager and Council Tax to respond to.

Regular monitoring of complaints is undertaken by Management.

1.3.8 The Service does not have an up to date Business Continuity Plan ensuring that responsible officers are aware of their roles and that all parts of the service are covered in the event there is any interruption to Business as Usual (BAU).

1.3.9 The contractor, Serco will charge for additional and ad-hoc collections as a result of Service Requests through CRM, which is linked to Serco's Street Smart system. When a Service Request is received a ticket is raised from Street Smart and issued to the drivers. Once the work is completed the driver electronically signs off the ticket. This information then is populated in StreetSmart and gets sent to the CRM system. Officers can see this information in CRM as well as through the StreetSmart access.

1.3.10 Every week the Contract Management Support Officer will visit Serco and reconcile the number of tickets issued / completed with the Serco Finance Manager. Once agreed the work can be invoiced / Requisitions entered onto IProc. The requisitions sheet is a plain A4 piece of paper that is not signed by either the Contract Management Support Officer or Serco employee as evidence that the figures have been agreed as correct.

1.3.11 A requisition had been approved on iProcurement and was showing as 'incomplete' because the invoice had been processed through Payables and not iProcurement. This was brought to the attention of the Contract Management Officer who arranged for this requisition to be deleted; to prevent the ‘invoice’ being processed through iProcurement and therefore creating a duplicate payment.

1.3.12 At the time of the review Variable Work invoices had only been processed up to week 12; week ending the 24/10/14. Therefore the current budget on Oracle does not accurately reflect the correct position as it will be showing as a large underspend. The Contract Management Officer and the Group Manager, Waste Environment Services were currently working on this matter.

1.4 Audit Opinion

1.4.1 A Substantial Assurance has been given on the system of internal control.

1.4.2 The audit makes 1 high, 1 medium and 1 low priority recommendation, that aim to mitigate the risks within the above audit findings, which comprise the need for:

High:

- A Business Continuity Plan should be completed detailing the responsible officers’ roles and that all parts of the Waste Environment Service are covered in the event there is any interruption to BAU.

Medium:

- A formalised reconciliation document should be drawn up showing what additional collections have been undertaken. The document should then be signed by both LBH and Serco employees as evidence that the figures have been agreed as correct.

Low:

- Scanned copies of H&S Inspection sheets should be requested and held on file as evidence that Serco are completing inspections in accordance with the contract.

Council Tax	**Schedule B (2)**

2.1 Introduction

2.1.1 The audit of Council Tax was included in the 2014/15 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effective of the system of internal control in operation.

2.1.2 As at the end of March 2015 The London Borough of Havering was administering council tax accounts for 102,343 liable properties with a net value of £132,440,052.

2.2 Objectives and Scope

2.2.1 The audit was undertaken to provide Authority's management and the Audit Committee with assurance on the effectiveness of the system of internal control operating within Housing Benefits and Council Tax Support. The system of internal control operates to:

- Ensure compliance with relevant legislation, best practice and the organisations policies and procedures;
- Ensure that Council Tax is administered in an effective manner and that payments are accurate and timely;
- Reduce risk, including risk of fraud; and
- Produce accurate, relevant and timely management information.

2.2.2 The audit examined the internal control environment applied by the Revenues & Benefits Team to mitigate the following potential key risks:

- Delivery of the service does not comply with relevant legislation;
- Non-compliance with local and Central Government expectations;
- Procedures are bureaucratic and/ or fail to acknowledge risk;
- Over reliance on manual rather than system controls;
- Liable properties are not billed;
- New accounts are not entered onto the system in a timely manner;
- Incorrect rates are charged;
- Discounts/ Exemption entitlements are not verified/ checked;
- Delays occur in sending out Council Tax bills and/ or bills are incorrect;
- Unauthorised or incorrect adjustments are made;
- Errors in coding/ posting to Oracle;
- Arrears are not collected or are not collected in a timely manner;
- Inappropriate write off of arrears;
- Transactions are not supported by robust audit trails;
- The system does not support the production of suitable management information;
- Mechanisms and indicators to facilitate performance monitoring are not established, poor performance is not detected; and
- Management information is not utilised to monitor achievement of the service objectives and drive key decisions.

2.3 Summary of Audit Findings

2.3.1 The 2013/14 audit resulted in the one medium and two low priority recommendations to mitigate weaknesses identified during the audit and aimed to:

- Automated system controls are set up within the online request process that require the Council Tax & Benefits Manager to approve access requests and permitted access levels to the Academy system;
- Academy User information is utilised to carry out periodic reviews of users; and
- Notification of the Operating Systems Declaration is automated as part of the online request process.

2.3.2 Each of the recommendations above has been fully implemented.

2.3.3 Nine of twenty accounts tested with discounts had passed their ‘system review’ date. This is due to the checks being carried out by an external provider outside of the system.

2.4 **Audit Opinion**

2.4.1 **Full Assurance** has been given on the system of internal control.

2.4.2 The audit makes no recommendations

Housing Benefits	Schedule B (3)

3.1 Introduction

3.1.1 The audit of Housing Benefit and Council Tax Support was included in the 2014/15 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effective of the system of internal control in operation.

3.1.2 As at the end of March 2015 the London Borough of Havering processed a total of 19,620 live benefit claims. This figure consists of:

- 14,135 claiming Housing Benefit Support; and
- 5,485 claiming Council Tax Support.

3.2 Objectives and Scope

3.2.1 The audit was undertaken to provide Authority's management and the Audit Committee with assurance on the effectiveness of the system of internal control operating within Housing Benefits and Council Tax Support. The system of internal control operates to:

- Ensure compliance with relevant legislation, best practice and the organisations policies and procedures;
- Ensure that the benefits are administered in an effective manner and that payments are accurate and timely;
- Reduce risk, including risk of fraud; and
- Produce accurate, relevant and timely management information.

3.2.2 The audit examined the internal control environment applied by the Revenues & Benefits Team to mitigate the following potential key risks:

- Delivery of the service does not comply with relevant legislation;
- Procedures are bureaucratic and/ or fail to acknowledge risk;
- Over reliance on manual rather than system controls;
- New claims are not entered onto the system in a timely manner;
- Unauthorised and/ or incorrect adjustments are made;
- Delays in processing changes;
- Ineligible claims are paid/ fraud goes undetected;
- Incorrect/ Untimely payments are made;
- Errors/ Overpayments go undetected;
- Uncollected payments or uncollected cheques are not identified;
- Errors in coding/ posting to Oracle;
- Insufficient debt recovery leads to unnecessary write offs;
- Transactions are not supported by robust audit trails;
- The system does not support the production of suitable management information;
- Mechanisms and indicators to facilitate performance monitoring are not established, poor performance is not detected; and
- Management information is not utilised to monitor achievement of the service objectives and drive key decisions.

3.3 Summary of Audit Findings

3.3.1 The 2013/14 audit resulted in one medium and two low priority recommendations from the Council Tax audit being reiterated to mitigate weaknesses identified during the audit. These being:

- Automated system controls are set up within the online request process that require the Council Tax & Benefits Manager to approve access requests and permitted access levels to the Academy system;
- Academy User information is utilised to carry out periodic reviews of users; and
- Notification of the Operating Systems Declaration is automated as part of the online request process.

3.3.2 Each of the recommendations above has been fully implemented.

3.3.3 There were no significant weaknesses identified as part of this audit

3.4 Audit Opinion

3.4.1 **Full Assurance** has been given on the system of internal control.

3.4.2 The audit makes no recommendations.

Members Allowance Payments	Schedule B (4)

4.1 Introduction

4.1.1 During an Audit Committee meeting the Internal Audit, Insurance & Corporate Risk Manager was made aware of concerns over the payment of allowances to members'. The concerns raised were:

- Members that had not been re-elected in May had been continued to be paid;
- Members had been paid incorrect allowance payments; and
- Had the overpayments been reclaimed?

4.1.2 The Local Authorities (Members' Allowances) (England) Regulations 2003 provide that a Local Authority shall make a Members' Allowance scheme in accordance with these regulations each year.

4.1.3 All Councillors are paid a basic allowance, which is currently £10,208 per annum, paid monthly. A Special Responsibility Allowance (SRA) is also paid to those councillors who hold special responsibilities in relation to the Council.

4.1.4 For 2013/2014 the following payments were made:

Members' Basic Allowance	£539,276.40
Members' Special Responsibility Allowance	£563,648.61
Total	£1,102,925.01

4.1.5 A further £3,339.64 was paid in 2013/2014 in respect of payments to Co-optees.

4.2 Objectives and Scope

4.2.1 The objective of the audit is to:

- Identify if overpayments or incorrect payments have been made:
- Ensure corrective action has been undertaken regarding any under or overpayments; and
- Identify how the under / overpayments have occurred.

4.2.2 The audit will then concentrate on examining current system controls to provide the Authority's management and the Audit Committee with assurance over:

- Compliance with relevant Legislation and Council Rules and Procedures;
- Accuracy of payments made to Members'; and
- Accuracy of records retained.

4.3 Summary of Audit Findings

4.3.1 A review of members allowance payments found that:

- Overpayments had been made to 15 Members totalling £8,950;
- Underpayments have been made to 8 Members totalling £5,764; and
- Corrective action has been undertaken; adjustments are being made via Payroll.

4.3.2 The review found that over / underpayments had been made due to:

- there being several changes in the both the composition of members' and the SRA paid to members;
- Information supplied by Committee Services to the Corporate Support Manager being incorrect on a couple of occasions;
- Information sent by Committee Services to the Corporate Support Manager not being actioned or not being actioned in a timely manner; and controls between the departments did not highlight the errors.

4.3.3 There are no procedure documents within the Committee Administration Section, Corporate Support Services or within Payroll with regards to Members Allowances. However, projects currently being undertaken within Democratic Services and Internal Shared Services are the development of office handbook / procedure manuals.

4.4 Audit Opinion

4.4.1 A **Limited Assurance** has been given on the system of internal control.

4.4.2 The audit makes one high priority recommendation that aims to mitigate the risks within the above audit findings.

4.4.3 The recommendations relates to a full review of the administration of the Members Allowance process and whether the involvement of Corporate Support Services is required.

Service Charges	**Schedule B (5)**

5.1 Introduction

5.1.1 The audit of Leaseholder Service Charges forms part of the agreed 2014/2015 Internal Audit plan.

5.1.2 When a tenant buys a council flat they do not buy the property itself, they buy a lease which gives them the right to live in the property for a set period of time. Havering Council owns the freehold and therefore remains the landlord and is responsible for completing repairs to communal areas, providing cleaning services to communal areas, maintaining grounds etc.

5.1.3 Although leaseholders do not have to pay a weekly rent they are required to pay annual 'ground rent' and service charges. Service charges are the leaseholder's share of the cost of managing, providing services and carrying out repairs to the communal parts of the block or estate.

5.1.4 The charging of Service charges is covered under the Landlord and Tennant Act 1985.

5.1.5 The Service charges charged are dependent on what services are provided on the estate or block and could include:

- Administration
- Aerial
- CCTV
- Cleaning Services
- Day to Day block repairs
- Day to Day estate repairs
- Day to Day property repairs
- Door Entry
- Grounds Maintenance
- Heating
- Insurance
- Electricity
- Neighbourhood Community Wardens

5.1.6 At the beginning of each financial year Home Ownership, part of Housing Services of Homes and Housing within the Children's, Adults & Housing Directorate, will send an estimate of all service charges for the forthcoming year to all leaseholders.

5.1.7 At the end of March Home Ownership begin to calculate how much was actually spent within the previous financial year and in September a Statement of Actual Expenditure is issued to the leaseholders. This statement gives details of the charge for each service provided to a block or estate during the previous financial year and then divided into the number of properties in that block or estate.

5.1.8 If a leaseholder's estimate was too high a refund is credited to their service charge account and if the estimated charge was too low they will be asked to pay any additional amount.

5.1.9 As at the 17th September 2014 there were 2,326 leaseholders and the estimated income for 2014/2015 is £1,536,956.88.

5.2 Objectives and Scope

5.2.1 The objective of the audit is to provide the Authority's management and the Audit Committee with assurance regarding:

- Compliance with legislation and service requirements;
- Efficiency and effectiveness of processes; and
- Charges to leaseholders are correct and are resilient against appeals to the First Tier Tribunal, formally the Leaseholder Valuation Tribunal (LVT).

5.2.2 The audit will concentrate on examining the controls applied to address the risks identified in the following areas:

- Non-compliance with legislative and service requirements;
- Leaseholders are incorrectly charges;
- Service charges are not collected or accounted for correctly; and
- Unable to defend against appeals to the First Tier Tribunal.

5.2.3 TMO's were not covered during this review due to recommendations regarding service charges raised during the TMO audit still being outstanding. This will be picked up in future reviews.

5.3 Summary of Audit Findings

5.3.1 The leaseholder handbook is being reviewed and updated. The current handbook is on a Homes in Havering template.

5.3.2 The procedure document followed by staff within the Home Ownership Team is not adequately version controlled. The current document does not have a document owner or review dates included.

5.3.3 Copies of leases have not been received for all leaseholder properties; therefore it will be difficult to ensure accuracy when calculating service charges for those properties.

5.3.4 There are five leases in use across the leasehold properties within the borough. Each lease varies as to what can be charged for under service charges meaning variation of charges could occur with neighbouring properties. Leases have a finite life, so over time older leases will be replaced / updated and standardised.

5.3.5 Information such as meter number, location and accurate readings regarding the utility meters of council properties is unknown or incomplete which could result in overpayments for gas and electric, as well as incorrect calculations for leaseholder charges.

5.3.6 Repairs are called into the contact centre where the details of the repair are taken and recorded on OHMS. Due to the contact centre dealing with all housing queries it has been deemed that is not efficient to have standardised wording which would allow the system held information to be more relevant for the Home Ownership

Team. Instead a standard template has been devised that allows for all the relevant information to be included.

5.3.7 The cost of lift maintenance and repair is being passed to the Home Ownership Team once a year. More regular supply of data would allow for better monitoring of in year costs and allow the Home Ownership team to be able to input available service costs earlier.

5.3.8 The review found that Wardens time is not being correctly apportioned.

5.3.9 The data provided for grounds maintenance work carried out is not supported by any backing documentation/ evidence. If charges are contested by any leaseholder it would be difficult to evidence that the work was carried out.

5.3.10 There is currently only one date (26th of the month) available for those willing to pay by Direct Debit.

5.3.11 It has been agreed that the Planning department will now send planning applications for leasehold properties to the Home Ownership Team for monitoring. This was due to alterations being carried out to leasehold properties without the landlords' permission.

5.4 Audit Opinion

5.4.1 Substantial Assurance has been given on the system of internal control.

5.4.2 The audit makes two High, two Medium and two Low priority recommendations that aim to mitigate the risks within the above audit findings, which comprise the need for:

High:

- Information regarding the location and details for electricity and gas meters to be supplied to the Energy Strategy Team Leader; and
- Evidence of Grounds maintenance work to be maintained.

Medium:

- A review of the Leaseholder handbook; and
- Home Ownership Team to be provided with costs for lift repair and maintenance in line with invoices being received for works carried out (currently quarterly);

Low:

- Procedure documents being adequately version controlled; and
- The ability to offer multiple dates to pay by direct debit to be investigated.

Manor Green Pupil Referral Unit	Schedule B (6)

6.1 Introduction

6.1.1 The audit of Manor Green College was added to the 2014/15 Internal Audit plan as a result of requests from both the Council's Strategic Finance Manager, Learning & Achievement and the College's Business Manager.

6.1.2 Under Section 19 of the 1996 Education Act, Local Authorities must provide education to children of compulsory school age, that due to illness, exclusion or other reasons are not receiving education via a mainstream / special school.

6.1.3 Historically the London Borough of Havering had four individual Pupil Referral Units (PRUs) across the borough. In April 2013, the individual PRUs were combined to create one PRU called Manor Green College.

6.1.4 The following campuses create Manor Green College:
- Manor;
- Oglethorpe;
- Birnam Wood; and
- Green Vale.

6.1.5 The College has experienced significant staffing changes in recent years. The current Business Manager was formally appointed in September 2014 and the Executive Head Teacher was appointed in November 2014. These changes have impacted on the level of detail that can be provided regarding some areas of the audit as neither individuals were in post at that time of implementation.

6.1.6 Additional changes occurred in the later stages of the audit in March 2015 when the Executive Head Teacher was replaced by a Head of College. At the same time, the Management Committees responsibility to manage a delegated budget was suspended by the Council's Strategic Management Board to allow greater control by the Council of the College's expenditure.

6.2 Objectives and Scope

6.2.1 The audit was undertaken to provide the Management Committee, Executive Head, Authority's Management and the Audit Committee with assurance over the control environment of Manor Green College in the following areas:
- Governance Arrangements;
- Risk Management;
- Information Governance;
- Safeguarding;
- Financial Management;
- Income & Expenditure; and
- Procurement.

6.3 Summary of Audit Findings

6.3.1 All Committee Members and staff, who have an involvement in making financial decisions on behalf of the College are required to annually declare any conflicts of interest. These declarations should be pulled together to produce a Register of Pecuniary Interests, which is a document that should be made accessible to the public. Although it is noted that Committee Members are asked to declare any conflicts of interests during committee meetings and this is evident through the minutes, completed and signed Declaration of Interest forms have not been completed by Committee Members or staff.

6.3.2 All Local Authority maintained schools, including pupil referral units have a mandatory requirement to complete the Schools Financial Value Standard (SFVS) annually. The SFVS is designed to assist in assessing the security of the financial management in place. Whilst it would be expected that the SFVS would have been completed at the beginning of the 2014/15 financial year, before both the Executive Head and Business Manager were appointed, the College's Management Committee is ultimately responsible for the financial management of the College. The College did not complete the SFVS for the financial year 2014/15.

6.3.3 Clear monitoring and evaluation is critical in ensuring that the College achieves success. Performance monitoring requires clear performance indicators that are supported by sound systems for gathering comprehensive and accurate data to monitor performance against identified indicators. In this case, there are difficulties in identifying College wide indicators due to the temporary nature of pupils stay at the College and the differing needs of the pupils attending the various campuses. The College has demonstrated a number of indicators that can be used to assess / monitor performance including attendance, behaviour and academic improvement. However this review failed to identify clear documented indicators supported by an understanding of the type and frequency of information needed. Additional weaknesses in the mechanisms for capturing data and the accuracy of data collected limits the level assurance that can be placed on current performance monitoring arrangements.

6.3.4 At the time of the review the College had begun work on reviewing and amending existing policies to create generic, College wide policies for all campuses to implement. Once this review is complete, all policies will be uploaded to the College's website and will also be placed on the virtual server for staff to access. During discussions it was noted that placing policies on the virtual server enables all staff access to amend / delete policies. This ability could pose a potential risk of unauthorised or accidental amendment or deletion of policies.

6.3.5 The College's Finance Policy and Procedures document sets out the College's financial processes, including details of staff authorised to carry out specific duties and the financial limits applied to these individuals. This document is used during the audit to test compliance. Whilst it is evident that this document has recently be amended, as it includes relatively new members of staff , there are also references to individuals no longer employed by the College. Additionally, there is no evidence that this document has been subject to Committee approval within the last year.

6.3.6 Improvement plans allow organisations to set out their strategy for improvement across the year, identifying key areas for improvement and the criteria that will be used to monitor success. The plan would also identify cost / resource needs to deliver objectives, which should align with the funds set aside within the budget profile. This review was unable to locate a documented plan of improvement and discussions with the various campuses failed to identify a cohesive understanding of College objectives.

6.3.7 The College is located on four different sites across the borough. In all cases the site is owned by the Council. This review identified various historical issues with the sites that need to be addressed, such as confusion over responsibility for rates and utilities. More significantly, the current arrangements for use of school facilities by the College are not documented in a service level agreement between the school and the college. For this reason, there have been issues, not only over responsibility and accountability, but also in understanding the charges contained within the annual bill to the College.

6.3.8 The Council's Financial Regulations sets out that all capital funding should contribute towards raising the educational standards and should be invested in priorities agreed locally and set out in an Asset Management Plan. It is noted that Asset Management Plans in borough maintained schools are supported by the completion of property condition surveys by the Council's Schools Asset Management Team as part of Schools Asset Management Programme, which until recently, the College was not included. There is no documented Asset Management Plan in place, despite the College highlighting issues with accommodation which need to be addressed, including identifying funds in the budget for completion of the work.

6.3.9 Emergency planning allows an organisation to set out expected action to be taken in the event of an emergency situation and in part to ensure sufficient arrangements are in place for continued service provision. This review failed to locate a documented Emergency Plan. Discussions with staff at the various campuses have highlighted a degree of understanding, although this focuses mainly on contacting pupils and staff. It is essential that a clear plan is documented and communicated to all staff, including arrangements for continued provision of the service.

6.3.10 All employers have a legal obligation to assess and manage the risk posed when staff use their car for work purposes. In response to guidance from The Royal Society for the Prevention of Accidents (RoSPA), in 2012 the Council introduced the need for driving checklists to be completed in schools including verification that the individual has appropriate insurance cover. At the time of this review, documented checks had only been introduced by one campus. It is noted that checks were stated as being introduced in another campus, but that documentary evidence is not retained once the check is complete.

6.3.11 It is a requirement of the Data Protection Act 1998 that organisations acting as data controllers, processing personal information, must register with the Information Commissioner. Initial discussions failed to identify whether the College had registered and the expected annual payment for this registration could not be located in the College's transaction. A search of the College (including the individual campuses) found little to indicate that the College has registered.

6.3.12 Only those individuals authorised should have access to the FMS system. Permitted users are set out in the Finance Policy and Procedures document. A review of users listed in the policy against those individuals with access to the system found discrepancies between the two, including access still in place for users that no longer work at the College.

6.3.13 Financial Regulations set out the need for a record of furniture, fittings, equipment, plant and machinery to be in place. This review found that three campuses have inventories in place. Three of the inventories have not been subject to regular checks. In the remaining case, checks have been carried out but as serial numbers of the items listed have not been included, it is impossible to verify the accuracy of the inventory. Since merging the four units into one, it is essential that the College has a clear and accurate record of its assets and that these records are regularly checked for accuracy and to ensure that theft does not go undetected.

6.3.14 This review identified that College assets such as laptops are being loaned to staff at the various campuses. However only one campus was found to hold documentary evidence of the loan. There is a risk that with no record of items loaned to staff and no assurance that all items are recorded on the campus inventory, there may be no record of the items actual existence.

6.3.15 Testing undertaken on the College's Single Central Record identified issues with the information recorded. A recommendation was raised as part of the draft report to address these issues. In response, the College notified the Auditor that the SCR provided was not the correct version. A subsequent review was undertaken and confirmed that all DBS checks listed were valid, but did identify inconsistencies that implies that historically DBS checks and renewals have not been carried out in line with expectations. The auditor was unable to determine whether these issues occurred after the College was established, or before, when each of the sites was an individual pupil referral unit. Discussions have highlighted improved controls with the SCR being managed centrally by the Admin Manager. For this reason, no recommendation is being made, although the accuracy of the College's SCR will be reassessed during the follow up review.

6.3.16 Formally documented budget monitoring was not being carried out at the time of the review. This was due in part to on-going issues with the original budget profile set by the previous Executive Head and Business Manager. It must be noted that budgets are being monitored by the Business Manager and this is evident through the need to make a large number of virements between cost centres in an attempt to provide the school with an accurate working budget before budget control can be fully introduced. Additionally the Business Managers report to the Management Committee provides evidence that the budget is being reviewed.

6.3.17 Individual arrangements are in place at each of the College campuses for catering for pupils. These arrangements consist of historical agreements with neighbouring schools that requires orders to be placed the previous week and collected by a member of staff from each campus. Whilst it may be cost effective for catering arrangements to continue in this manner, it would be beneficial for the College to carry out a cost analysis of the individual arrangements compared to a College wide catering provision.

6.3.18 Whilst most campuses only cater for free school meals pupils, the Oglethorpe campus pupils can purchase meal tickets in order to receive a lunch through Oglethorpe school. For the most part, parents purchase meal tickets online, although this review found that it is possible for tickets to be purchase from the Centre Administrator at the campus. No formal record of income collected was being maintained at the time of the review.

6.3.19 This review consists on providing assurance that regular bank reconciliations are being completed, authorised and submitted to the Council's LMS Team. A review of completed bank reconciliations found that reconciliations have not been carried out in accordance with procedures, for the most part because of the need for the Business Manager to complete the relevant training.

6.3.20 As part of the review a comparative check of the College's bank mandate against the authorised signatories listed in the Finance Policy and Procedures document should have been undertaken. However a copy of the bank mandate was not held at the College so confirmation as to the authorised signatories listed on the mandate was verbally confirmed by the Auditor over the telephone with the bank.

6.3.21 To assess compliance with procurement process, testing was undertaken on a sample of 57 purchases. Testing found that 56% of the orders raised were raised retrospectively, which has a significant impact on the accuracy of budget position and therefore the budget monitoring process. Testing also found five purchases not supported by an official purchase order.

6.3.22 Testing also reviews compliance with the permitted authorised signatories and corresponding financial limits. Testing identified a number of issues including:

- Lack of signatures from staff authorising key procurement documents;
- Financial limits of authorised signatories being exceeded; and
- A lack of segregation of duties between approving the order and the invoice for payment as required in the Finance Policy and Procedures document.

6.3.23 Cheques are raised manually by the College. The FMS system allows cheques to be electronically generated. The manual completion of cheques is time consuming and increases the risk of human error.

6.3.24 Variations in responses to questions regarding the local procurement processes in place at each of the campuses were found. To ensure that a College wide procurement process is in place, there is a need to ensure that expectations as to how procurement is managed within each of the campuses has been fully embedded.

6.3.25 Each campus has their own arrangements (leases / contracts) for services. Since merging the four units into one College each campus continues to make their own arrangements which may not be cost effective.

6.3.26 Ultimately petty cash and charge card transactions are initiated at the relevant campuses and so there are expectations over authorisations and audit trails that should be in place. Discussions and testing found variations between practices and expectations. To ensure that all relevant expectations are met / complied with, there is a need to ensure that procedures are clear and documented.

6.3.27 Monthly payroll reports are checked by the Business Manager. Ensuring the accuracy of payroll information can be problematic due to a lack of reconciling information available and often becomes a "gestimate" rather than a detailed check of the report. There is a system available called Personnel Links, which allows salary commitments to be cross matched to the report. The College does not currently use this system.

6.3.28 Timesheets are used in one campus whose staff are on zero hours contracts. Elsewhere a small number of staff complete timesheets and in other cases timesheets would only be completed for overtime. During the review it was established that timesheets are checked and approved locally by the Teacher in Charge before being submitted to the Council's Internal Shared Services team for processing. Timesheets are not submitted to the Business Manager. The lack of timesheet information being provided to the Business Manager, restricts their ability to accurately check non salary payments within the payroll report. As payroll reports are not passed to the people checking and authorising timesheets, the assurance that can be placed on the adequacy of the payroll checking process is limited.

6.4 Audit Opinion

6.4.1 No Assurance can be given on the system of internal control operating at the time of this audit. This reflects the fact that the control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

6.4.2 The audit makes sixteen high and eleven medium priority recommendations which comprise the need for:

High:

- Declarations of Interest to be signed (annually) by all members of the Management Committee and those staff that are involved in financial processes / making financial decisions for the College;
- The SFVS for the 2015/16 financial year to be completed and approved by the Management Committee, before being submitted to the Council's LMS Team;
- The College's performance targets to be clearly documented, ensuring that sufficient systems are in place to capture the information needed to monitor performance;
- A College Improvement Plan to be documented and made available to all staff;
- The College to clarify the current arrangements for all campuses and where necessary ensure that appropriate service level agreements are in place setting out responsibilities and applicable costs.
- A documented Asset Management Plan to be produced;
- Emergency Planning / Business Continuity arrangements covering both the College and the individual campuses to be documented and made available to all staff;
- All staff to complete a driving declaration and where necessary the driving checklist is to be completed;

- The College to register with the Information Commissioner for Data Protection;
- The College to ensure that appropriate records are maintained at each campus of all assets. Records should be checked annually for accuracy and results reported to the Management Committee.
- Formal budget monitoring to be undertaken including the provision of budget information to Committee members in advance of the meeting;
- Bank reconciliations to be completed in line with Financial Regulations and the Finance Policy and Procedures document;
- The College to drive down the number of retrospective orders being placed;
- Key procurement documents to be in place and signed by an appropriate authorised signatory in line with corresponding financial limits;
- The College to ensure that all petty cash and charge card procedures have been embedded at each of the campuses and that all documents are sufficiently completed / signed to evidence compliance with these procedures; and
- Timesheet information to be supplied to the Business Manager to allow checks on the payroll report to include checks on these payments.

Medium:

- Controls to be implemented to ensure that College policies and procedures cannot be amended or deleted by unauthorised members of staff;
- The Colleges Financial Policy and Procedures document to be reviewed, updated, approved and distributed;
- A review of users with access to FMS to be undertaken to ensure that only authorised users have access to the system;
- Controls to manage the loan of College equipment to staff to be established;
- Management to undertake a review of the cost effectiveness of the individual catering arrangements compared to a College wide provision;
- Formal records of income received to be maintained when income is collected for school meals / meal tickets;
- A copy of the bank mandate to be obtained from the bank and retained on file;
- The College should engage with the Councils LMS Team to investigate the potential to use FMS for raising cheques;
- The College to ensure that procurement processes in place at each of the campuses are in line with expectations;
- The College to review all contracts and leases to establish whether value for money is being achieved through the existing arrangements or whether there is a need to implement joint leases / contracts where possible in the future; and
- The College to engage with the Council to explore the possibility of using Personnel Links to allow efficient and effective monitoring of payroll related payments.

Payroll	Schedule B (7)

7.1 Introduction

7.1.1 The audit of Payroll was included in the 2014/15 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effective of the system of internal control in operation.

7.1.2 Payroll is now processed through One Oracle. From the 4th August 2014 Havering started using a new shared version of Oracle (One Oracle) with five other London councils – Barking & Dagenham, Brent, Lambeth, Lewisham and Croydon.

7.1.3 One Oracle is a fundamental part of the Council's bid to reduce running costs and help to meet future budget deficits, in order to protect key front line services to residents

7.1.4 The value of payments processed through the payroll function for 2014/15 was in excess of £129million.

7.2 Objectives and Scope

7.2.1 The audit was undertaken to provide Authority's management and the Audit Committee with assurance on the effectiveness of the system of internal control operating within Payroll. The system of internal control operates to:

- Ensure compliance with relevant legislation, best practice and the organisations policies and procedures;
- Ensure that the payroll are administered in an effective manner and that payments are accurate and timely;
- Reduce risk, including risk of fraud; and
- Produce accurate, relevant and timely management information.

7.2.2 The audit examined the internal control environment applied by the Payroll Team to mitigate the following potential key risks:

- Non-compliance with relevant legislation;
- Procedures do not exist or are not fit for purpose;
- Payments are incorrect;
- Adjustments to salaries are unauthorised and/ or inaccurate;
- Transactions are not bona fide;
- The system does not support the production of suitable management information;
- Management information is not utilised to monitor achievement of the service objectives and drive key decisions.

7.3 Summary of Audit Findings

7.3.1 The 2014/15 (pre One Oracle) audit resulted in the two medium priority recommendations being raised to mitigate weaknesses identified during the audit and aimed to:

- Changes to policies and procedures to be made post One Oracle go live; and
- Checks to be undertaken to ensure documentation is scanned onto Civica.

7.3.2 Each of the recommendations above has been fully implemented.

7.3.3 This audit has not included a review of the configuration of One Oracle or the segregation of duties within One Oracle. A review of One Oracle configuration and segregation of duties, which includes payroll, has been undertaken by PWC. The findings of this review and will be reported separately.

7.3.4 Although there are system controls within the payroll process there is still a reliance on manual checks and controls. However, One Oracle has a Governance, Risk & Compliance (GRC) function which has significant control possibilities. GRC is due to be tested by Application Support users from the six boroughs and therefore additional controls within Payroll may result.

7.4 Audit Opinion

7.4.1 A **Substantial Assurance** has been given on the system of internal control.

7.4.2 The audit makes no recommendations.

Pensions	Schedule B (8)

8.1 Introduction

8.1.1 The audit of Pensions was included in the 2014/15 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effectiveness of the system of internal control in operation.

8.1.2 A web based system, Altair, is used to administer the pension schemes and payments. The Altair system sits outside of One Oracle.

8.1.3 From the 4th August 2014 Havering started using a new shared version of Oracle (One Oracle) with five other London councils – Barking & Dagenham, Brent, Lambeth, Lewisham and Croydon.

8.1.4 One Oracle is a fundamental part of the Council's bid to reduce running costs and help to meet future budget deficits, in order to protect key front line services to residents.

8.1.5 Monthly reconciled payments between the payroll reports and the Oracle system showed pension payments processed for 2014/15 totalled £27,390,561.

8.2 Objectives and Scope

8.2.1 The audit was undertaken to provide Authority's management and the Audit Committee with assurance on the effectiveness of the system of internal control operating within Payroll. The system of internal control operates to:

- Ensure compliance with relevant legislation, best practice and the organisations policies and procedures;
- Ensure that pensions are administered in an efficient and non-bureaucratic processes and that payments are accurate and timely;
- Reduce risk, including risk of fraud; and
- Produce accurate, relevant and timely management information.

8.2.2 The audit examined the internal control environment applied by the Payroll Team to mitigate the following potential key risks:

- Non-compliance with relevant legislation;
- Procedures do not exist or are not fit for purpose;
- Deductions are incorrect;
- Pension payments are unauthorised and/ or inaccurate;
- Transactions are not bona fide;
- The system does not support the production of suitable management information;
- Management information is not utilised to monitor achievement of the service objectives and drive key decisions.

8.3 Summary of Audit Findings

8.3.1 The 2013/14 audit resulted in no recommendations being raised although it was accepted that there was scope to improve the management environment.

8.3.2 A historic case regarding an underpayment has been rectified. This resulted from legislation that is no longer in effect, stopping this happening again in the future.

8.3.3 The Altair and OneOracle systems do not currently interface. This has been raised and is being investigated by Cap Gemini.

8.4 Audit Opinion

8.4.1 A **Substantial Assurance** has been given on the system of internal control.

8.4.2 The audit makes no recommendations.

Budgetary Control	Schedule B (9)

9.1 Introduction

9.1.1 The audit of Budgetary Control including Collaborative Planning (CP) forms part of the agreed 2014/2015 Internal Audit plan.

9.1.2 Budget monitoring and control is a management process, as well as a financial one incorporating monitoring and controlling resources and delivering agreed outcomes. All are key management tasks which are set in accordance with the Financial Procedure Rules.

9.1.3 In June 2012, Havering introduced CP, an online budget forecasting system called which provided a more automated method to update Oracle with financial forecasts.

9.1.4 The move to CP placed greater reliance on Cost Centre Managers, Heads of Service and Group Directors who had responsibility for accuracy of projected forecasts and adherence to deadlines.

9.1.5 On the 4th August 2014 Havering started using a new shared version of Oracle (One Oracle) with five other London councils – Barking & Dagenham, Brent, Lambeth, Lewisham and Croydon.

9.1.6 One Oracle is a fundamental part of the Council's bid to reduce running costs and help to meet future budget deficits, in order to protect key front line services to residents.

9.1.7 Both One Oracle and CP are essential for the delivery of adequate budgetary control.

9.2 Objectives and Scope

9.2.1 The objective of the audit is to provide Authority's management and the Audit Committee with assurance on the effectiveness of the system of internal control in regards to Budgetary Control across the organisation. The system of internal control operates to:

- Ensure compliance with relevant legislation, best practice and the organisation's policies and procedures;
- Ensure an efficient non-bureaucratic processes; budget monitoring including forecasting is accurate and timely; and
- Produce accurate, relevant and timely management information.

9.2.2 The audit will concentrate on examining the internal control environment applied corporately to mitigate the following potential risks:

- Non-compliance with legislative and organisational requirements;
- Roles and responsibilities have not been established;
- Staff lack the understanding to fulfil requirements;
- Over reliance on manual rather than system controls;
- Forecasts are not supported by robust audit trails;
- Variances are not identified / submitted in a timely manner;

- Variances are not subject to investigation / corrective action;
- The system does not support the production of suitable management information; and
- Management information is not utilised to monitor achievement of the service objectives and drive key decisions.

9.2.3 It should be noted that a full review of the users on Oracle and CP has not been undertaken during this audit as review of Configuration and Access Rights on Oracle has been undertaken by PWC and will be reported on separately

9.3 Summary of Audit Findings

9.3.1 Sections of the Finance Procedure Rules and the Financial Framework are out of date. Although some budget monitoring / finance documentation retained on the Intranet is up to date, e.g. Oracle projects there are several documents that are no longer relevant. No recommendation is being made as there is a review of all finance processes currently underway as part of the oneSource finance integration work. Out of date documentation on the Intranet will eventually be removed and replaced.

9.3.2 With the implementation of oneSource additional processes have had to be implemented in the CP Process with CP provisionally being opened for oneSource forecasts approximately ten days earlier than LBH forecasts (To align with the Newham Timetable). With CP being opened ten days earlier for oneSource, budgets will not include payroll costs. However, monthly monitoring meetings will ensure that all expenditure is accounted for within forecasts.

9.3.3 It was found that six Ops Finance staff did not have 'Read Only' access to CP. This matter was brought to the attention of the ISS Operational Manager who confirmed that:

- The ISS Operational Manager is a Cost Centre Manager in his own right;
- Two Ops Finance staff had access from the Transformation and old Housing budgets when support was more detailed but is no longer required. No recommendation is being made as the Development Officer within the Financial Systems Team amended the access right for these two members of staff during the review;
- Two Ops Finance staff have an arrangement with the Group Director Children, Adults & Housing where they approve on CP on the overall forecast after the Group Director agrees it at their management meeting;
- Out of necessity Ops Finance have to amend forecasts or enter where blank, but only after they have been explicitly agreed by the relevant managers. This is when the system has closed but there are still gaps. This is down to a timing issue so managers don't have to reject down.

9.3.4 Prior to the implementation of oneSource the Corporate Accountancy Support Manager would reconcile monthly the LBH CP Model and then produce the Budget Monitoring Reports. Since the implementation of oneSource four models are now reconciled by the Development Officer within the Financial Systems Team, these being:

- LBH;
- oneSource Shared;

- oneSource Not Shared; and
- oneSource Havering & Newham.

9.3.5 The Accountancy Support Manager then undertakes a cursory check to ensure balances are correct and then produces the monthly Budget Monitoring reports from the four models. It is understood that these models were set up so that the structure / view on CP would be more user friendly for Cost Centre Managers to use.

9.4 Audit Opinion

9.4.1 A **Substantial Assurance** has been given on the system of internal control.

9.4.2 There are no recommendations resulting from this audit.

Housing Rents Follow Up	Schedule B (10)

10.1 Background

10.1.1 Housing rents relates to the letting of properties and the collection of rent and service charges for those properties. The process is delivered by a network of teams whose individual roles feed into the overall process.

10.1.2 Housing Rents was previously the responsibility of Homes in Havering. When the service was brought back in house in October 2012, the administration of Housing Rents was split between two directorates. The initial elements of the process, such as setting up and maintaining rent accounts previously sat within the Resources directorate, with the collection of income and debt recovery elements of rents under the Children, Adults & Housing directorate. As a result of recent reporting changes, all teams now sit within Children, Adults & Housing.

10.1.3 The 2014/15 Internal Audit Plan included a review of Housing Rents. The purpose of the review was to provide the Authority's management and the Audit Committee with an opinion on the effectiveness of the system of internal control in operation.

10.1.4 Limitations in the system of control were identified that may have put the system objectives at risk and resulted in a limited assurance being given. In order to strengthen the control environment three high and seven medium priority recommendations were raised. All recommendations were accepted by management and were due to be implemented by May 2015, with the exception of one recommendation which is due to be implemented by December 2015 and is reliant on the implementation of the new Housing system.

10.2 Progress on Implementation

10.2.1 A follow up review has now been completed to assess progress made to implement the recommendations raised in the original audit report. The follow up found that seven recommendations have been implemented.

10.2.2 Three medium priority recommendations remain outstanding, which relate to:

- Scheduled meetings to be arranged between departments involved in the Housing Rents process to provide a platform for work related issues to be resolved. At the time of the follow up regular meetings were not being arranged. The new Head of Housing Services will be driving this recommendation forward and a revised implementation date has been arranged;
- The Lettings Team to identify and implement performance monitoring of staff had been partially implemented. Performance indicators have been identified and are being monitored at a team level, however work was still underway at the time of the audit to identify what management information can be extracted from the system to allow this to be monitored at an individual level. A revised implementation date has been agreed; and
- All staff to sign a declaration that clearly sets out that staff are not permitted to access accounts of friends or family member, has not been progressed. Discussions with the new Head of Housing established that a process for implementing this recommendation has been identified and a

revised implementation date has been applied to allow this work to be completed.

10.3 Conclusion

10.3.1 Seven recommendations have now been implemented. Action has been taken to address key weaknesses within the Housing Rent process and therefore the audit assurance has increased to substantial which means that whilst there is a basically sound system of control in place, there are limitations that may put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

TMO's Follow Up	Schedule B (11)

11.1 Background

11.1.1 The 2014/15 Internal Audit Plan included a review of Tenancy Management Organisations (TMO's). The audit found that only a limited assurance level could be provided as a result of the findings and so a follow up audit was scheduled into the 2015/16 audit plan. The purpose of this review was to provide the Authority's management and the Audit Committee with assurance the recommendations raised from the original TMO audit had been implemented or to provide a progress update for any that remain outstanding.

11.1.2 Limitations in the system of control were identified in the original audit that may put the system objectives at risk. In order to strengthen the control environment three high and four medium priority recommendations were raised. Six of these recommendations were accepted by management and were due to be implemented by the end of March 2015.

11.1.3 One high priority recommendation, regarding the use of an additional, experienced resource to assist in the update and agreement of the Modula Management Agreement (MMA) was not agreed.

11.2 Progress on Implementation

11.2.1 A follow up review has now been completed to assess progress made to implement the recommendations raised in the original audit report.

11.2.2 The follow up found that four recommendations have been implemented with the other two still outstanding. The two recommendations that remain outstanding have revised implementation dates.

11.3 Conclusion

11.3.1 As a result of the findings of this follow up review the assurance level has been raised from Limited to Substantial Assurance which means that while there is a basically sound system, there are limitations that may put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Gas Safety (Home Ownership) Follow Up	Schedule B (12)

12.1 Background

12.1.1 The 2014/15 Internal Audit Plan included a review of Gas Safety Regulations (Home Ownership). The audit found that only a limited assurance level could be provided as a result of the findings and so a follow up audit was scheduled into the 2015/16 audit plan. The purpose of this review was to provide the Authority's management and the Audit Committee with assurance the recommendations raised from the original Gas Safety Regulations audit had been implemented or to provide a progress update for any that remain outstanding.

12.1.2 Limitations in the system of control were identified in the original audit that may put the system objectives at risk. In order to strengthen the control environment three high and two medium priority recommendations were raised. All five of the recommendations were accepted by management and were due to be implemented by the end of December 2014.

12.2 Progress on Implementation

12.2.1 A follow up review has now been completed to assess progress made to implement the recommendations raised in the original audit report. Where actions had been completed by management, evidence to support this was gathered.

12.2.2 The follow up found that three of the recommendations have been implemented and two recommendations have had their implementation dates extended to 30 June 2015.

12.3. Conclusion

12.3.1 As a result of the findings of this follow up review the assurance level has been raised from Limited to Substantial Assurance which means that while there is a basically sound system, there are limitations that may put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Ardleigh Green Infant School	**Schedule B (13)**

13.1 Introduction

13.1.1 The audit of Ardleigh Green Infant School was undertaken as part of the rolling triennial programme of school audits.

13.1.2 Ardleigh Green Infant School was last audited in January 2014 when the completion of the Audit Health Check by the Council's LMS Team resulted in a Substantial Assurance on the School's system of internal control being given. The opinion reflected the fact that whilst there was basically a sound system of control in place, limitations in the systems of control identified were such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

13.1.3 The 2014 report made eight priority two (Medium) recommendations. As part of this review, progress to implement the recommendations raised in 2014 as been undertaken.

13.1.4 The review found that seven recommendations had been implemented. The remaining recommendation relates to:

- The school should continue to monitor and reduce the level of retrospective orders being raised on the finance system.

13.2 Objectives and Scope

13.2.1 The audit was undertaken to provide the Governing Body and Head Teacher with assurance on the system of internal control operating within the school to manage key risks in the following key areas:

- Corporate Governance & Risk Management;
- Strategic Planning;
- Information Governance;
- Safeguarding;
- Financial Management;
- Income;
- Banking;
- Procurement;
- Payments; and
- Capital Projects.

13.3 Summary of Audit Findings

13.3.1 Due to the Governing Body reconstitution and governor resignations the information within the Finance Policy required updating. The school is aware of the information to update and this is due to be reviewed in detail and reported to the Governing Body during the autumn term as part of the annual review cycle.

13.3.2 To assist in identifying site maintenance works the school is given a site survey, this is overdue. This will be completed by the borough and is not within the schools control.

13.3.3 A check of the schools inventory was last completed and reported to the Governing Body during the autumn term 2014. Although the equipment register was viewed and approved by the Governing Body the annual Management Declaration was not located.

13.3.4 Forms for equipment loaned to staff are completed for each item that is assigned to a member of staff. Each form is signed by the member of staff and approved by an authorised signatory. Items returned are then loaned to a different member of staff. Equipment returned is not signed as returned by the member of staff or signed as received by an appropriate officer within the school.

13.3.5 The procurement process was reviewed for twenty purchases chosen at random from the bank history report. Of these twenty purchases twelve of the orders were found to have been raised retrospectively.

13.3.6 For each of the twenty purchases both the Head Teacher and Deputy Head were found to have authorised at each stage of the process; order, invoice and cheque payment.

13.3.7 One charge card transaction log was authorised three months after the end of the transaction period.

13.3.8 A leaver's form for one former member of staff could not be located during testing. Assurances can be taken from the fact that this member of staff is no longer paid and that payroll checks are carried out monthly.

13.4 Audit Opinion

13.4.1 A Full Assurance on the system of internal control operating at the time of audit is given. This reflects the fact that the there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

13.4.2 The audit makes one medium and three low priority recommendations which comprise the need for:

Medium:

- The school should reduce the number of retrospective orders raised in order to safeguard the efficiency of the budget monitoring process, particularly in light of the limited budget available.

Low:

- The annual inventory check Management Declaration (included within Finance Policy) to be completed as part of future annual inventory reviews;
- Equipment on loan forms to be amended to include return date and signature; and
- Management should review the procurement process so as to increase the level of segregation. This may be achieved by increasing the number of signatories or reducing the input of the current signatories.

Rainham Village Primary School	Schedule B (14)

14.1 Introduction

14.1.1 The audit of Rainham Village Primary School was undertaken as part of the rolling triennial programme of school audits.

14.1.2 Rainham Village Primary School was last audited in November 2013 when the completion of the Audit Health Check by the Council's LMS Team resulted in a Substantial Assurance on the School's system of internal control being given. The opinion reflected the fact that whilst there was basically a sound system of control in place, limitations in the systems of control identified were such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

14.1.3 The 2013 report made three priority one (High) and eight priority two (Medium) recommendations. As part of this review, progress to implement the recommendations raised in 2013 has been undertaken. This review confirmed that all recommendations have been implemented.

14.2 Objectives and Scope

14.2.1 The audit was undertaken to provide the Governing Body and Head Teacher with assurance on the system of internal control operating within the school to manage key risks in the following key areas:

- Corporate Governance & Risk Management;
- Strategic Planning;
- Information Governance;
- Safeguarding;
- Financial Management;
- Income;
- Banking;
- Procurement;
- Payments; and
- Capital Projects.

14.3 Summary of Audit Findings

14.3.1 The reconstitution of the schools Governing Body has resulted in the reconstitution of the Finance Committee. Now called Finance and Resource committee, there is evidence to suggest that meetings of the Finance and Resource committee will be moved from half termly to termly. Increasing the time between meetings could result in delays where the school requires Governors approval.

14.3.2 The school has an Emergency Plan in place which was last updated in February 2015. The plan has not been presented to Governors for information purposes.

14.3.3 Only one Governor is currently subject to a DBS check because they engage with pupils as part of the provision of cooking lessons. All other Governors received a List 99 check. Governors play an important role within the school and are therefore able to build relationships within the community because of their role as a Governor. As Governors are encouraged to become increasingly involved in school activities, it is advisable that all Governors are subject to a DBS check as a matter of good practice.

14.3.4 Profit and loss summaries are completed at the end of each school trip. Whilst this summary is signed by the Chair of Finance they are not signed by the member of staff performing the reconciliation.

14.3.5 There are four cheque signatories, all school staff, with a financial limit for signing cheques of £5k. Only the Head or Deputy Head can approve orders for goods / service or invoices for payment, up to the limit of £15k. Above this requires Finance and Resource Committee approval. The schools current arrangements ensure tighter control in regards to the signing of cheques, but results in signatories being non-compliant with the financial limits.

143.6 The school does not maintain an official petty cash account, but does operate a petty cash process. No cash is retained on site; instead reimbursements to staff for goods purchased on behalf of the school are paid via cheque. Small value cheques were noted during the review, which cost more to administer then the reimbursement itself.

14.3.7 Where timesheets need to be completed for staff, the timesheet is completed by the School Business Manager and approved by the Head Teacher. The School Business Manager does not sign the timesheet.

14.3.8 The payroll report is checked for accuracy by the School Business Manager. Once checked the report is passed to the Head Teacher for review / approval. This review found that payroll reports are signed by either the School Business Manager or the Head Teacher not both.

14.4 Audit Opinion

14.4.1 A **Full Assurance** on the system of internal control operating at the time of audit is given. This reflects the fact that there is basically a sound system of control designed to achieve the system objectives and the controls are being consistently applied. This level of assurance also considers the weaknesses identified were minor and that most of the recommendations raised relate solely to good practice.

14.4.2 The audit makes two medium priority and six low priority recommendations which comprise the need for:

Medium:
- All Governors to be subject to a DBS check; and
- The school to consider the cost effectiveness of current arrangements for reimbursing staff for goods purchased from their personal funds.

Low:
- The school to consider the impact that termly meetings of the Finance and Resource Committee will have on the decision making process;
- The schools Emergency Plan to be presented to Governors for information purposes;

- The profit and loss summary to be signed by the person reconciling the trip;
- The school to review the financial limits for procurement;
- The person completing timesheets on behalf of the member of staff, to sign the timesheet; and
- Payroll reports to be signed by the person checking the accuracy of the report and verified by the Head Teacher.

St. Josephs RC Primary School	Schedule B (15)

15.1 Introduction

15.1.1 The audit of St Josephs Catholic Primary School was undertaken as part of the rolling triennial programme of school audits.

15.1.2 St Josephs Catholic Primary School was last audited in March 2014 when the completion of the Audit Health Check by the Council's LMS Team resulted in a Substantial Assurance on the School's system of internal control being given. The opinion reflected the fact that whilst there was basically a sound system of control in place, limitations in the systems of control identified were such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

15.1.3 The 2014 report made thirteen priority two (Medium) recommendations. As part of this review, progress to implement the recommendations raised in 2014 as been undertaken.

15.1.4 The review found that ten recommendations had been implemented. The remaining three recommendations relate to:

- The need for the school to amend the equipment on loan register to facilitate the signature of the approver. Discussions during this review identified that no further loans have occurred and the school will be removing the loaning of equipment, therefore removing the need to amend the equipment on loan register. Further details have been included in the detailed findings and recommendations report;
- The school to ensure that a robust audit trail is in place for the approval of petty cash reimbursements. This review found that this recommendation has not been fully implemented. Revised and additional recommendations have been raised to address the weaknesses identified; and
- The school to avoid exceeding the budget within individual cost centres. The school has been liaising with the LMS Team who advised the school to allow the cost centre to overspend, instead of viring monies between the cost centres, to allow the actual spend in those areas to be visible. Whilst the school overspent on cost centres 2014/15 it is too early in the 2015/16 financial year to give assurance that cost centres will not overspend. The school feels that the current year's budget is realistic and achievable.

15.2 Objectives and Scope

15.2.1 The audit was undertaken to provide the Governing Body and Head Teacher with assurance on the system of internal control operating within the school to manage key risks in the following key areas:

- Corporate Governance & Risk Management;
- Strategic Planning;
- Information Governance;
- Safeguarding;
- Financial Management;
- Income;

- Banking;
- Procurement;
- Payments; and
- Capital Projects.

15.3 Summary of Audit Findings

15.3.1 An analysis of the Governors skills and experience has been undertaken, however a copy of this analysis is not retained by the school.

15.3.2 Whilst comprehensive minutes are being taken of Full Governing Body and Finance Committee meetings and discussions regarding key documents are visible within the minutes, approval of these key documents could not be located within the minutes.

15.3.3 Checks to ensure that staff are suitably insured to use their car for work purposes have not been completed.

15.3.4 The school does not have an up to date Asset Management Plan. Plans on file are historic and out of date. Whilst it is acknowledged that the content of this plan is largely driven by the Council's tri-annual property condition surveys, the school should be maintaining an on-going central document to collate all premises related actions and improvements.

15.3.5 The review identified a number of individuals to which payments are being made. No evidence could be located to support that these individuals had been subject to the necessary self-employment checks before being engaged to provide services.

15.3.6 Testing undertaken within procurement found instances of key documents not being signed by the approver / authorising signatory, including order, invoices and cheque slips.

15.3.7 Procurement testing also found instances of orders being raised after the invoice has been received. Placing orders retrospectively has an impact on the accuracy of the budget monitoring process and therefore the ability to manage the budget effectively.

15.3.8 Receipts are used to evidence the reimbursement of petty cash to staff. Receipts are noted with "paid" to evidence that the funds have been paid to the claimant. Whilst some signatures were noted on a number of receipts, the school is not maintaining sufficient records that the reimbursement was approved by the School Business Officer in advance of issuing the funds, nor that the claimant had received the funds.

15.3.9 The Head or Deputy Head Teacher approves petty cash payments retrospectively by reviewing the petty cash transaction listing. The listing is not signed to evidence this approval.

15.3.10 It is acknowledged that the Head or Deputy Head Teacher approves petty cash payments retrospectively and this is set out within the schools Finance Policy and Procedures document. In reality responsibility for approving the reimbursement of petty cash has been delegated to the School Business Officer, however this is not reflected in the Policy as it states that the School Business Officer manages the petty cash.

15.3.11 Payroll reports are checked by the School Business Officer before being passed to the Head Teacher for approval. The School Business Officer does not sign the payroll report as evidence of checking its accuracy.

15.3.12 As stated above payroll reports are checked by the School Business Officer for accuracy. This check is completed using Personnel Links that provides information as to staffs salary commitments. Whilst timesheets are approved by the Head Teacher, there are no checks to ensure that accuracy of these payments within the monthly payroll report.

15.4 Audit Opinion

15.4.1 A **Substantial Assurance** on the system of internal control operating at the time of audit is given. This reflects the fact that the school has maintained good controls during a period of instability and as a result there is a basically sound system of control in place. However, there are limitations that may put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk and therefore need to be addressed.

15.4.2 The audit makes two high, six medium priority and four low priority recommendations which comprise the need for:

High:

- Driving declarations to be completed by all staff and an annual driving check for all staff that indicate on the declaration that they use their car for work purposes; and
- Checks to be undertaken to assess an individual's self-employment status, before engaging that individual for the provision of goods / services.

Medium:

- The approval of key documents to be clearly recorded within the minutes;
- The school to produce and format an Asset Management Plan that is maintained on an on-going basis;
- All key procurement documents to be appropriately signed;
- The school to reduce the number of retrospective orders raised;
- Petty cash related receipts to be signed by the approver and the claimant; and
- Checks to be undertaken to ensure that information recorded on timesheets / timecards are accurate within the payroll report.

Low:

- Documentary evidence of the skills assessment undertaken by the Governing Body to be retained on file by the school;
- Petty cash transaction listings to be signed by the Head Teacher;

- The schools Finance Policy and Procedures document to be amended to reflect that petty cash payments will be issued and therefore approved by the School Business Officer; and
- Payroll reports to be signed by the School Business Officer to evidence that the report has been checked and the School Business Officers pay within the report to be verified by an authorised signatory.

<u>**Audit Committee, 24 September 2015**</u>

Appendix C: List of High Risk Recommendations and status

Of the 14 high priority recommendations due, 10 have been completed, 4 remain in progress

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Complete
12/13	Transport	Asset Management	Management should ensure that: • Members of staff should submit CRB renewals prior to expiration; • CRB renewals are followed up if a response has not been received in a timely manner; and • Members of staff should not be permitted to work with vulnerable people if a CRB renewal has not been submitted or a response has not been received in a timely manner.	Complete
14/15	Gas Safety (Building Services)	Homes & Housing	Procedures are documented and communicated so that contractors know what processes to follow in the event of them finding a property that is over occupied or in an uninhabitable state of repair or if they suspect a vulnerable person is subject to neglect or abuse.	Complete
14/15	Gas Safety (Home Ownership)	Homes & Housing	Procedures are documented that show the processes to follow when a gas certificate is coming up to its expiry date or if a leaseholder has not had a gas safety check. Procedures should then be regularly reviewed and updated where required. To ensure that the inspection is undertaken consideration should be given to using the contractors used by Building Services to undertake the inspection and then recharging the leaseholders.	In Progress
			Urgent action is undertaken to ensure that the gas safety inspections have been undertaken and copies of the gas safety certificates are obtained for the outstanding 1092 leaseholders.	In Progress
			Procedures are set up with PHS to ensure that Home Ownership are notified of all Leasehold properties that have been leased to the Council and then taken / given back to the leaseholders. The procedures should include an annual reconciliation process.	Complete

Audit Committee, 24 September 2015

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Complete
14/15	TMO's	Homes & Housing	Management to either utilise the consultant used by the TMOs or enlist some additional, experienced resource to assist in brokering discussions with the TMO to ensure the MMA is updated, fit for purpose and is agreed and signed by all parties as soon as is possible.	Complete
			A process map to map the risks LBH need to manage with regards TMO's areas that require monitoring and starting objectives should be developed prior to agreeing the MMA.	In Progress
			Recognition in the Homes & Housing Risk Register of the potential risk to LBH in the event of a disaster or financial failure by a TMO.	Complete
14/15	Payments to Contractors (Road & Pavement Defects)	StreetCare	The Highways Maintenance Support - Sub Contractor contract should be retendered to ensure that the Council is compliant with EU and Council Procurement Rules and value for money is obtained.	Complete
			Checks on the Business Continuity Plans for the contractor should be undertaken to ensure they are up to date and show that they have prepared for minimising and recovering from the interruption to the service and provide the steps required to ensure an organised and effective return to 'Business As Usual (BAU)'.	Complete
			Financial stability checks should be undertaken on the contractor to ensure that the contractor is not facing financial difficulty and if they are contingency plans should be drawn up.	In Progress
14/15	Housing Rents	Homes & Housing	Secondary checks on property adverts should be undertaken until assurance has been obtained that the data contained within the advert is accurate.	Complete
			To ensure reliability / accuracy is protected going forward, the property spreadsheet should be password protected.	Complete
			An analysis of former tenant accounts in recovery should be undertaken to identify any accounts that have not been progressed through to the next stage of recovery.	Complete

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Havering
LONDON BOROUGH

AUDIT COMMITTEE
24 September 2015

Subject Heading:	Corporate Risk Register
CMT Lead:	Deborah Hindson Acting Managing Director oneSource
Report Author and contact details:	Sandy Hamberger, Interim Head of Internal Audit Tel: 01708 434506 Email: sandy.hamberger@oneSource.co.uk
Policy context:	To inform the Committee of the current Corporate Risk Register contents and Risk Ratings.
Financial summary:	N/A

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	X
Excellence in education and learning	X
Opportunities for all through economic, social and cultural activity	X
Value and enhance the life of every individual	X
High customer satisfaction and a stable council tax	X

SUMMARY

This report provides the Audit Committee with an update on the Strategic Risks the organisation currently faces, the ratings applied to them and the mitigations and planned actions identified and documented through the risk management activity of the council.

RECOMMENDATIONS

1. To note the contents of the report and the risk register.

2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

1. Introduction

1.1 Risk Management is defined by the Institute of Risk Management as:

> **“**Risk Management is the process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of failure.”

Risk management will, by adding to the business planning and performance management processes, strengthen the ability of the Council to achieve its objectives. Risks associated with these objectives can be managed and the potential impact limited, providing greater assurance that the Vision will be achieved.

1.2 The Corporate Risk Register is owned by the Corporate Leadership Team to ensure that links to risks within services and directorates as well as projects are robust. The Head of Internal Audit is responsible for reporting the status quarterly to the Audit Committee. Effective risk management is a fundamental component for a strong internal control environment and good governance.

1.3 Heads of Service are responsible for risk management within their own service area and all projects and programme boards maintain risk logs. Significant risks are escalated to Corporate Management Team through one to ones and management team meetings. Internal Audit are reliant on risk management to determine where to direct their resources and focus.

1.4 As Councils respond to the austerity agenda, risk management resources will reduce, in line with other cuts required to make significant levels of savings. This will require a pragmatic approach to maintain an adequate risk management approach.

2. Risk Management Activity

2.1 Although there has not been a formal review of risk management arrangements the work to manage risk and deliver the strategy obviously continues day to day within the business and decision making processes.

2.2 oneSource Management Team have developed their Strategic Risk Register.

2.3 The service planning process for 2015/16 included a review of service risks.

2.4 Corporate Leadership Team participated in a workshop to inform the recent update of the risk register.

2.5 Corporate Management Team reviews the register and approves it.

3. Annual Review

3.1 The previous update advised that the annual review of Risk Management has been delayed due to the service review for the Audit and Risk Service. The service review has considered the resources and structures required within oneSource to support both the London Borough or Havering and Newham in continuing to embed risk management.

3.2 As part of the implementation phase of the restructure the Strategy and Procedures for Risk Management will be updated for approval by the Audit Committee and then re-launched across both organisations. The restructure is scheduled to be formally consulted on in October 2015. Risk Management will also be considered as part of the current CIPFA and SOLACE consultation on "Governance". An audit of Risk Management could assist in the review. This will inform the future risk management approach.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised. There are financial implications where risks are not managed in an efficient and effective manner. The new strategy will be developed based on resources that are available within the budget for the Council. The responsibility for risk management is shared across all services of the Council therefore individual Heads of Service deploy the level of resources required to manage risks in their area. It is part of business as usual and integral to roles, particularly management within the organisation.

Legal implications and risks:

There are no apparent risks in noting the content of this Report. Failure to effectively manage corporate risks are likely to have legal consequences.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report. Equality and social inclusion are key factors to consider within the Council's objectives and therefore requirements are embedded within governance framework. Failure to manage risk in this area would have implications.

BACKGROUND PAPERS

Corporate Risk Register

CRR

Corporate Risk Register

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	% Complete	Control Owner	Controlled Assessment of Risk		
			Current controls in place							With ALL controls 100% in place		
			Impact	Likelihood	Risk Rating					Impact	Likelihood	Risk Rating
	Organisation and Governance											
G1	**Failure to have governance arrangements in place to ensure compliance with statutory and regulatory requirements and to ensure that all decisions taken are legal and robust enough to withstand challenge**	Reputational damage, legal action, fines and penalties, cost of corrective action	3	2	**6**	Chief Executive	Governance Group oversees key aspects of the governance framework and monitors compliance reporting by exception to CMT on issues and risks	50	Director of Communities and Resources	3	1	**3**
							Constitution is reviewed regularly - review currently underway. Training provided on decision making process.	90	Director of Legal & Governance (oneSource)			
							Robust procedures for decision making	100	Director of Legal & Governance (oneSource)			
							Reviews to reduce bureaucracy planned	0	Director of Communities and Resources			
							Overview and Scrutiny committees are embeded into Governance Framework and a new Overview and Srutiny Board established to oversee.	100	Leader			
G2	**Failure to ensure the organisation is free from fraud and corruption from both internal and external threats**	Financial loss, reputational damage.	1	3	**3**	Director of Communities and Resources	Fraud strategy monitored by Audit Committee. Dedicated fraud resources undertaking both proactive and reactive work.	80	Director of Finance (oneSource)	1	2	**2**
							Governance Group oversees fraud issues and trends reporting by exception to CMT on issues and risks	60	Director of Communities and Resources			
							Fraud Campaign to deter fraud run annually. Whistleblowing Policy in place and activity reported to Audit Committee	80	Director of Finance (oneSource)			
							Council requires Heads of Service and Managers to ensure system of internal control is robust and audit work provides assurance and raises recommendations.	80	Director of Finance (oneSource)			
G3	**oneSource - Failure to manage the impact on governance framework of a shared back office and potential conflicts of interest**	Non compliance with local requirements, Haverings best interests not served	2	3	**6**	Chief Executive	Review of Scheme of Delegation and update to constitution	0	Director of Legal & Governance (oneSource)	2	1	**2**
							Induction and Training for oneSource managers	20	MD oneSource			
							PDR and 1:1s undertaken	100	CLT			
							In interim Legal are providing advice to support governance arrangements where required.	100	Director of Legal & Governance (oneSource)			
G4	**Care Act Implementation - inability to deliver in the defined timescales or deliver the broader changes in social care and improve wider health services**	Non compliance with legislation, failure to achieve the outputs for the community	3	2	**6**	Director of Children, Adults and Housing	Programme Board monitoring implementation includes all relevant service area representatives	100	Director of Children's, Adults and Housing	2	2	**4**
							Risk Register in place for the Programme, regularly updated and Red risks visible to other CMT members.	100	Director of Children's, Adults and Housing			
							Demand and expectations management controls identified as part of the programme risk register which would limit the impact of the risk	80	Director of Children's, Adults and Housing			
							Financial Risk Management as part of the programme is critical as insufficient resources is biggest cause of this risk materialising	80	Director of Children's, Adults and Housing			
G5	**Business Continuity and Disaster Recovery Failures**	loss of critical services	4	3	**12**	Director of Communities and Resources	Business Continuity Plans in place, monitored by HoS and tested periodically	100	Director of Communities and Resources	4	2	**8**
							Reassurance of ICT capability within the server rooms of Newham and Havering ensuring a resilient and accessible service is available to both Councils.	100	Director of ICT Services			
							Plans to incorporate the communications systems linked through ICT ensuring resilience is maintained.	90	Director of ICT Services			
							Plans inciorporating activation, escalation and maintenance of ICT systems with resilient 24/7 maintenance of the systems especially identifying single points of failure and criticality.	60	Director of ICT Services			

CRR

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	% Complete	Control Owner	Controlled Assessment of Risk		
			Current controls in place							With ALL controls 100% in place		
			Impact	Likelihood	Risk Rating					Impact	Likelihood	Risk Rating
	Generation and Management of Funds											
F1	**Lack of oversight of future budget trends and failure to control budgets in year and achieve savings proposals**	Unable to meet demand for services within budgetary constraints. Overspends occur.	4	2	**8**	Director of Communities and Resources	Medium Term Financial Strategy in place, robust forecasting in place	100	Director of Communities and Resources	4	1	**4**
							Impact of new legislative demands understood and factored in	??	CMT			
							Robust in year budget monitoring arrangements - supported by technology	80	CLT			
							Savings achievement is monitored and independently confirmed	100	Director of Finance (oneSource)			
F2	**Failure to exploit potential income streams and maximise the funds generated and received**	Missed opportunities, increased budgetary pressure.	3	3	**9**	Director of Communities and Resources	Income collection plans and targets monitored by CMT	100	CMT	3	1	**3**
							Robust business retention Strategy in place	100	Head of Economic Development			
							oneSource business development plan has been produced for 2015/16	100	MD oneSource			
							Robust plans to deliver large impact projects aimed at delivering income i.e. Havering Company	100	Director of Communities and Resources			
F3	**Failure to manage increased demands for services in the short, medium and long term**	Cuts in services, unable to deliver statutory responsibilities, resident dissatisfaction	3	3	**9**	Chief Executive	Demographic and demand trends modelled quarterly by CMT	100	Head of Business & Performance	3	2	**6**
							Key drivers i.e. school places separately modelled	100	Head of Learning and Achievement			
							Demand Management Strategy reported quarterly	100	Director of Children's, Adults and Housing			
							CLT Working group planned	50	Chief Executive			
							Corporate Early Help, Intervention and Prevention Strategy to be developed through the Corporate Brain Steering Group	80	Head of Business & Performance			
	Organisation and Management											
M1	**The workforce does not have the capacity or is not sufficiently skilled and motivated to meet the future needs of the organisation**	Unable to deliver key projects and programmes, reduced productivity, lack of innovative ideas, failure of deliver objectives and outcomes	3	3	**9**	Chief Executive	PDRs and 1:1s are mandatory part of the performance management process	80	CLT	2	2	**4**
							Managers Development Programme completed by majority of LBH managers	100	Head of Human Resources and Organisational Development			
							Workforce and Organisational Development Strategies monitored at CMT	75	CMT			
							Partnership working with Newham will gong forward increase resilience	100	MD oneSource			
	Duty of Care											
C1	**Failure to ensure we are carrying out our duty of care to the most vulnerable in our community**	Harm suffered by individual, reputational damage, financial cost of dealing with the issue or any legal action	4	2	**8**	Director of Children's, Adults and Housing	Safeguarding and Early Intervention programmes in place for referrals and management of vulnerable children	100	Director of Children's, Adults and Housing	4	2	**8**
							Safeguarding Adults and Children's Board with opportunities for chair to report issues to Chief Exec and Cabinet	100	Chief Executive			
							Robust monitoring and escalation processes with Council including the Child Safety Performance Board between Leader, Cabinet Member, CE and Director.	100	Leader			
							Multi Agency Safeguarding Hub established with links to the above	100	Director of Children's, Adults and Housing			

CRR

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	% Complete	Control Owner	Controlled Assessment of Risk		
			Current controls in place							With ALL controls 100% in place		
			Impact	Likelihood	Risk Rating					Impact	Likelihood	Risk Rating
							Annual Secion 11 Audit Carried out and findings acted upon.	100	Head of Business & Performance			

CRR

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	% Complete	Control Owner	Controlled Assessment of Risk		
			Current controls in place							With ALL controls 100% in place		
			Impact	Likelihood	Risk Rating					Impact	Likelihood	Risk Rating
C2	**Health and Safety arrangements are not robust for our own operations and for the community**	Harm suffered by individual, reputational damage, financial cost of dealing with the issue or any legal action	4	1	**4**	Chief Executive	Appropriate plans in place issues of compliance reported to CMT	100	CMT	4	1	**4**
							Appropriate training and awareness provided to staff and manager as compulsory training	100	CLT			
							Governance Group oversee compliance and communicate issues.	25	Director of Communities and Resources			
							Local and Corporate Health and Safety Groups operate reviewing incidents and near misses for lessons learned	100	Director of Asset Management (oneSource)			
C3	**Emergency Planning / Community Safety**	Harm suffered by individual, health, Social, Economic and enviromental impacts, reputational damage, financial cost of dealing with the issue or any legal action	4	2	**8**	Chief Executive	Borough Resilience Forum	100	Director of Communities and Resources	4	1	**4**
							Robust Emergency Plans in place, monitored by CMT and tested periodically	100	CMT			
							Havering Community Safety Partnership	100	Chief Executive			
							Borough Risk Register reviewed and maintained with partner organisations	100	Director of Communities and Resources			
							Business Continuity Plans in place, monitored by HoS and tested periodically	50	CLT			
	Relationships and Reputation											
R1	**Failure to engender the trust of our residents in order to implement demand management strategies or encourage participation in community provided services**	Unachievable expectations of residents = dissatisfaction and reputational damage, missed opportunities to continue services for the community without financial burden on council	3	3	**9**	CMT	Clear visions and communications strategy	100	Chief Executive	3	2	**6**
							Good consultation process around change	100	Head of Communications			
							Robust engagement plan with customers receiving direct services	100	CLT			
							Good response to complaints and a new process being implemented	75	Chief Executive			
							VCS infrastructure support to be re-commissioned	20	Head of Business & Performance			
R2	**Failure to have a positive relationship with our private and public sector partners**	Loss of opportunity to minimise our costs or share opportunities, cost of increased bureaucracy,	3	2	**6**	CLT	Scanning of opportunities in London and local area including watch on strategic and partnership agenda.	100	Chief Executive	2	1	**2**
							Retention of good working relationship with neighbouring Leaders	100	Leader			
							Shared / integrated strategies for Health	100	Director of Children's, Adults and Housing			
							Robust governance in place	85	Chief Executive			
							Compact to be reviewed and re-launched	40	Head of Business & Performance			
R3	**Failure to ensure that third parties operate in accordance with contractual or partnership requirements and fulfil the Council's responsibilities**	Liability for Claims for Damages, increased premiums for insurance, harm to an individual, reputational damage, legal action and the cost of fines	3	2	**6**	CLT	Robust legal process delivers signed contracts or memorandum of understanding	80	CLT	3	1	**3**
							Corporate Contract Monitoring approach defined and guidance and support for all contract managers available	80	MD oneSource			
							Roles and responsibilities and Governance is clearly defined	80	Director of Legal & Governance (oneSource)			
							Risks of the relationship clearly outlined when the decision is made	80	CMT			

Havering
LONDON BOROUGH

AUDIT COMMITTEE

24th September 2015

Subject Heading:	Anti-fraud and Corruption Strategy 2015
Report Author and contact details:	Emma Vick, Fraud Manager, oneSource Contact Emma Vick oneSource Fraud Manager 02033739793;email emma.vick@newham.gov.uk
Policy context:	To advise the Committee on the new Anti-fraud and Corruption Strategy of the oneSource Fraud team
Financial summary:	This report details information on the Council's Anti-fraud and Corruption Strategy, designed to minimise loss through fraud

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[X]
Excellence in education and learning	[X]
Opportunities for all through economic, social and cultural activity	[X]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[X]

SUMMARY

This report advises the Committee of the new Anti-fraud and Corruption Strategy of the oneSource Fraud Team for 2015/16.

RECOMMENDATIONS

1. To note the contents of the report.

2. To raise any issues of concern and ask specific questions of the officers where required with regards to the Anti-fraud and Corruption Strategy.

Anti-Fraud & Corruption Strategy

Date Last Reviewed:	August 2015
Approved by:	Audit Board and Managing Director oneSource
Date Approved:	August 2015
Version Number:	1
Review Date:	August 2016
Document Owner:	Emma Vick
Post Holder:	Fraud Manager, oneSource
EQIA Assessed:	N/A

Anti-Fraud Statement

The oneSource Anti-Fraud team offers an exclusive strategic fraud prevention and investigation service to all partners. Who, in forming a partnership are sending a clear message that fraud and misuse of public funds will not be tolerated and enables Section 151 officers and senior leaders to meet their duties in safeguarding public funds, and by minimising loss through fraud councils will maximise service delivery.

Through their elected Members and officers, the Partners work hard to establish a reputation as leading local authorities, but vigilance is needed to ensure that this reputation is safeguarded.

Whilst it is notoriously hard to quantify fraud and corruption has been estimated, by the National Fraud Authority, to cost UK Local Government at least £2.2 billion a year - money which, today more than ever, is desperately needed to safeguard valuable frontline services. This is why it is vital to have a comprehensive strategy in place to govern our anti-fraud policies and procedures.

The primary aim of this Strategy is to make it absolutely clear to the citizens of the partner boroughs and stakeholders that, as an organisation and as individuals, we are committed to honesty, openness, and propriety, in all of our dealings. Simply put, fraud and corruption will not be tolerated.

We will do our utmost to foster a culture in which fraud and corruption can find no foothold, and any attempt to conduct illegal activity, either internally or externally, will be met with a united and resolute front. We have clear channels of reporting and transparent procedures to ensure that anyone, whether members of the public or employees, can have full confidence that any concerns raised, or reports made will be treated promptly, thoroughly and appropriately. If fraud is detected, these policies will ensure that internal controls are strengthened, safeguards are improved, and perpetrators are pursued.

We can never prevent all fraud, but this strategy has been designed to ensure robust measures are in place to prevent, detect and investigate fraud, whilst at the same time remaining adaptive and responsive to change, placing us in the strongest position possible to tackle this threat.

Purpose

The Anti-Fraud Strategy sets out clearly the oneSource approach to managing the risk of fraud and corruption and all aspects of fraudulent activity that may occur within the respective organisations.

Aim

Our aim is to minimise opportunities to commit fraud and corruption through the introduction of appropriate fraud response plans to protect valuable funds and resources, which cover:

- Prevention
- Detection
- Deterrence and
- Response

Objectives

In support of our strategy we have set the following objectives:

- Minimise the opportunities for individuals to commit fraud and provide an effective response when fraud occurs.
- Raise awareness of the potential for fraud and ensure that effective counter- fraud measures are in place.
- Conduct expert fraud risk analysis and review of high risk/cost and specialist areas vulnerable to fraud.
- Influence and support effective and recognised fraud prevention methods across the organisations.

The Role of the oneSource Anti-Fraud Service.

The Shared Anti-Fraud Service has been forged from existing and new staff working within counter fraud across local government. The Fraud Investigation team members employed are fully trained and accredited to undertake their roles. The service will deliver a full range of fraud awareness training, the use of highly developed investigation skills, data-matching opportunities and partnership working with law enforcement agencies. The aims of the team are as follows:

- Ensure ongoing effectiveness and resilience of anti-fraud arrangements when the impact of the Single Fraud Investigation Service (SFIS) takes effect
- Deliver financial benefits in terms of cost savings or increased revenue
- Create a data matching warehouse to aid investigation and add assurance to all partners
- Improve the reach into the areas of non-benefit and corporate fraud within the partner boroughs
- Create a recognised centre of excellence that is able to disseminate alerts and share best practice nationally

Definition of Fraud

For the purposes of this strategy, fraud is defined as:-

"Any instance where any Partner of oneSource is the victim or intended victim of intentional financial irregularity or an illegal act perpetrated by one of its elected Members, employees, contractors, suppliers, the public or others, regardless of whether or not a loss has been incurred."

The definition also covers theft or dishonest use of funds and assets. Non-compliance with Financial and Contract Regulations, relevant legislation and appropriate policies and standard operating procedures is also included.

Definition of Corruption and Bribery

For the purposes of this strategy, corruption and bribery are defined as:-
Corruption is the offering or acceptance of inducements designed to influence official action or decision-making. These inducements can take many forms including cash, holidays, event tickets, meals, etc.

The Bribery Act 2010 received Royal Assent on 8 April 2010 and laid out more formally what could be considered an offence, it includes:

- Offering a bribe;
- Being bribed; and
- A corporate offence of failure to prevent bribery.

Strategy and Policy

Strategic Approach

Combating fraud requires a strategic approach to deterring, preventing, detecting and investigating the loss of public funds. To tackle fraud threats effectively elected Members, officers and the public need to work collaboratively to prevent fraudulent behaviour. This anti-fraud strategy forms part of the corporate governance arrangements of the oneSource Partners. The strategy provides a framework which co-ordinates activity to create a hostile environment for potential fraudsters.

The strategy has six elements which collectively are designed to provide a fully integrated programme to counter fraud and corruption.

1. Strategy and Policy

The oneSource partners will continue to review and develop an effective strategy and policy framework to counter fraud and corruption. These strategies and policies make it clear to members, staff and the public the high standards of integrity and behaviour expected to support the development of a sound ethical culture.

2. Prevention and Deterrence

Prevention is a key element that encompasses a number of diverse activities including creation of the right cultural environment which sets high ethical standards and behaviours. The aim is to prevent fraud occurring by adopting methods that decrease motive, restrict opportunity and limit ability for those committing fraud to be able to rationalise their actions. This will be achieved through:

- setting the right tone;
- robust vetting of staff;
- appropriate system design and supporting procedures;
- publicity both internal and external;
- effective communication and supervision and review;
- appropriate training;
- and maintaining effective control frameworks

The responsibilities for these areas will lay with both partners and oneSource fraud investigation service thus promoting a collaborative approach.

3. Detection

Fraud prevention techniques may not stop all potential perpetrators but the early detection of fraud within the Partners reduces the detrimental impact and demonstrates a commitment to tackling fraud. It acts as a deterrent to would be fraudsters and contributes to developing a clear anti-fraud culture. The scope of this element includes the use of audit and inspection, investigation and review and analytical techniques to identify potential fraud and corruption. Well publicised and user-friendly arrangements to facilitate the confidential reporting of fraud and corruption is also included and valued. oneSource will operate a website and hotline approach appropriate to each partner for reporting fraud and conduct data-matching across partners to detect fraud.

4. Investigation

All reported allegations of fraud are investigated irrespective of the source of the information e.g. confidential reporting lines, pro-active data analysis or directly from oneSource partners. Effective investigations into suspected fraud are conducted by appropriately skilled and resourced staff. Documented information is available that sets out the roles and responsibilities of those dealing with allegations of fraud. Investigations are undertaken in a fair, consistent, timely and professional manner. In those cases where sufficient evidence is available appropriate sanctions are applied, including: criminal, disciplinary and civil recovery action to recover funds lost to fraud.

5. Review and Monitoring

Measuring the impact of the annual business plan on counter fraud activity is fundamental in realising the benefits of the strategic approach. The oneSource Anti-Fraud Service will benchmark anti-fraud arrangements against other public sector organisations and conduct a self- assessment against recognised best practice to ensure our approach remains efficient and delivers value for money

6. Organisational Learning

The response to learning, and associated risks, is focused on outcomes. Reviews at the conclusion of cases identify system and supervisory weaknesses and also determine if the response to the fraud was appropriate. There is accountability at a senior level with more defined ownership of issues and risks. Publicity is also given to suitable proven cases of fraud as a deterrence measure.

Business Plan

The annual Business Plan supports the Strategy and progress achieved will be measured against the plan, and reported to the Audit Board or Committee of each partner at least annually.

Evaluating Success

Ultimately success will be judged by:

- A strong anti-fraud culture leading to increased confidence, internally and externally.
- The perception by the residents of oneSource partners that oneSource is committed to tackling fraud and corruption and has effective measures in place to combat it.
- An increased confidence in reporting suspected fraud and corruption.
- A reduction in the occurrence of fraud.

Review

The strategy will be reviewed annually along with the policies that relate to the team operationally, taking into account any legislative changes, best practice and any organisational learning.

Responsibilities of each Partner Organisation and External Influencers

STAKEHOLDER	SPECIFIC RESPONSIBILITIES
Chief Executive	Ultimately accountable for the effectiveness of the Council's arrangements for countering fraud and corruption.
Monitoring Officer	To advise Councillors and Officers on ethical issues, standards and powers to ensure that the Council operates within the law and statutory Codes of Practice.
Section 151 Officer	To ensure the Council has an adequately resourced and effective Counter Fraud and Internal Audit service.
Audit Committee & Standards Committee	To monitor the partner Council's policies and consider the effectiveness the Whistleblowing and Counter Fraud & Corruption arrangements.
Councillors	To support and promote the development of a strong counter fraud culture.
External Audit	Statutory duty to ensure that the partners have in place adequate arrangements for the prevention and detection of fraud, corruption and theft.
Anti Fraud and Investigations Team	To develop and implement the Counter Fraud Policy and promptly investigate cases of suspected fraud reported under this policy or via the Whistleblowing arrangements. To make recommendations to improve controls and reduce the risk of fraud in the future.
Managers	To promote staff awareness, refer all suspected fraud to the Counter Fraud Investigations Team and apply the policy of **zero tolerance**. To ensure that they assess the risk of fraud, corruption and theft in their service areas and reduce these risks by implementing strong internal controls.
Staff	To comply with Council policies and procedures, to be aware of the possibility of fraud, corruption and theft, and to report any genuine concerns to management, the counter Fraud Investigation Team or via the Whistleblowing arrangements.
Public, Partners, Suppliers, Contractors and Consultants	To be aware of the possibility of fraud and corruption against the Council and report any genuine concerns / suspicions.

Approach to Countering Fraud

We will fulfil our responsibility to reduce fraud and protect our resources by completing work in each of the following key areas:

DETERRENCE	We will promote and develop a strong counter fraud culture, raise awareness and provide information on all aspects of our counter fraud work. This will include publicising the results of all proactive work, fraud investigations, successful sanctions and any recovery of losses due to fraud.
PREVENTION	We will strengthen measures to prevent fraud – the Audit and Investigation Teams will work with managers and policy makers to ensure new and existing systems and policy initiatives are adequately fraud proofed.
DETECTION	We will continuously assess those areas most vulnerable to the risk of fraud. These risk assessments will inform our annual Proactive Counter Fraud Work Plan – the Anti Fraud and Investigations Team will carry out work in these high risk areas to detect existing and new types of fraudulent activity.
INVESTIGATION	Appropriately trained investigators will investigate any fraud detected through the planned proactive work, cases of suspected fraud referred from internal or external stakeholders or received via the whistleblowing arrangements.
SANCTIONS	We will apply realistic and effective sanctions for individuals or organisations where an investigation reveals fraudulent activity. This may include legal, criminal and disciplinary action, where appropriate.
REDRESS	A crucial element of the our response to tackling fraud is recovering any monies lost through fraud– this is an important part of our strategy and will be rigorously pursued, where appropriate.

Outcomes

Investigation activity itself does not represent the outcomes of our counter fraud work. We recognise that by preventing fraud we will reduce losses and the delivery of our counter fraud work plan will improve overall outcomes and achieve the aims & objectives of this policy. We will measure the effectiveness of our counter fraud arrangements by focusing on outcomes such as:

- High levels of fraud awareness (survey results / attendance at training sessions)
- Zero tolerance to fraud (number of referrals / disciplinary results)
- Reduced losses through fraud-proofing policy and systems
- Levels of recovery
- Levels of reporting
- Delivery of the annual counter fraud work plan (ensuring best practice)
- Reducing the risk of fraud thereby protecting Council resources
- Successful prosecutions and other sanctions

We will monitor these outcomes using a range of measures which will be reported to the Council's Audit Committee and published in our Annual Counter Fraud Report.

Reporting, Advice and Support

If you genuinely believe that someone is committing a fraud or you suspect corrupt practices, these are your reporting options:

- Your line manager (or a more senior manager if you suspect your line manager is involved)
- Emma Vick (Fraud Manager)
  Emma.vick@onesource.co.uk
- Sandy Hamberger (Interim Head of Internal Audit)
  sandy.hamberger@onesource.co.uk

Whistleblowing facilities:

Confidential Hotline (LB Havering only): 01708 432946

oneSource Director of Legal and Governance - (suggest LBN contact number for Daniels office)

oneSource Director of Human Resources & Organisational Development - 01708 432163

oneSource Deputy Director of Human Resources- 02033732693

To avoid potentially contaminating evidence, managers should not investigate themselves and instead immediately report all suspicions of fraud or corruption to the Fraud Team.

We will treat all concerns or suspicions with discretion and in confidence. If you need advice or support or would like to report a concern, please contact Emma Vick on 020 3373 9793.

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Havering
LONDON BOROUGH

AUDIT COMMITTEE
24 09 2015

Subject Heading:	Annual Governance Statement
CMT Lead	Deborah Hindson Acting Managing Director oneSource
Report Author and contact details:	Phil Harris Principal Auditor Tel: 01708 432616 Phil.harris@onesource.co.uk
Policy context:	To note the contents of the final version of the 2014/15 Annual Governance Statement.
Financial summary:	N/A

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	X
People will be safe, in their homes and in the community	X
Residents will be proud to live in Havering	X

SUMMARY

The draft Annual Governance Statement was agreed, subject to minor amendments, at the 24th June Audit Committee.

The final Annual Governance Statement, incorporating these amendments, has now been signed off by the Leader of the Council and the Chief Executive.

RECOMMENDATIONS

To note the contents of the final 2014/15 Annual Governance Statement.

REPORT DETAIL

A final version of the AGS signed by the Leader of the Council and the Chief Executive is attached as appendix 1.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly. The risk relating to incorporating new best practice guidance into current governance arrangements is an increased expectation from stakeholders that is not delivered through the actions of the Council. However, this risk is unlikely as the Council is committed to openness and transparency. The risks of not reviewing our arrangements against best practice are the Council not being viewed as open and transparent and the External Auditor assessing corporate governance adversely. Failure to produce a robust AGS could result in adverse comments from the Council's External Auditors.

Legal implications and risks:

The Authority is statutorily obliged to conduct an annual review into the effectiveness of its systems of internal control prepared in accordance with proper practices. The Annual Governance Statement complies with that requirement and therefore there are minimal risks in ensuring that the Statement is progressed as per the recommendations.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report. Equalities is a key factors to consider in the Council's governance arrangements and any changes to the Code of Governance or other related policies and procedures are assessed to ensure the impact is appropriately identified.

BACKGROUND PAPERS

Delivering Good Governance in Local Government (CIPFA/SOLACE) and the 2014/15 Annual Governance Statement.

ANNUAL GOVERNANCE STATEMENT

This statement, from the Leader and Chief Executive, provides assurance to all stakeholders that within the London Borough of Havering, processes and systems have been established which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to everyone who is served by the Borough.

Scope of responsibility

The London Borough of Havering is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The London Borough of Havering also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Havering is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The London Borough of Havering is committed to operating in a manner which is consistent with the principles of the CIPFA/SOLACE* Framework *Delivering Good Governance in Local Government*. This statement explains how the London Borough of Havering has complied with these principles and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011, which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Havering's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the London Borough of Havering for the year ended 31 March 2015 and up to the date of approval of the statement of accounts.

* Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives

The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements are described in more detail below.

Our Vision for the Borough – Clean, Safe and Proud

The Council has a three point vision for Havering:

- Havering will be clean and its environment looked after for future generations.
- People of all ages will be safe, in their homes and in the community.
- Residents will be proud to live in Havering, where we respect each other, value our traditions and work together to improve our quality of life.

To achieve this vision, the Council will support the local community with direct investment in the services and projects that matter most to local people, use its influence to attract investment to Havering, while preserving 'green Havering' and its quieter communities, and lead by example, by running a low cost, high standard local authority.

The organisation's Values

The work of the Council and its staff is anchored in the organisation's Values. After an extensive period of engagement with staff, the Council's Values have been re-defined and simplified this year by the people who work here:

- Be positive;
- Respect Others; and
- Work Together.

Corporate Performance Framework

The Corporate Performance Framework has several functions:

- To focus on priorities, which have been set according to the needs of the Council and the public;
- To ensure relevant, timely and accurate information is available to measure and monitor performance to support decision making; and
- To ensure high quality public services that provide value for money.

The Council's Corporate Plan 2011-14 has been at the heart of the organisational Corporate Performance Framework. It sets out the overall priorities and objectives of the organisation and outlines the key activities that will be undertaken as well as the measures put in place to monitor delivery. Sitting beneath the Corporate Plan are service plans, which outline in more detail the work that will be undertaken to achieve the corporate objectives. Market research into public opinion, the outcome of the residents' survey, studies of needs in the Borough and the requirements of the Council's priorities also help to define corporate and service plan objectives.

During 2014/15, the Council engaged in a process of refreshing the Corporate Plan and the service planning process and template in readiness for 2015/16. The refreshed Corporate Plan was endorsed by Cabinet in March 2015 and sets out the Council's new Vision **Clean | Safe | Proud** and the activities that the Council will undertake to support our community, use our influence and lead by example.

The Council's new approach will be to "get there, together":

- We will **support our community** by spending your money on the things that matter most to residents - like clean, safe streets and protecting people in need. We will support local firms to grow and create jobs and we will energise our towns to improve the quality of life in Havering.
- We will **use our influence** to bring more jobs, homes, schools and transport to Havering. We will use our planning powers to balance the growth of business centres with the protection of 'green Havering' and its quieter communities. We will encourage local people to do the right things - keep Havering tidy, be good neighbours and lead healthier lives.
- We will **lead by example** by running a low cost Council that respects residents by using their money wisely. We will work with others to reduce costs, we will help people to do business with us at any time of the day or night and we will hold ourselves to the high standards residents expect from us.

The annual service planning process for 2015/16, which has been undertaken during quarter four of 2014/15, has included the following enhancements to the approach taken in previous years:

- The narrative at the beginning of service plans has been more focused on the outcomes the service is seeking to achieve and on clarifying the 'golden thread' between the Corporate Plan, the service's target outcomes and what this means for individual teams within services.
- The addition of a section analysing key volumetrics and recent trends in demand for services as well as projecting forward how demand for services is expected to change in the future and setting out the service's plans for mitigating / managing this.
- Increased use of benchmarking to inform target setting.
- The introduction of a more sophisticated approach to performance thresholds, with the blanket approach of ± 10% replaced by the setting of specific tolerances for each individual performance indicator as part of the annual service planning process.

- More robust scrutiny and challenge of performance indicators and targets, with the Council's new Overview and Scrutiny Board participating in this process for the first time this year.
- The introduction of a quarterly review, progress monitoring and change control process, making Service Plans 'live' documents that will be revisited and refreshed throughout the year in light of changing and emerging priorities.

The Corporate Performance Framework operates at a number of different levels throughout the organisation. For example, in addition to the Corporate Management Team (CMT) and Members scrutinising the quarterly Corporate Performance Reports, individual performance management takes place as part of the Performance Development Review (PDR) process within the Council's two Directorate Management Teams and oneSource.

The Overview and Scrutiny Committees also consider the quarterly Corporate Performance Reports, together with any other reports that they have commissioned, and carry out their own independent reviews.

The Council's Annual Report reviews performance against the objectives of the organisation. This is published on the website and is also produced for distribution as hard copy on request.

There are clear guidelines around data quality to ensure that all performance indicators are reported to the same robust standard. Methodology statements are in place in respect of all the corporate performance indicators in order to ensure that changes in personnel do not impact on the manner in which performance data is collected and analysed, and any performance data can be subject to either internal or external audit. Regular data quality reports are produced and regular data cleansing is carried out in respect of key areas such as Adults' and Children's Social Care.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Council's financial management approach has in the past broadly been led through its Medium Term Financial Strategy (MTFS), which had customarily been produced in the summer, ahead of the detailed budget process, setting out the approach to financial planning for the subsequent three financial years. A new financial strategy was developed by the Council's new administration following the May 2014 elections. The strategy reflected the ongoing reductions in Government funding and focussed on balancing the Council's MTFS over a two year period. The proposals were subject to review by the Overview and Scrutiny Committee and options impacting upon service delivery were subject to extensive public consultation prior to the approval of the Budget and the MTFS in early 2015.

There are a number of strategies linked directly with the MTFS; this includes the Capital Strategy, the Corporate Asset Management Plan, the Risk Management Strategy, the ICT Strategy and the Workforce Planning Strategy. These are now refreshed to reflect any material changes, rather than solely on an annual basis.

Additional strategies are now also being developed that will support the ethos and delivery of the MTFS, such as the development of an Early Help, Intervention and Prevention Strategy.

Codes of Conduct

The Council has Employee and Member Codes of Conduct supported by the requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade or who hold specific decision making and procurement positions. All officers, regardless of their employment status, are required to adhere to the Code of Conduct and to decline gifts and hospitality to ensure that they are not inappropriately influenced. Members are required to register within their declaration of interest any gifts and hospitality accepted. The Codes and related policies and procedures are communicated via induction sessions and are available via the intranet. In 2014/15 the Employee Code of Conduct was updated and launched to ensure that there was awareness of all requirements and of responsibilities. The relevant Corporate Management Team member is tasked with ensuring that appropriate arrangements are in place for declarations and the systems are reviewed periodically by internal audit.

Financial Rules and Regulations

The Council has Financial and Contract Procedure Rules and Financial and Procurement Frameworks along with other policy and procedural documents in place to guide officers in their everyday duties and ensure appropriate processes and controls are adhered to. The iProcurement system makes use of authorisation limits which are built into the management hierarchies rather than being manually checked before transactions are processed. Transactions are gradually being migrated onto this new system. Compliance with the various financial rules and regulations is monitored by management and considered during audits of systems and processes. Reports are available to managers through the One Oracle dashboards to enable monitoring and transparency of specific financial delegations.

Effective Audit Committee

The Audit Committee operates in accordance with the relevant CIPFA guidance. The Committee's terms of reference set out in the Constitution contain responsibilities relating to internal control, external audit and internal audit. Members are expected to serve a four year term on the Committee to ensure consistency; they also nominate named substitute members who receive the same level of induction and ongoing training to ensure there is sufficient expertise at every meeting to challenge officers. During 2014/15 six members sat on the Audit Committee representing the Conservative, Residents and Labour Groups of the Borough. The membership mirrors the political make up of the Council. The Audit Committee met four times in 2014/15 and has an annual work plan made up of regular and specific agenda items. Its effectiveness is reviewed annually and an annual report is produced to communicate the Committee's performance to Council. As a result of the annual review, the committee will meet five times in 2015/16 to ensure that its meeting agendas remain manageable.

Compliance with laws, regulations and internal policies

The Constitution sets out the framework for decision making and the publication of those decisions. There is a scrutiny system in place to ensure that the work of the Council complies with all appropriate policies and achieves value for money. Overview and Scrutiny has the power to call in and challenge all decisions of Cabinet and individual Cabinet Members and key decisions of staff. Legal, finance and human resources staff, as well as the Corporate Diversity Advisor, review every Cabinet, Council and Committee report and every Cabinet Member decision for compliance with laws, policies and regulations. The statutory officers also provide advice to Members at all appropriate times. Internal policies and procedures exist to guide officers and ensure compliance with legislation and proper practice.

Counter Fraud and Confidential Reporting

The Council has a corporate strategy for the prevention and detection of fraud and corruption. The effectiveness of the arrangements in place was reviewed in 2013 and in 2014/15 the service has been subject to a full service review as part of the oneSource integration. A oneSource Fraud Structure was launched on 1st April 2015. Responsibility for investigating and prosecuting housing benefit fraud has moved to the Department for Work and Pensions with effect from 1 April 2015; this will impact on the future fraud strategy and focus of resource and will be considered when the new strategy is developed.

The work of the service and achievement of the corporate fraud strategy is monitored by the Audit Committee. Ad hoc promotion of the strategy takes place throughout the year as part of the fraud strategy action plan. Integral to these arrangements is the Confidential Reporting (also known as Whistleblowing) Policy which is communicated to staff via induction, the intranet and ad hoc awareness initiatives. The effectiveness of arrangements is reviewed annually as part of a wider review of anti-fraud and corruption. The results of fraud investigations are publicised to further promote the arrangements in place, as appropriate.

The Council also undertakes and participates in a number of data matching exercises including the National Fraud Initiative (NFI), a computerised data matching exercise led by the Audit Commission, designed to detect fraud perpetrated on public bodies. Havering has been praised on their efforts with this exercise.

Complaints

A Customer Complaints Policy and Procedure exists to ensure that all standard complaints are effectively recorded and dealt with in the same way. The Council's approach to dealing with complaints has been reviewed and strengthened in 2014/15 and this new approach will be embedded in the early months of 2015/16. Appropriate procedures are also in place to ensure that statutory complaints relating to adults' and children's social care are dealt with in accordance with the relevant regulations. These procedures are supported by the relevant technologies to ensure efficiency and streamlined processes and include an escalation procedure if a complainant remains dissatisfied.

Ombudsman

The Council comes within the jurisdiction of the Local Government Ombudsman. In 2014/15, the Ombudsman made no finding of maladministration against the Council.

Training and Development

The Council has a commitment that every member of staff has an ongoing Performance Development Review throughout the year as well as formal timescales for agreeing targets and objectives and outcomes.

The Council's One Oracle system captures performance, development and training information within modules meaning that system generated management information is available for both strategic and operational management of resources and decision making. It also allows for senior management to ensure that there is compliance within the organisation with corporate policy in this area and efficiently provides assurance that mandatory training, required for officers to competently fulfil their roles, has been completed.

The Council's expectations and demands on managers are high; a behavioural competency framework is in place and annually all people resources are assessed against the competencies as part of the annual Performance Development Review which also rates progress towards objectives.

The Council has attained the Member Development Charter. A development programme to keep Members up to date with changes and support their individual training needs is provided, with training is tailored to individual roles. Training is supplemented by information through briefings and bulletins.

Communication and Engagement

The Council strives to identify and develop new effective mechanisms to communicate and consult with the community. A wide number of fora take place to consult with members of the community, particularly targeting 'hard-to-reach' groups, such as the Over 50s forum, the BME (Black and Minority Ethnic) forum and the Inter Faith forum. The Council also has a small Community Engagement Team which focuses on community development but also supports and seeks to maximise engagement in key corporate consultation exercises.

The Council maintains a website to provide information and services to the residents of the Borough. The publication 'Living in Havering' is distributed to all households on a quarterly basis, promoting access to services and raising the profile of the work done by the Council and local people to make Havering a good place to live. This is augmented with regular emailed bulletins on a host of subjects to tens of thousands of subscribers, as well as communication through a host of other channels, from social media to poster sites and the local press.

An extensive consultation process is carried out as part of the development of the MTFS and annual budget. Views are sought through various media and the budget itself is subject to scrutiny through Cabinet and Overview and Scrutiny, Committees.

The public are also consulted on the Council's future priorities. Over the past three years, there have been two 'Your Council, Your Say' surveys asking local people for their opinions on current services and their future priorities. There has also been a stand alone survey considering the cleanliness of the Borough. Between them, these surveys have attracted approximately 27,000 responses. Most recently, the Council's budget consultation exercise in 2014 was extremely comprehensive surveying views on the overall budget priorities, as well as specific savings proposals. The feedback in these surveys informed the 'Clean, Safe, and Proud' Vision and Corporate Plan.

Transformation

The Council's original transformation programme running from 2010 to 2014 has been replaced with a comprehensive approach to delivering further savings as part of the Council's mainstream activity. A number of new programmes/projects have been initiated to deliver savings required to close the budget gap to 2018. In many cases these comprise a reduction in service delivery or reduction in grant funding. All activity and savings are being reported by heads of service to the Programme Director for Corporate and Customer Transformation. These reports feed into an overall delivery plan which is compiled and monitored by the Programme Director and reported to the Corporate Management Team. Full oversight and strategic decision making is held by the Corporate Management team who review progress against the overall plan on a monthly basis and also the position on budgets and benefit achievements to ensure any risks are identified early and mitigations put in place.

Focus has now turned to Council-wide staff engagement to uncover and develop new ideas to close the remaining budget gap.

Partnerships and Collaborative Working

There are a number of partnership boards in place such as the Community Safety Partnership, the Health and Wellbeing Board and the Children's Trust. There are also a number of other fora in existence in Havering including the Culture Forum, a range of equality and diversity forums and many others.

The Council has for a number of years worked closely with neighbouring boroughs to share good practice and efficiency success. In response to the reduced funding for local government this work has expanded to consider stronger relationships that will yield cost savings to all parties. These initiatives have in the past involved shared procurements, information technology developments and shared management posts.

oneSource

In April 2014 the Council's shared back office service with the London Borough of Newham was launched, resulting in significant changes to the governance framework. A Joint Committee has been established to oversee the partnership arrangements and a shared management structure established with officers from both councils having executive responsibilities delegated to them within the two Constitutions via the Scheme of Delegation.

One Oracle

In 2011 the Council implemented a number of key financial systems within Oracle. During 2014/15 the Council implemented a second version of Oracle along with five other boroughs. This project provided the opportunity to share costs of implementation and ongoing costs of administering, developing and maintaining the systems. The London Borough of Newham will install One Oracle in 2015/16.

Review of effectiveness

The London Borough of Havering has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the Authority's Governance Group who have responsibility for the development and maintenance of the governance environment, by the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Outlined below are the arrangements in place to review the effectiveness of the governance framework and the sources of information and assurance on which this statement is based.

Constitution

The Monitoring Officer keeps the Constitution under continual review, having delegated powers to make amendments arising from organisational changes and legal requirements and to correct errors. Other amendments are considered by the Governance Committee and Council. The oneSource management structure was reflected in the Constitution in April 2014 and a comprehensive update of the Constitution will take place in 2015/16.

Governance Group

The Council's officer Governance Group is charged with reviewing the governance arrangements and monitoring any actions designed to improve the framework. Close links exist between this group and the Corporate Management Team (CMT) who receive reports from the group after every meeting. In 2014/15 the group was expanded to include colleagues from across the organisation representing corporate services as well as those who deliver public facing services. One of the main outcomes of the group each year is to facilitate the effective production of this statement. The group at the end of March 2015 had identified a comprehensive list of issues and actions to address and progress towards task completion was being closely monitored.

Corporate Management Team and Corporate Leadership Team

In 2014/15 there have been significant changes inthe senior management structure of the Council. The Corporate Management Team has reduced and consists of a part-time Chief Executive and two full time Directors. The back office services are managed for both Havering and Newham by the Managing Director of oneSource with a number of other members of the Corporate Leadership Team now having a dual role across the two organisations.

Governance Committee

The Council's Governance Committee, attended by the Leader of the Council and other Group Leaders, is charged with overseeing the organisation's governance arrangements including the Code of Conduct for Members.

Audit Committee

The Audit Committee is responsible for monitoring the work of internal audit regarding internal control. This monitoring is integral in the process to compile a robust Annual Governance Statement, which is approved by the Audit Committee. Significant governance issues are escalated to the Governance Committee by the Chair of the Audit Committee as required.

Adjudication and Review Committee

The Adjudication and Review Committee, which is made up of nine Councillors other than the Leader and limited to only one Cabinet member, provides panels of three Members to hear any complaints about the conduct of Members. The Adjudication and Review Committee also have a role in considering Stage Three complaints by members of the public.

Overview and Scrutiny

The Overview and Scrutiny function reviews decisions made by the Executive and other bodies, e.g. National Health organisations. The focus of their role is to provide a challenge to decisions made by the Executive and to assist in the development of policy.

In late 2014 a review of the Overview and Scrutiny arrangements was undertaken which led to a revision of its governance structure.

An overarching Board has been established which undertakes all call-in functions and acts as a vehicle by which the effectiveness of scrutiny is monitored and where work undertaken by themed sub-committees is co-ordinated to avoid duplication and to ensure that areas of priority are being pursued.

The Board has subsumed the role of the former Value Scrutiny Committee which oversaw general management matters. The remaining six Overview and Scrutiny Committees have become sub-committees of the new Overview and Scrutiny Board. The Board's membership is politically balanced but includes the Chairmen of the Overview and Scrutiny sub-committees amongst others.

The Overview and Scrutiny Board and its sub-committees have the opportunity to consider performance information within their area of responsibility using monthly Members packs and other relevant performance data.

Each year Overview and Scrutiny is tasked with identifying areas of the Council's work that it wishes to consider in detail, for which purpose task groups comprised of members of the Board and its sub-committees are set up to research the issue with the assistance of officers and sometimes external bodies and report their findings and recommendations.

Internal Audit

Internal Audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In doing so Internal Audit supports the Group Director, Communities and Resources in his statutory role as Section 151 Officer. Annually a Head of Internal Audit Opinion and annual report provide assurance to officers and Members regarding the system of internal control; this assurance has also been considered in the production of this statement.

Risk Management

The responsibility for the system of internal control sits with management therefore each Head of Service is required to complete their own assessment and declaration with regard to the arrangements in place within their respective areas. For 2014/15 these will in some instances be gathered via work shopping with the management team for the service. These declarations from services have been considered when compiling this statement. The Council has embedded risk management processes and relevant polices and the strategy are reviewed and approved annually by the Audit Committee. The 2014/15 review was delayed pending the implementation of new oneSource structure which will provide more dedicated resources focused on supporting management with risk management.

Heads of Service maintain Service Risk Registers and identify their key risks as part of the annual service planning process. The strategic risks to the achievement of the Authority's objectves are captured within a Corporate Risk Register. The Council has an Operational Risk Management Group that considers local or organisation wide risks. In 2014/15 this group has reviewed and commented on a sample of Service Risk Registers and all of the Corporate Risks. The Corporate Risk Register was last reviewed by CLT and approved by CMT, before being presented to the Audit Committee in March 2015.

External Inspectors

The Council is subject to review and appraisal by a number of external bodies; results of such reviews are considered within the performance management framework. The work of the Council's External Auditor, currently PricewaterhouseCoopers (PwC), is reported to the Audit Committee. The Council's accounts are audited annually by the external auditor and an unqualified opinion was given for 2013/14 following similar opinions in previous years. The results of all external reviews have also been considered in the process of compiling this statement.

Certain services across the Council also engage in sector-led improvement initiatives. For example, in December 2014 Children's Services participated in a Child Sexual Exploitation (CSE) peer review as part of a London-wide Directors of Children's Services initiative. The findings of this are being used to inform the services provided and improvement plans and are driving the work of the Havering Safeguarding Children Board's (HSCB's) CSE Subgroup.

During 2014/15 the Council also asked the Chartered Institute of Housing to undertake a 'root and branches' review of Housing Services. The review took place over the course of a month and completed in December 2014. As a result of the findings, a Housing Management Board has been established, which is overseeing the action plan that is delivering against the recommendations.

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

Significant governance issues

The issues identified in the 2013/14 Annual Governance Statement have been monitored by management and the Governance Group throughout the year with review periodically to challenge actions and progress by both the Corporate Management Team and the Audit Committee. The four issues which related to the Information Governance Agenda, Austerity, Pace of Organisational Change and Compliance have all been high risk areas in recent years and have wide reaching implications for the governance framework. During the process to produce the Annual Governance Statement for 2014/15 it has been decided that a more focused approach and operational action plan in this area is required and the new Governance Group was tasked with embedding their work and the work to produce this statement within the everyday operations of the Council through efficient and effective channels of communication and reporting. The four previous issues have now been fed into the Governance Group's work; they will therefore be closed and a new set of issues have been identified.

Significant Issue and action already taken	**Planned action**	**CMT Lead**
1. Scheme of Delegation Issues with the scheme of delegation were identified following the amendments to include oneSource. ➢ Some work to review the scheme of delegation has been undertaken to ensure oneSource delegations have been accurately captured and are comprehensive.	➢ Governance training to be proactive from 2015/16 to ensure clarity of role and responsibility; ➢ Full review of Constitution and delegations planned; ➢ Audit work around effectiveness and efficiency of delegations.	Managing Director, oneSource

Significant Issue and action already taken	**Planned action**	**CMT Lead**
2. Declarations of Interest There have been instances identified of failings by officers to comply with expectations regarding declarations. ➢ Project to implement on line process; ➢ Improvement to process thorough inclusion of third tier manager in sign off; ➢ Updated and re-launched code of conduct; ➢ Disciplinary action taken in areas of non compliance identified in 2014/15.	➢ Implement on-line process; ➢ Review of process and procedure in light of move to on-line; ➢ Audit work to provide assurance.	Managing Director, oneSource

Significant Issue and action already taken	**Planned action**	**CMT Lead**
3. Assurance – as a result of reduced capacity the organisation's approach to ensuring compliance with policy and procedure has had to shift. Compliance issues have identified gaps in this assurance framework that need to be addressed. ➢ New Governance Group approach established; ➢ New audit structure vision is around assurance; ➢ A review of reporting effectiveness has been undertaken.	➢ Implement new audit structure and oneSource vision; assurance model ➢ Continue to develop the role and effectiveness of the new Governance Group.	Chief Executive

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Leader of the Council ....Roger Ramsey........

Chief Executive ....