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AUDIT COMMITTEE
SUPPLEMENTARY AGENDA

26 September 2013

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

6 ANNUAL STATEMENT OF ACCOUNTS 2012/13 (Pages 1 - 118)

Statement
of Accounts attached.

7 REPORT TO THOSE CHARGES WITH GOVERNANCE - INTERNATIONAL STANDARD OF ACCOUNTING (ISA) 260 (Pages 119 - 146)

ISA 260 attached.

8 RESPONSE TO AUDITORS: REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260 (Pages 147 - 148)

Response to ISA 260 attached..

Andrew Beesley
Committee Administration Manager

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London Borough of Havering

Statement of accounts

For the financial year

2012/13

Contents

London Borough of Havering

Explanatory foreword

1. Introduction from the responsible financial officer

I am pleased to introduce the Council's statement of accounts for 2012/13. The Council is a large and wide ranging organisation whose goals are:

- To ensure a clean, safe and green borough;
- To achieve excellence in education and learning;
- To provide opportunities for all through economic social and cultural activity;
- To value and enhance the lives of every individual;
- To deliver high customer satisfaction and a stable council tax.

This publication incorporates all the financial statements and disclosures required by statute. These statements are as follows:

- Comprehensive income and expenditure statement (CI & ES)
- Statement of movement in reserves
- Balance sheet
- Cash flow statement
- Housing revenue account
- Collection fund
- Pension fund
- Group comprehensive income and expenditure statement
- A reconciliation of the single entity surplus or deficit for the year to group surplus or deficit
- Group statement of movements in reserves
- Group balance sheet
- Group cash flow statement

The group accounts consolidate the results of Homes in Havering (HiH), a private company limited by guarantee whose sole member is the Council. The company was formed to provide a housing management service to the Council with effect from 1st July 2006. However, the services provided by HiH have been transferred back under direct Council control on 1st October 2012 and the company is now in the process of being wound up.

2. Basis of Preparation

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the *Service Reporting Code of Practice (SeRCOP) 2012/13*, 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.

3. Review of 2012/13

During 2012/13 the Council continued its transformation programme designed to increase efficiency and reduce bureaucracy. The Council 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 2012/13 followed the broad approach set out in the CSR, with a further reduction in formula grant.

The Council recognises the significant lead in time required to introduce organisational change and therefore initiated a programme of investment in services in 2010/11 which will enable substantial savings to be delivered in future years which have been reflected in the Council's Medium Term Financial Strategy (MTFS).

a) Performance and outturn

In setting the budget for 2012/13, the Council identified a range of efficiencies which enabled it to re-direct resources to priority services and to deliver a range of projects which support the transformation agenda. The Council was also able to retain its element of the council tax charge at the same level in 2011/12 as in the previous year's budget.

The following matters are particularly worthy of note:

- The out-turn for the year was delivered within budget and with the longer term goals as set out in the medium term financial strategy and corporate plan. The general fund balance (excluding schools balances) has been maintained at £11.7m.

- The revenue outturn included £5m of expenditure directed towards the delivery of the transformation agenda. Expenditure has been focused on transforming service delivery in order to increase efficiency and reduce the cost of both the back office and front line services. The Council is also working closely with other Local Authorities in seeking to share back office costs in order to deliver efficiency savings. This programme has already made significant budgetary savings in 2011/12 and 2012/13 with further benefits expected to arise in future years.

- Interest rates have continued to remain low throughout the year, as has been the case for some time. As a consequence interest earnings on investment activities remained low when compared with historical levels. However, these trends were accounted for in developing the MTFS and were accommodated within the overall budget.

b) Treasury management

The Council'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 Council'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 (Value) and to the Audit Committee. In 2012/13 deposits were restricted to a limited number of institutions meeting the Council's lending criteria.

Total investments currently stand at £100.4m with borrowing at £224.1m.

c) Pension fund

The pension fund's net assets increased by £57.1m in 2012/13. Asset values now stand at £460.6m as compared with £403.5m as at 31 March 2012. This positive result is tempered by the continuing upward pressure on longer term pension fund liabilities.

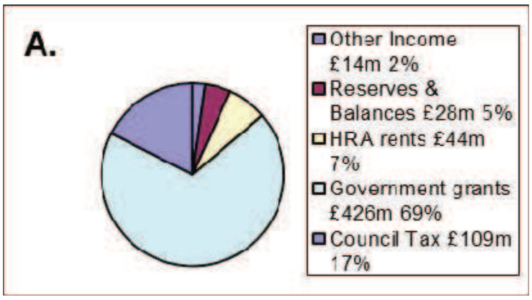
The last triennial valuation of pension fund assets and liabilities was completed in the spring of 2011. In common with the vast majority of Local Government Pension Schemes, the Council's fund was in deficit which was valued at £227m as at 31 March 2011. The Council's current share of the pension fund liability is disclosed in the accounts at the higher level of £385m based on the requirements of IAS19 rather than the triennial valuation. Further information on the basis of the IAS19 disclosure is included at note 44.

The Actuary has commenced the latest triennial review of the pension fund. The Actuary is expected to report on the outcome of the review during the latter part of the financial year 2013/14. The review will also take account of the impact of the new LGPS scheme to be introduced in April 2014. Following this review the Actuary will recommend the level of employer contributions for a further three year period commencing 1st April 2014.

4. Revenue expenditure and services provided

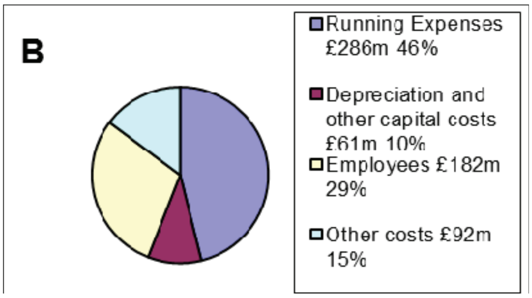
A. REVENUE FUNDING

The Council's total revenue spending (as set out in the comprehensive income and expenditure statement) is funded from various sources as illustrated on the right.
Government grants include capital and revenue grants.
Reserves and balances include statutory adjustments in accordance with IFRS.



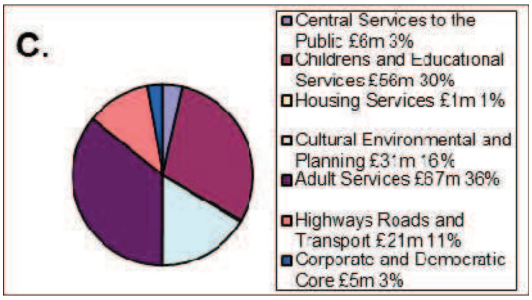
B. REVENUE EXPENDITURE

This chart shows the main categories of expenditure over Council services.
Running expenses include all maintenance of buildings, vehicles costs, purchases of supplies and services and net recharges between Council services. Depreciation and other capital costs (including impairments) represent 10% of spending and are financed from statutory reserves.



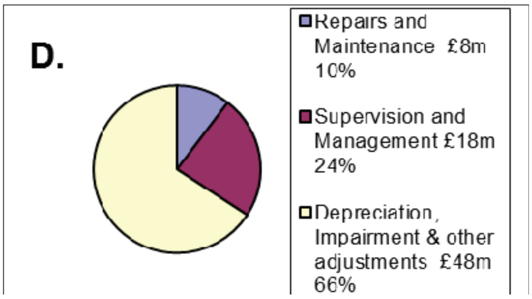
C. SERVICES PROVIDED

This chart shows the proportion of the Council's net expenditure on the different service areas (as shown in the comprehensive income and expenditure statement). Education spending is shown net of Dedicated Schools Grant (DSG).



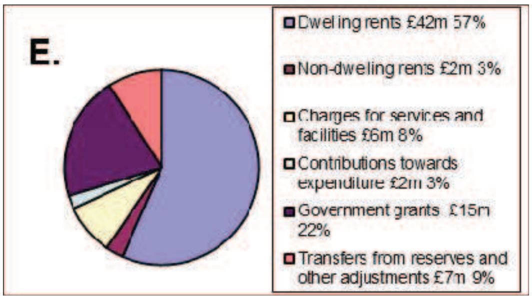
D. HOUSING REVENUE EXPENDITURE

HRA expenditure is consolidated within the C I & E and is reflected in charts A to C above. This chart shows the main categories of expenditure within the HRA in 2012/13.



E. HOUSING REVENUE INCOME

This chart shows the main categories of income within the Housing Revenue Account which is used to fund HRA expenditure as set out in chart D.



5. The 2012/13 budget

The Council's general fund budget and how it was planned to be financed is set out in the following table. The 2012/13 outturn was delivered in line with budget at £162.8m after contributions to and from earmarked and statutory reserves.

	Original Budget
	£'000
Net Expenditure	**162,783**
Financed by:	
Revenue support grant	1,028
NNDR	53,015
Collection fund surplus/(deficit)	1,008
Precept on the collection fund	107,732
	-

Note: The precept on the collection fund is met from council tax. For more details see Collection Fund Statement to the accounts.

6. Capital

In 2012/13 the Council spent £61.7m on capital projects. The main areas of capital expenditure were:

- £14.5m on schools and education
- £32.4m on housing and the enhancement and improvement of council dwellings
- £7.1m on roads and transport
- £2.3m on leisure and sport
- £3.9m on public offices, IT and other central costs
- £0.7m on regeneration, policy & planning
- £0.7m on social services.

Like most local authorities the Council has been financing a substantial level of its capital expenditure from the sale of assets. In 2012/13 £7.7m of capital expenditure was financed in this way. The balance of the funding requirement came from capital grants (£36.3m), revenue contributions (£11.3m) and major repairs allowance (£6.3m). This sum should be viewed in relation to the Council's total assets, which have a net book value of £1,009.4m as at 31 March 2013.

7. Reserves and balances

The general fund working balance remains unchanged and stood at £11.8m (excluding schools balances) as at 31 March 2013 (£11.8m as at 31 March 2012). Earmarked reserves and balances increased by £10.2m to £48.7m.

8. Academies

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, though still operate within all the national requirements for curriculum and standards. As at 31 March 2013, there were fifteen academies within the borough (eleven at 31 March 2012.

9. Further information

Further information about the accounts is available from:

Group Director of 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 2012/13 the inspection period takes place between 22 July 2013 and 19 August 2013. These dates were advertised in the local press on 14 June 2013.

Andrew Blake-Herbert, CPFA
GROUP DIRECTOR OF RESOURCES
26 September 2013

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

Statement of responsibilities for the statement of accounts

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Group Director of 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 Resources responsibilities

The Group Director of Resources is responsible for the preparation of the Council's statement of accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing the statement of accounts the group director resources can confirm that he has:

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

The Group Director of 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 2013 and its income and expenditure for the year ended 31 March 2013.

Councillor Georgina Galpin
CHAIRMAN, AUDIT COMMITTEE
26 September 2013

Andrew Blake-Herbert
GROUP DIRECTOR OF RESOURCES
26 September 2013

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

Report on Statement of Accounts

We have audited the statement of accounts of the London Borough of Havering and its Group for the year ended 31 March 2013 which comprise the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Movement in Reserves Statement, the Authority and Group Balance Sheet as at the end of the period, the Authority and Group Cash Flow Statement, the Housing Revenue Account, Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund, the accounting policies and the related notes. The financial reporting framework that has been applied in its preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the CIPFA Service Reporting Code of Practice 2012/13.

Respective responsibilities of the Responsible Financial Officer and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 5, the Group Director of Resources is responsible for the preparation of the statement of accounts and for being satisfied that it gives a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the CIPFA Service Reporting Code of Practice 2012/13. Our responsibility is to audit and express an opinion on the statement of accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the statement of accounts

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

Opinion on statement of accounts

In our opinion the statement of accounts:

- gives a true and fair view of the state of the Authority and Group's affairs as at 31 March 2013 and of the Authority's and Group's income and expenditure and cash flows for the year then ended; and
- has been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the CIPFA Service Reporting Code of Practice 2012/13.

Opinion on other matter prescribed by the Code of Audit Practice

In our opinion, the information given in the explanatory foreword for the financial year for which the statement of accounts is prepared is consistent with the statement of accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Code of Audit Practice issued by the Audit Commission requires us to report to you if:

- in our opinion, the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012) or is misleading or inconsistent with information of which we are aware from our audit;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we make any recommendations under section 11 of the Audit Commission Act 1998 that requires the Authority to consider it at a public meeting and to decide what action to take in response ; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

Report on the pension fund accounts

We have audited the pension fund accounting statements contained within the Statement of Accounts of the London Borough of Havering for the year ended 31 March 2013 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Respective responsibilities of the Responsible Financial Officer and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 5, the Group Director of Resources is responsible for the preparation of the pension fund accounting statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. Our responsibility is to audit and express an opinion on the pension fund accounting statements in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the London Borough of Havering members as a body in accordance with the Audit Commission Act 1998, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the pension fund accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the pension fund accounting statements sufficient to give reasonable assurance that the pension fund accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the pension fund accounting statements.

Opinion on the pension fund accounting statements

In our opinion the pension fund accounting statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013, and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matter prescribed by the Code of Audit Practice

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

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

Authority's responsibilities

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

Auditors' responsibilities

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, the *London Borough of Havering* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Certificate

Our audit cannot be formally concluded and a certificate issued in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission because:

- the Authority has not yet prepared its Pension Fund Annual Report and Accounts on which we are required to give an audit opinion;

Julian C Rickett

For and on behalf of PricewaterhouseCoopers LLP
Appointed auditors
The Atrium, St Georges Street, Norwich NR3 1AG

September 2013

The maintenance and integrity of the London Borough of Havering website is the responsibility of the council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the statement of accounts since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the statement of accounts may differ from legislation in other jurisdictions.

Movements in Reserves Statement 2012/13

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

	General Fund Balance £000	General Balances £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Grants Unapplied Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31st March 2011	**23,302**	**929**	**37,765**	**4,193**	**-**	**1,980**	**139**	**68,308**	**562,181**	**630,489**
Movement in reserves during 2011/12										
(Deficit) on provision of services	(18,857)	-	-	(191,199)	-	-	-	(210,056)	-	(210,056)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(28,731)	(28,731)
Total Comprehensive Expenditure and Income	**(18,857)**	**-**	**-**	**(191,199)**	**-**	**-**	**-**	(210,056)	**(28,731)**	**(238,787)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	29,446	-	-	195,476	-	(543)	5,778	230,157	(230,157)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**10,589**	**-**	**-**	**4,277**	**-**	**(543)**	**5,778**	**20,101**	**(258,888)**	**(238,787)**
Transfers to/from Earmarked Reserves (Note 8)	(10,015)	888	924	(2,647)	10,852	-	-	-	-	-
Increase/Decrease in Year	**574**	**888**	**924**	**1,830**	**10,852**	**(543)**	**5,778**	**20,101**	**(258,888)**	**(238,787)**
Balance at 31st March 2012	**23,876**	**1,817**	**38,689**	**5,823**	**10,852**	**1,437**	**5,917**	**88,409**	**303,293**	**391,702**
Movement in reserves during 2012/13										
(Deficit) on provision of services	(24,843)	-	-	(3,184)	-	-	-	(28,027)	-	(28,027)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(22,815)	(22,815)
Total Comprehensive Expenditure and Income	**(24,843)**	**-**	**-**	**(3,184)**	**-**	**-**	**-**	**(28,027)**	**(22,815)**	**(50,842)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	27,204	-	-	15,659	9,689	19,452	289	72,293	(72,293)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**2,361**	**-**	**-**	**12,475**	**9,689**	**19,452**	**289**	**44,266**	**(95,108)**	**(50,842)**
Transfers to/from Earmarked Reserves (Note 8)	(2,839)	913	10,001	(8,075)	-	-	-	-	-	-
Increase/Decrease in Year	**(478)**	**913**	**10,001**	**4,400**	**9,689**	**19,452**	**289**	**44,266**	**(95,108)**	**(50,842)**
Balance at 31st March 2013	**23,398**	**2,728**	**48,690**	**10,223**	**20,541**	**20,889**	**6,206**	**132,675**	**208,186**	**340,861**

Comprehensive Income and Expenditure Statement 2012/2013

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.

	Notes	1st April 2012 – 31st March 2013 £000s Gross Expenditure	£000s Gross Income	£000s Net	1st April 2011 – 31st March 2012 £000s Gross Expenditure	£000s Gross Income	£000s Net
Gross expenditure, gross income and net expenditure of continuing operations							
Central Services to the Public		10,888	(4,450)	6,438	13,292	(4,014)	9,278
Cultural and Related Services		15,448	(2,002)	13,446	15,717	(2,185)	13,532
Environment and Regulatory services		19,919	(6,708)	13,211	19,863	(6,997)	12,866
Planning Services		7,823	(3,627)	4,196	15,941	(2,875)	13,066
Children's and Education Services		205,802	(149,847)	55,955	239,41	(167,401)	72,240
Highways, Roads and Transport Services		27,019	(5,554)	21,465	25,504	(5,893)	19,611
Other Housing Services		118,017	(117,501)	516	113,275	(111,187)	2,088
Local Authority Housing (HRA)		66,938	(66,985)	(47)	84,549	(57,253)	27,296
Exceptional item - HRA Self-Determination		-	-	-	165,248	-	165,248
Adult Social Care Services		79,759	(12,855)	66,904	81,331	(13,324)	68,007
Corporate and Democratic Core		5,461	(270)	5,191	6,706	(97)	6,609
Non Distributed Costs		1,437	(1,592)	(155)	1,946	(6,744)	(4,798)
Cost Of Services		**558,511**	**(371,391)**	**187,120**	**783,013**	**(377,970)**	**405,043**
Other Operating Expenditure	9			40,844			25,459
Financing and Investment Income and Expenditure	10			18,794			11,106
Taxation and Non-Specific Grant Income	11			(218,731)			(231,551)
(Surplus) or Deficit on Provision of Services				**28,027**			**210,057**
(Surplus) or deficit on revaluation of property, plant and equipment assets	23a			(18,905)			(24,261)
Actuarial (gains) / losses on pension assets / liabilities	23d			41,720			52,991
Other Comprehensive Income and Expenditure				**22,815**			**28,730**
Total Comprehensive Income and Expenditure				**50,842**			**238,787**

Balance Sheet as at 31st March 2013

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	31st March 2013 £000s	31st March 2012 £000s
Property, Plant and Equipment	12	787,402	816,296
Heritage Assets	13	106	107
Investment Property	14b	33,728	33,231
Intangible Assets	15	4,823	5,972
Long Term Debtors	16	1,433	1,592
Long Term Assets		**827,492**	**857,198**
Short Term Investments	16	100,403	55,903
Inventories	17	344	309
Short Term Debtors	18	44,969	39,237
Cash and Cash Equivalents	19	24,244	22,303
Assets Held for Sale	14.c	11,990	27,866
Current Assets		**181,950**	**145,618**
Bank Overdraft	19	(1,256)	(1,744)
Short Term Borrowing	16	(13,136)	(4,364)
Short Term Creditors	20	(43,605)	(41,379)
Current Liabilities		**(57,997)**	**(47,487)**
Provisions	21	(6,462)	(6,237)
Long Term Borrowing	16	(211,013)	(211,253)
Other Long Term Liabilities	23d	(385,484)	(335,350)
Capital Grants Receipts in Advance	35b	(7,625)	(10,787)
Long Term Liabilities		**(610,584)**	**(563,627)**
Net Assets		**340,861**	**391,702**
Usable Reserves	22	132,675	88,409
Unusable Reserves	23	208,186	303,293
Total Reserves		**340,861**	**391,702**

Cash Flow Statement as at 31st March 2013

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.

2011/12 £000s		**Note**	**2012/13 £000s**
210,057	Net deficit on the provision of services		28,027
(281,982)	Adjust net surplus or deficit on the provision of services for non-cash movements	24.b	(128,638)
45,916	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24.b	73,965
(13,526)	Net cash flows from Operating Activities		(26,646)
165,480	Investing Activities	25	32,653
(153,933)	Financing Activities	26	(8,436)
(1,979)	Net (increase) or decrease in cash and cash equivalents		(2,429)
(18,580)	Cash and cash equivalents at the beginning of the reporting period		**(20,559)**
(20,559)	**Cash and cash equivalents at the end of the reporting period**	**19**	(22,988)

Notes to the Core Financial Statements

Statement of Accounting Policies

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 2012/13 financial year and its position at the year-end of 31st March 2013. The Authority is required to prepare an annual Statement of Accounts by 30th June 2013 (the Accounts and Audit 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 2012/13 and the *Service Reporting Code of Practice 2012/13*, 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.

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 Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- 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.

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. Exceptional Items
When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

v. 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 Council'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.

vi. 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
- 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 Council 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.

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

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line (or in discontinued operations) in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the 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 Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

- The Local Government Pension Scheme, administered by the Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

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 Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate 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 Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- 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 Council, 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 Council of liabilities or events that reduce the expected future service or accrual of benefits of employees debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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.
- 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 Council 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 Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including

teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After the Reporting Period

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

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

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

ix. Financial Instruments

Financial Liabilities

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

For most of the borrowings that the Council 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 Financing 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 Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Loans and Receivables

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

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

x. Foreign Currency Translation

Where the Council 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 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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

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

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

For all S106 contributions, because of their complex nature and numerous legal conditions all S106 contributions 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.

Un-ringfenced Grant
A general grant allocated by central government directly to local authorities as additional revenue funding. It is non-ring fenced and credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Business Improvement Districts
The Council is the billing Authority for the London Riverside Business Improvement District managed by Ferry Lane Action Group which provides a cleaner, safer more secure business environment and to promote the interest of the business community within the BID. The Council 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.

xii. Heritage Assets

The Council's Heritage Assets are split into 2 categories
- Civic Regalia
- Heritage Buildings.

Civic Regalia
The collection of civic regalia includes the Mayor's and the Deputy Mayors 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 Council 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 xix.

xiii. Intangible Assets
Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council 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 Council.

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiv. Interests in Companies and Other Entities

The Council has a material interest in another legal entity, "Homes in Havering (HiH)." However, the management contract between the two entities was terminated from 1st October 2012 and the services provided by HiH have been transferred back under the direct Council Control on 1st October 2012 and the company now in the process of being wound up. The Authority has consolidated the subsidiary within its group accounts for 2012-13. In the Authority's own single entity accounts, the interest is recorded as financial assets at cost, less any provision for losses.

xv. Inventories

The Council has a number of 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 FIFO costing formula.

xvi. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

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

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

xvii. 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 Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

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

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a 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 Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. 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.

xviii. 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 *Service Reporting Code of Practice 2012/13* (SeRCOP). 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 Council's status as a multifunctional, democratic organisation.
- 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 SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

xix. 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 Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e.

repairs and maintenance) is charged as an expense when it is incurred.

Measurement
Assets are initially measured at cost, comprising:

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

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 Council). 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 Council.

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).
- 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 re-valued 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 by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- 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 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

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

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

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

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

Depreciation is calculated on the following 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.
- infrastructure – straight-line allocation over 20 years.

Where an item of Property, Plant and Equipment asset 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 a 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.
- Assets valued at less than £3,000,000.

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued 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 Council'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.

xx. Public Private Partnership (PPP) and Similar Contracts

PPP and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PPP contractor. As the Council is deemed to control the services that are provided under its PPP scheme, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Council's PPP scheme, the liability was written down by an initial capital contribution of £3.2 million leaving an initial liability of £1.6 million.

The amounts payable to the PPP operator each year are analysed into the following elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge of 4.8% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- the Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability towards the PPP operator (the profile of write-downs is calculated using the same principles as for a finance lease).

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council 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 Council 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 Council 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 Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxii. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover Contingency 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 Council – these reserves are explained in the relevant policies.

xxiii. Revenue Expenditure Funded from Capital under Statute

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

xxiv. 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.

xxv. Carbon Reduction Commitment

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Authority's services and is apportioned to services on the basis of energy consumption

xxvi. Accounting for Schools

The Council includes the income and expenditure, assets and liabilities of Community schools within its financial statements on the basis that they remain within the Local Authority boundary under common control.

Foundation Schools and Voluntary aided schools are not considered to be under Local Authority control and, as such, are not consolidated within the Council's accounts. Grant allocations to these schools are included as expenditure within the Consolidated Income and Expenditure Statement.

Academies must prepare accounts under the Charities' Statement of Recommended Practice (SORP). This is a requirement in their Funding Agreements. Academies are therefore excluded from the Council's accounts from the date of conversion with grant allocations included as expenditure within the Consolidated Income and Expenditure Statement.

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

For 2012/13 the following accounting policy changes that need to be reported relate to:

- amendments to IAS *1 Presentation of Financial Statements* (other comprehensive income, June 2011)
- amendments to IFRS 7 *Financial Instruments: Disclosures (offsetting financial assets and liabilities, December 2011)*
- amendments to IAS 12 *Income Taxes* (deferred tax: recovery of underlying assets, December 2010)
- amendments to IAS 19 *Employee Benefits* (*June 2011*)
- IFRS 13 *Fair Value Measurement* (May 2011).

Appendix C of the 2013/14 Code will provide details of the disclosures required.

Once adopted, these amendments to the standards are not expected to have a material impact on the Council's financial position as they are largely presentational (as with IAS1, IFRS7 and IFRS13) or have limited application to Local Authorities (IAS12). The impact of IAS19 cannot be quantified until an actuarial review has been undertaken. The will be included in the IAS19 2013-14 valuation exercise but is not expected to impact upon either the Council Tax requirement or level of useable reserves.

3. Critical Judgements in Applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for Local Government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The accounting disclosures relating to the provision of pensions are based upon the regulations in force during 2012/13, most notably those applying to the Local Government Pension Scheme. No account has been taken of changes in the LGPS benefit structure or contribution rates as proposed under the 2014 scheme. Neither, has any attempt been made to quantify the degree of membership fall out and the consequential impact upon solvency and funding levels.
- The statement of accounting policies incorporates a number of de-minimus 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.
- The Council has deposits with two Icelandic banks which are currently in administration. The accounting disclosures have been made in accordance with CIPFA guidance. The sum of £169k has been credited to the Comprehensive Income and Expenditure Statement in 2012/13 in respect of the reversal of impairment of these assets. The reversal is due to the award of preferential creditor status with respect to the Landsbanki claim where it is now estimated that 100% of the amount invested will be repaid.
- The costs associated with the building of Drapers Academy were capitalised and recorded on the Balance Sheet as an asset under construction until they were completed and transferred into Academy ownership. The carrying value of the asset has been treated as a loss on disposal in the CI&ES. The IFRS code and associated guidance notes does not provide specific guidance as to the correct accounting treatment and as such a number of

alternative accounting disclosures could have been adopted which would have affected the timing and nature of the disclosures as recorded in the financial statements. However, on disposal, the impact of these alternative accounting treatments on the Councils' Balance Sheet is neutral and the total costs charged through the CI&ES would be the same over the duration of the project.

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

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

The items in the Council's Balance Sheet at 31st March 2013 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 Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £2.8m for every year that useful lives had to be reduced
	Assets have been valued by the Council's external valuers on the basis of a five year rolling valuation programme. In the current economic climate, the Balance sheet valuation of £787m may be subject to fluctuations.	If the asset valuation of all Property Plant and Equipment were to fall by 1% a reduction in value of £7.87m 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 CI & E statement and subsequently written off to the Capital Adjustment Account.
Provisions	The Council has made a provision of £5.7m 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	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 £69m. However, the assumptions interact in complex ways. During 2012/13, the Council's actuaries advised

	engaged to provide the Council with expert advice about the assumptions to be applied.	that changes in actuarial assumptions gave rise to an additional charge of £76m (£35m in 2011/12) to the C I & E statement.
Arrears	At 31st March 2013, the Council had a gross debtors balance of £67.9m. A review of significant balances suggested that an impairment of doubtful debts of 32% (£21.5 m) was appropriate. However, in the current economic climate it may not 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 £10.8m to set aside as an allowance.

5. Material Items of Income and Expense

Transformation

In 2012/13 the Council continued with its transformation programme delivering efficiencies in both front and back office services. Expenditure of £5m is included in the net cost of services section of the Comprehensive Income and Expenditure Statement in relation to the delivery of the ongoing transformation programme.

The majority of this expenditure has been treated as support service costs and has subsequently been recharged to services in accordance with CIPFA's *Service Reporting Code of Practice (SeRCOP).* These additional costs have been met from earmarked reserves established for this purpose.

6. Events after the Balance Sheet Date

Academies

One school, Langtons Junior, was granted Academy status by the Department for Education with effect from 1st April 2013. Pinewood Primary School has had its application for Academy status approved with effect from 1 October 2013, subject to completion of its Funding Agreement.

Pyrgo Priory school has applied for Academy status with an intended date of 1 December 2013. Other schools are considering academy status but have no finalised plans or date.

Three further schools have applied for Academy status: The Sanders Draper (intended date 1st August 2013), Pinewood Primary (intended date 1st September 2013, and Marshalls Park (earliest date March / April 2014). The Royal Liberty is examining Academy status.

Langtons Junior, Pinewood Primary and Pyrgo Priory were Community schools in 2012/13 and are therefore fully included in the Council's 2012/13 accounts.

Under these arrangements, Academies have freedom from Council control. As a consequence the net assets of Academies and the related financial transactions will be removed from the Council's accounts with effect from the date that Academy status is achieved. No prior year adjustments will be required.

Public Health

The Health and Social Care Act 2012 transferred public health responsibilities from the Department of Health to local government from 1st April 2013. Local authorities now have a duty to improve the health of their population, and will also take on key functions to ensure that robust plans are in place to protect local populations and provide public health advice to NHS commissioners. The transition led to the Havering Public Health team transferring to the Council, as well as the responsibility to provide commissioned services. There is a specific ring fenced grant from 2013/14.

Authorisation of Accounts for Issue

The accounts were approved by Andrew Blake-Herbert, Group Director of Resources on 28 June 2013. No material post balance sheet events were identified at that date other than the matters disclosed above.

7. 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 Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

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 Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council 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 Council’s landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Major Repairs Reserve: The Council maintains a Major Repairs Reserve (MMR), 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 Council 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					
2012/13	**General Fund Balance**	**Housing Revenue Account**	**Capital Grants Unapplied**	**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	(27,535)	(40,037)	-	-	-	67,572
Revaluation losses on Property Plant and Equipment	2,418	-	-	-	-	(2,418)
Movements in the market value of Investment Properties	503	-	-	-	-	(503)
Amortisation of intangible assets	(2,209)	-	-	-	-	2,209
Revenue expenditure funded from capital under statute	(1,149)	(853)	-	-	-	2,002
Amounts of non-current assets written off on disposal or sale as part of the (loss)/gain on disposal to the Comprehensive Income and Expenditure Statement	(59,972)	3,329	-	-	-	56,643
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	1,357	-	-	-	-	(1,357)
Capital expenditure charged against the General Fund and HRA balances	11,334	-	-	-	-	(11,334)
Adjustments involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	30,886	15,150	(46,036)	-	-	0
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	36,347	-	-	(36,347)
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	27,795	-	-	(27,795)	-	0
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	7,686	-	(7,686)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(657)	-	-	657	-	-
Adjustments involving the Deferred Capital Receipts Reserve (England and Wales):						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(133)	-	-	-	-	133

2012/13	Usable Reserves: General Fund Balance	Housing Revenue Account	Capital Grants Unapplied	Capital Receipts Reserve	Major Repairs Reserve	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustment involving the Major Repairs Reserve:						
Reversal of HRA Depreciation	-	6,604		-	(6,604)	0
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	6,315	(6,315)
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)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 44)	(28,900)	148	-	-	-	28,752
Employer's pensions contributions and direct payments to pensioners payable in the year	20,338	-	-	-	-	(20,338)
Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,045)	-	-	-	-	1,045
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	(331)	-	-	-	-	331
Total Adjustments	**(27,204)**	**(15,659)**	**(9,689)**	**(19,452)**	**(289)**	**72,293**

2011/12 Comparative Figures	Usable Reserves: General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Movement in Unusable Reserves
	£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	(57,896)	(32,174)	-	-	90,070

2011/12 Comparative Figures	Usable Reserves: General Fund Balance	Usable Reserves: Housing Revenue Account	Usable Reserves: Capital Receipts Reserve	Usable Reserves: Major Repairs Reserve	Movement in Unusable Reserves
	£000	£000	£000	£000	£000
Amortisation of intangible assets	(1,994)	-	-	-	1,994
Capital grants and contributions applied	35,064	-	-	-	(35,064)
Revenue expenditure funded from capital under statute	(1,896)	(165,470)	-	-	167,366
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	1,328	-	-	-	(1,328)
Capital expenditure charged against the General Fund and HRA balances	10,157	-	-	-	(10,157)
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	(14,430)	2,078	(2,401)	-	14,753
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	1,448	-	(1,448)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(1,496)	-	1,496	-	-
Adjustments involving the Deferred Capital Receipts Reserve (England and Wales):					
Transfer to the Capital Receipts Reserve upon receipt of cash	(200)	-	-	-	200
Adjustment involving the Major Repairs Reserve:					
Reversal of Major Repairs Allowance credited to the HRA	2,145	-	-	(2,145)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(3,633)	3,633
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)
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 44)	(20,140)	90	-	-	20,050
Employer's pensions contributions and direct payments to pensioners payable in the year	18,907	-	-	-	(18,907)
Adjustments involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from	635	-	-	-	(635)

2011/12 Comparative Figures	Usable Reserves				
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Movement in Unusable Reserves
	£000	£000	£000	£000	£000
council tax income calculated for the year in accordance with statutory requirements					
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	274	-	-	-	(274)
Total Adjustments	**(29,446)**	**(195,476)**	**543**	**(5,778)**	**230,157**

8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2012/13.

	Balance as at 31 3 2011	Transfers to/(from) Revenue	Transfers between reserves	Balance as at 31 3 2012	Transfers to/(from) Revenue	Transfers between reserves	Balance as at 31 3 2013
	£000	£000	£000	£000	£000	£000	£000
Corporate Transformation Reserve	14,346	2,434	-	**16,780**	4,622	1,564	**22,966**
Insurance Reserve	4,281	(85)	-	**4,196**	187	-	**4,383**
Reserves for future Capital Schemes	5,077	910	-	**5,987**	2,859	(131)	**8,715**
Schools Reserves	-	-	-	**-**	(481)	1,853	**1,372**
Legal Reserve	232	117	-	**349**	(47)	(197)	**105**
Crematorium and Cemetery Funds	399	138	-	**537**	95	-	**632**
Social Care Funding	-	3,004	-	**3,004**	3,459	233	**6,696**
Public Health Reserve	-	-	-	**-**	241	-	**241**
Library Book Fund	-	-	-	**-**	(160)	800	**640**
Whole Life Costing Transport Fleet Reserve	-	-	-	**-**	189	-	**189**

	Balance as at 31 3 2011 £000	Transfers to/(from) Revenue £000	Transfers between reserves £000	Balance as at 31 3 2012 £000	Transfers to/(from) Revenue £000	Transfers between reserves £000	Balance as at 31 3 2013 £000
Capital Bridge Funding	1,000	-	-	**1,000**	-	1,000	**-**
Primary School Bridge Funding	1,360	-	-	**1,360**	-	1,360	**-**
Property Strategy Review	529	(444)	-	**85**	-	(85)	**-**
Standards Fund LEA Contribution	332	-	-	**332**	-	(332)	**-**
Property Management	353	(353)	-	**-**	-	-	**-**
Other Reserves	4,417	642	-	**5,059**	(963)	(1,345)	**2,751**
Totals	**37,765**	924	**-**	**38,689**	10,001	**-**	**48,690**

Corporate Transformation and Strategic Projects
This will continue to be used to fund strategic projects and the transformation agenda.

Insurance Reserve
In accordance with the accounting Code of Practice, the Council'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
Provide 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 Councils' 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.

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
Encompasses a range of several smaller reserves from year on year budget and actual brought

forwards to deal with timing differences, climate change initiatives, CCTV parking equipment renewals and joint IT strategies.

9. Other Operating Expenditure

2011/12 £000		2012/13 £000
11,646	Levies	11,699
1,461	Payments to the Government Housing Capital Receipts Pool	438
12,352	(Gains)/losses on the disposal of non current assets	28,707
25,459	**Total**	**40,844**

10. Financing and Investment Income and Expenditure

2011/12 £000		2012/13 £000
3,094	Interest payable and similar charges	7,645
11,781	Pensions interest cost and expected return on pensions assets	13,931
(2,328)	Interest receivable and similar income	(1,770)
(788)	Income and expenditure in relation to investment properties	(843)
(653)	Changes in the fair value of Financial Assets	(169)
11,106	**Total**	**18,794**

11. Taxation and Non Specific Grant Income

2011/12 £000		2012/13 £000
106,709	Council tax income	108,740
43,184	Non domestic rates	53,016
35,742	Non-ring fenced government grants	26,089
45,916	Capital grants and contributions	30,886
231,551	**Total**	**218,731**

12. Property, Plant and Equipment

Movements in Balances 2012/13

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture and Equipment	Infrastructure Assets	Community Assets	Heritage Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation								
At 31st March 2012	342,731	415,008	34,509	107,827	3,040	114	10,252	**913,481**
Additions	27,875	13,497	1,835	8,770	-	-	6,642	**58,619**
Impairment	(27,875)	(12,038)	-	-	-	-	-	**(39,913)**
Revaluation increases/(decreases) to:								
• Revaluation Reserve	11,069	4,866	-	-	910		-	**16,845**
• Capital Adjustment Account	(198)	2,608	-	-	8	-	-	**2,418**
• Consolidated I and E	(9,867)	(5,415)	-	-		-	-	**(15,282)**
De-recognition – Disposals	(1,830)	(24,786)	(631)	-		-	(10,904)	**(38,151)**
Assets reclassified	-	2,951	-	-		-	(4,130)	**(1,179)**
At 31st March 2013	**341,905**	**396,691**	**35,713**	**116,597**	**3,958**	**114**	**1,860**	**896,838**
Accumulated Depreciation and Impairment								
At 31st March 2012	5,810	27,618	23,770	39,769	104	7	-	**97,078**
Depreciation charge	5,815	6,877	3,460	5,310	46	1	-	**21,509**
Depreciation written out	(5,810)	(2,841)	(606)	-	-	-	-	**(9,257)**
At 31st March 2013	**5,815**	**31,654**	**26,624**	**45,079**	**150**	**8**	**-**	**109,330**
Net Book Value								
At 31st March 2013	**336,090**	**365,037**	**9,089**	**71,518**	**3,808**	**106**	**1,860**	**787,508**
At 31st March 2012	**336,921**	**387,390**	**10,739**	**68,058**	**2,936**	**107**	**10,252**	**816,403**

Movements in Balances 2011/12

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture and Equipment	Infrastructure Assets	Community Assets	Heritage Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation								
At 31st March 2011	360,563	448,996	31,115	98,833	3,611	34	19,318	**962,470**
Removal of Foundation School balances	-	2,942	54	-	-	-	-	**2,996**
Additions	17,071	34,906	3,918	8,994	-	-	3,141	**68,030**
Impairment	(17,071)	(34,906)	-	-	-	-	-	**(51,977)**
Revaluation increases/(decreases) to:								
• Revaluation Reserve	2,225	3,492	-	-	(208)	80	-	**5,589**
• Capital Adjustment Account	(1,439)	(771)	-	-	6	-	-	**(2,204)**
• Consolidated I and E	(18,019)	(10,079)	-	-	(5,584)	-	-	**(33,682)**
De-recognition – Disposals	(599)	(20,530)	-	-	(3)	-	-	**(21,132)**
De-recognition – Other	-	-	(578)	-	-	-	-	**(578)**
Assets reclassified	-	(9,042)	-	-	5,218	-	(12,207)	**(16,031)**
At 31st March 2012	**342,731**	**415,008**	**34,509**	**107,827**	**3,040**	**114**	**10,252**	**913,481**
Accumulated Depreciation and Impairment								
At 31st March 2011	4,474	23,421	21,479	34,780	305	6	-	**84,465**
Depreciation charge	5,810	8,321	2,896	4,989	46	1	-	**22,063**
Depreciation written out	(4,474)	(4,124)	(605)	-	(247)	-	-	**(9,450)**
At 31st March 2012	**5,810**	**27,618**	**23,770**	**39,769**	**104**	**7**	**-**	**97,078**
Net Book Value								
At 31st March 2012	**336,921**	**387,390**	**10,739**	**68,058**	**2,936**	**107**	**10,252**	**816,403**
At 31st March 2011	**356,089**	**425,575**	**9,636**	**64,053**	**3,306**	**28**	**19,318**	**878,005**

Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in 2013/14.

	31st March 2013 £000	**31st March 2012 £000**
General Fund		
Arts, Culture, Sport and Leisure	8,432	5,509
Roads, Footways and Bridges	2,755	2,701
Education Capital Schemes	21,975	15,368
Town Centre and Environmental Improvements	2,253	2,648
Office Accommodation, Equipment, ICT and Vehicles	2,593	4,420
Housing and Public Protection	1,512	4,021
Other Smaller GF Schemes	3,449	3,420
Total General Fund Commitments	**42,969**	**38,087**
Housing HRA	3,425	**-**
Total Commitments	**46,394**	**38,087**

Revaluations

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are certified by G.K. Green, FRICS, the Council'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 on the basis of a five year rolling programme; the most recent of which was carried out on 1st April 2013.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture and Equipment	Infrastructure Assets	Community Assets	Heritage Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Carried at Historical Cost	-	-	9,089	71,518	1,770	26	1,858	**84,261**
Valued at fair value as at:								
1st April 2012	336,090	40,998	-	-	918	-	-	**378,006**
1st April 2011	-	33,817	-	-	295	80	-	**34,192**
1st April 2010	-	76,789	-	-	143	-	-	**76,932**
1st April 2009	-	207,683	-	-	682	-	-	**208,365**
1st April 2008	-	5,750	-	-	-	-	-	**5,750**
Total Cost or Valuation	**336,090**	**365,037**	**9,089**	**71,518**	**3,808**	**106**	**1,858**	**787,506**

Some more recently acquired assets are recorded at historical cost even though assets in the same class are recorded at current cost. Once a formal valuation is carried out the historic cost valuation will be replaced with the up to date current cost valuation.

13. Heritage Assets

Carrying value of heritage assets held by the Council:

	Civic Regalia £000	Heritage Buildings £000	Total Assets £000
Cost or Valuation			
1st April 2011	**80**	**28**	**108**
Additions	-	-	-
Disposals	-	-	-
Revaluations	-	-	-
Impairment losses (reversals) recognised in the Revaluation Reserve	-	-	-
Impairment losses (reversals) recognised in Surplus or Deficit in the Provision of Services	-	-	-
Depreciation	-	(1)	(1)
31st March 2012	**80**	**27**	**107**
Additions	-	-	-
Disposals	-	-	-
Revaluations	-	-	-
Impairment losses (reversals) recognised in the Revaluation Reserve	-	-	-
Impairment losses (reversals) recognised in Surplus or Deficit in the Provision of Services	-	-	-
Depreciation	-	(1)	(1)
31st March 2013	**80**	**26**	**106**

14. Investment Properties & 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.

2011/12 £000		2012/13 £000
843	Rental income from investment property	948
(55)	Direct operating expenses arising from investment property	(105)
788	**Net gain**	**843**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council 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.

2011/12 £000		2012/13 £000
29,145	**Opening Balance**	**33,231**
98	Adjustment to opening balance for foundation schools	-
1,986	Revaluation gains/(losses) from fair value adjustments	503
2,002	Assets reclassified	-
-	Disposal of investment properties	(6)
33,231	**Balance at end of the year**	**33,728**

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

2011/12 £000		2012/13 £000
-	**Opening Balance**	**27,866**
17,541	Revaluation gains/(losses) from fair value adjustments	2,059
14,028	Assets reclassified	1,181
(3,703)	Disposal of Assets Held for Sale	(19,116)
27,866	**Balance at end of the year**	**11,990**

15. Intangible Assets

The Council 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 licenses 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 £2.210m charged to revenue in 2012/13 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:

2011/12 £000	Intangible Fixed Assets Software and System Development	2012/13 £000
8,557	Gross Carrying Amounts	11,781
(3,815)	Less Accumulated Amortisation	(5,809)
4,742	**Net Carrying Amount at start of year**	**5,972**
3,224	Additions - Purchases	1,061
(1,994)	Less Amortisation for the Period	(2,210)
5,972	**Net Carrying Amount at end of Year**	**4,823**
	Comprising:	
11,781	Gross Carrying Amounts	12,842
(5,809)	Less Accumulated Amortisation	(8,019)

16. Financial Instruments

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

	Long Term			Current	
	31st March 2013 £000	31st March 2012 £000		31st March 2013 £000	31st March 2012 £000
Investments					
Loans and Receivables	-	-		100,403	55,903
Total Investments	**-**	**-**		**100,403**	**55,903**
Debtors					
Financial assets carried at contract amounts	1,433	1,592		29,660	39,237
Total included in Debtors	**1,433**	**1,592**		**29,660**	**39,237**
Borrowings					
Financial liabilities at amortised cost	210,234	210,234		12,968	4,050
Total Borrowings	**210,234**	**210,234**		**12,968**	**4,050**
Other Long term Liabilities					
PPP and finance lease liabilities	779	1,019		185	314
Total other Long term Liabilities	**779**	**1,019**		**168**	**314**
Total Borrowings and Long term Liabilities	**211,013**	**211,253**		**13,136**	**4,364**
Creditors					
Financial liabilities at amortised cost	-	-		31,406	38,113
Total included in Creditors	**-**	**-**		**31,406**	**38,113**

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
	%	31st March 2013 £000	31st March 2013 £000
PWLB debt	3.7% to 6.9%	203,234	235,629
Market Loan	3.6%	7,000	9,252
Temporary Borrowing	Variable	12,968	12,968
Finance Lease Liability (PPP)		840	840
Total debt		**224,042**	**258,689**
Creditors		31,406	31,406
Total financial liabilities		**255,448**	**290,095**
Investments (includes cash)		111,719	111,817
Debtors Less than 1 year		29,660	29,660
Long term Debtors		1,433	1,433
Total liabilities less receivables		**112,636**	**147,185**

Comparative figures as at 31st March 2012 were as follows:

	Interest rates	Carrying Amount	Fair Value
	%	31st March 2012 £000	31st March 2012 £000
PWLB debt	3.7% to 6.9%	203,234	189,285
Market Loan	3.6%	7,000	6,166
Temporary Borrowing	variable	4,050	4,050
Finance Lease Liability (PPP)		958	958
Total debt		**215,242**	**200,459**
Creditors		38,113	38,113
Total financial liabilities		**253,355**	**238,572**
Investments (includes cash)		65,298	65,991
Debtors Less than 1 year		39,237	39,237
Long term Debtors		1,592	1,592
Total liabilities less receivables		**147,228**	**131,752**

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 Council'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 31st March 2013, 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 1 year
- The interest value and date has not been adjusted where a relevant date occurs on a non working day

17. Inventories

Stocks comprise the following:

- Highways - tools, clothing, guard rails and materials;
- Fleet Stores - fuel and vehicle parts;
- Education Computer Centre - IT hardware and consumables;
- Gritting - salt;
- Catering - foodstuffs/perishables.

	2012/13 £000	2011/12 £000
Total Balance at start of year	**309**	**361**
Movement in the year	35	(52)
Total Balance at year-end	**344**	**309**

18. Short-Term Debtors

31st March 2012			31st March 2013	
£000	£000		£000	£000
		Collection Fund Debtors		
14,972		Council Taxpayers	14,675	
(8,294)	6,678	*Less* Impairment Allowance	(9,157)	5,518
	495	Greater London Authority (GLA)		614
	3,269	Central Government (NNDR)		2,932
		Other Debtors		
	4,923	Government Departments		3,349
	1,951	Capital		12,164
4,725		Housing	4,784	
(4,049)	676	*Less* Impairment Allowance	(4,194)	590
6,315		Housing Benefit	7,284	
(3,645)	2,670	*Less* Impairment Allowance	(4,389)	2,895
4,061		Social Services	4,629	
(1,446)	2,615	*Less* Impairment Allowance	(1,689)	2,940
1,932		Parking	1,939	
(1,481)	451	*Less* Impairment Allowance	(1,470)	469
	903	Other Local Authorities		1,091
	527	Health Authorities		748
14,917		Other Sundry Debtors	12,266	
(838)	14,079	*Less* Impairment Allowance	(607)	11,659
	39,237	**Total Short Term Debtors**		**44,969**

19. Cash and Cash Equivalents

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

31st March 2012 £000		31st March 2013 £000
95	Cash held by the Council	659
7,910	Schools – under the LMS Cheque book Scheme	8,866
14,298	Short-term deposits with banks – call accounts	14,719
22,303	**Cash at hand**	**24,244**
(1,744)	Bank current accounts	**(1,256)**
20,559	**Total Cash and Cash Equivalents**	**22,988**

20. Short-Term Creditors

31st March 2012 £000		31st March 2013 £000
6,289	Central Government	4,869
3,793	HMRC	3,398
1,195	Pension Fund	3,475
5,603	Capital Creditors	3,988
4,185	Council Tax Payers	3,932
15,431	Other Sundry Creditors	20,364
4,883	Income in Advance	3,579
41,379	**Total**	**43,605**

21. Provisions

	Self-Insurance £000	Other Provisions £000	Total £000
Balance at 31st March 2012	**5,415**	**822**	**6,237**
Additional provisions made in 2012/13	450	487	937
Amounts used in 2012/13	(147)	(411)	(558)
Transfers to/from revenue	7	(161)	(154)
Balance at 31st March 2013	**5,725**	**737**	**6,462**

Other provisions consist of:

31st March 2013: Carbon Reduction Commitment £260,000 (£400,000 31st March 2012) to fund the Council's commitment in respect of emissions in 2012/13, Leasing Dilapidations £250,000 (£422,000 31st March 2012) for office premises previously leased by the Council and £227,000 (£0 31st March 2012) to fund pay equalisation responsibilities towards staff formerly based at Purfleet Depot.

Self-Insurance Provision

The Council'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 Council's public and employer's liability, property and motor vehicle insurances. It is not possible to determine the precise timing of the settlement of claims relating to this provision. The excess levels were as follows:

	1st Jan 2013 £000	1st Jan 2012 £000
Public and Employer's Liability	156	153
Motor Vehicles	151	145
Property	50	50

The Council'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.

22. Useable Reserves

31st March 2012 £000		31st March 2013 £000
25,899	General Fund Balance	26,126
38,481	Earmarked Reserves	48,690
5,823	Housing Revenue Account Balance	10,223
1,437	Capital Receipts Reserve	20,889
10,852	Capital Grants Unapplied	20,541
5,917	Major Repairs Reserve	6,206
88,409	**Total Usable Reserves**	**132,675**

The General Fund balance can be further analysed as follows:

31st March 2012 £000		31st March 2013 £000
11,766	General Fund	11,768
1,817	General Reserves	2,728
13,583	**Sub Total**	**14,496**
7,412	Schools Balances	8,716
4,904	Centrally held Schools balances (see Note 34)	2,914
25,899	**Total General Fund balance**	**26,126**

23. Unusable Reserves

31st March 2012 £000		31st March 2013 £000
131,095	Revaluation Reserve	134,003
510,195	Capital Adjustment Account	463,728
(1,304)	Financial Instruments Adjustment Account	(1,208)
1,455	Deferred Capital Receipts Reserve	1,321
(335,350)	Pensions Reserve	(385,484)
687	Collection Fund Adjustment Account	(358)
(3,485)	Accumulated Absences Account	(3,816)
303,293	**Total Unusable Reserves**	**208,186**

a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council 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 1st 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.

31st March 2012 £000		31st March 2013 £000
116,919	**Balance at 1st April**	**131,095**
1,134	Adjustment to opening balance for foundation schools	-
23,127	Net gain on revaluation of fixed assets	18,905
(10,085)	Amount written off to the Capital Adjustment Account	(15,997)
131,095	**Balance at 31st March**	**134,003**

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 Council 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 Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provide details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2011/12 £000		2012/13 £000
729,932	**Balance at 1st April**	**510,195**
1,959	**Adjustment to opening balance for foundation schools**	
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(98,751)	• Net charges for depreciation and impairment of non current assets	(67,572)
2,175	• Reversal of revaluation losses on Property, Plant and Equipment	2,418
(1,994)	• Amortisation of intangible assets	(2,209)
(167,366)	• Revenue expenditure funded from capital under statute	(2,002)
(24,838)	• 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	(56,642)
(290,774)		(126,007)
10,085	Adjusting amounts written out of the Revaluation Reserve	15,997
(280,689)	**Net written out amount of the cost of non current assets consumed in the year**	**(110,010)**
	Capital financing applied in the year:	
11,528	• Use of the Capital Receipts Reserve to finance new capital expenditure	7,686
3,002	• Use of the Major Repairs Reserve to finance new capital expenditure	6,315
35,064	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	36,348
1,328	• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	1,357
10,157	• Capital expenditure charged against the General Fund and HRA balances	11,334
61,079		**63,040**
(2,086)	**Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement**	**503**
510,195	**Balance at 31st March**	**463,728**

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 Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

2011/12 £000		**2012/13 £000**
(1,400)	**Balance at 1st April**	**(1,304)**
-	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-
96	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	96
-	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	-
(1,304)	**Balance at 31st March**	**(1,208)**

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 Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2011/12 £000		2012/13 £000
(281,219)	**Balance at 1st April**	**(335,350)**
(52,991)	Actuarial gains or (losses) on pensions assets and liabilities	(41,720)
(20,047)	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	(28,752)
18,907	Employer's pensions contributions and direct payments to pensioners payable in the year	20,338
(335,350)	**Balance at 31st March**	**(385,484)**

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 Council 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.

2011/12 £000		2012/13 £000
1,655	**Balance at 1st April**	**1,453**
(202)	Transfer to the Capital Receipts Reserve upon receipt of cash	(132)
1,453	**Balance at 31st March**	**1,321**

f) Collection Fund Adjustment Account

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

2011/12 £000		2012/13 £000
52	**Balance at 1st April**	**687**
635	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,045)
687	**Balance at 31st March**	**(358)**

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 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2011/12 £000		2012/13 £000
(3,759)	**Balance at 1st April**	**(3,485)**
3,759	Settlement or cancellation of accrual made at the end of the preceding year	3,485
(3,485)	Amounts accrued at the end of the current year	(3,816)
274	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	(331)
(3,485)	**Balance at 31st March**	**(3,816)**

24. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2011/12 £000		2012/13 £000
(1,539)	Interest received	(1,649)
2,235	Interest paid	7,541
696	**Balance as at 31st March**	**5,892**

2011/12 £000		2012/13 £000
(21,637)	Depreciation	(21,148)
(75,049)	Impairment and downward revaluation	(39,316)
(1,994)	Amortisation	(2,209)
14,250	(Increase) / decrease in creditors	(3,841)
(2,981)	Increase / (decrease) in debtors	5,395
(171)	Increase / (decrease) in long term debtors	(159)
(52)	Increase / (decrease) in inventories	35
(1,496)	Movement in pension Liability	(8,414)
-	Movement in Provisions	(225)
(24,835)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(56,643)
(168,017)	Other non-cash items charged to the net surplus or deficit on the provision of services	(2,114)
(281,982)	**Net cash flows from operating activities**	**(128,639)**

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

2011/12 £000		2012/13 £000
45,916	Capital grants credited to the CI&ES	46,037
12,483	Proceeds from sale of fixed asset	27 928
58,399	**Adjustment for items included in the net surplus or deficit on the provisions of services that are investing and financing activities.**	**73,965**

25. **Cash Flow Statement – Investing Activities**

2011/12 £000		2012/13 £000
77,158	Purchase of property, plant and equipment, investment property and intangible assets	63,297
569,202	Purchase of short-term and long-term investments	597,579
167,366	Other payments for investing activities	
(12,482)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(27,795)
(45,950)	Capital grants received	(47,686)
(586,484)	Proceeds from short-term and long-term investments	(553,079)
(3,330)	Other receipts from investing activities	337
165,480	**Net cash flows from investing activities**	**32,653**

26. **Cash Flow Statement – Financing Activities**

2011/12 £000		2012/13 £000
(231,389)	Cash receipts of short- and long-term borrowing	(39,270)
77,456	Repayments of short- and long-term borrowing	30,834
(153,933)	**Net cash flows from financing activities**	**(8,436)**

27. **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 Council'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.
- Levies are included within the Directorate Income and Expenditure Statement but are excluded from the net cost of services line of the Comprehensive Income and Expenditure Statement. These are reported as other operating costs within that statement.

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

Directorate Income and Expenditure 2012/13	Culture and Community £000	Adults & Health £'000	Children's Services £000	Finance and Commerce £000	Legal and Democratic Services £000	Total £000
Fees, charges and other service income	(12,123)	(12,073)	(1,964)	(5,748)	(3,263)	**(35,171)**
Government grants	(185,075)	(3,299)	(139,884)	(1,889)	(1,320)	**(331,467)**
Total Income	**(197,198)**	**(15,372)**	**(141,848)**	**(7,637)**	**(4,583)**	**(366,638)**
Employee expenses	34,580	17,008	93,214	23,975	4,164	**172,941**
Other service expenses	211,202	70,111	102,829	(16,258)	1,122	**369,006**
Total Expenditure	**245,782**	**87,119**	**196,043**	**7,717**	**5,286**	**541,947**
Net Expenditure	**48,584**	**71,747**	**54,195**	**80**	**703**	**175,309**

Directorate Income and Expenditure 2011/12 Comparative Figures	Culture and Community £000	Social Care and Learning £000	Finance and Commerce £000	Legal and Democratic Services £000	Total £000
Fees, charges and other service income	(12,489)	(13,872)	(20,045)	(6,365)	**(52,771)**
Government grants	(184,999)	(160,004)	(109)	(887)	**(345,999)**
Total Income	**(197,488)**	**(173,876)**	**(20,154)**	**(7,252)**	**(398,770)**
Employee expenses	29,688	117,676	21,637	7,869	**176,870**
Other service expenses	216,263	207,579	(25,707)	1,484	**399,619**
Exceptional item – pension back funding	-	-	(4,069)	-	**(4,069)**
Total Expenditure	**245,951**	**325,255**	**(8,139)**	**9,353**	**572,420**
Net Expenditure	**48,463**	**151,379**	**(28,293)**	**2,101**	**173,650**

Reconciliation to Subjective Analysis

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

2012/13	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in CI & E	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(35,171)	-	(19,573)	**(54,744)**	-	**(54,744)**
Interest and investment income	-	(96)	-	**(96)**	(2,782)	**(2,878)**
Income from council tax	-	-	-	**-**	(108,740)	**(108,740)**
Government grants and contributions	(331,467)	96	14,820	**(316,551)**	(109,991)	**(426,542)**
Total income	**(366,638)**	**-**	**(4,753)**	**(371,391)**	**(221,513)**	**(592,904)**
Employee expenses	172,940	8,745	-	**181,685**	-	**181,685**
Other service expenses	369,007	(99,284)	16,564	**286,287**	-	**286,287**
Depreciation, amortisation and impairment	-	61,034	-	**61,034**	-	**61,034**
Interest Payments	-	-	-	**-**	50,283	**50,283**
Precepts and Levies	-	-	-	**-**	11,699	**11,699**
Payments to Housing Capital Receipts Pool	-	657	-	**657**	438	**1,095**
Gain or Loss on Disposal of Fixed Assets	-	28,848	-	**28,848**	-	**28,848**
Total expenditure	**541,947**	**-**	**16,564**	**558,511**	**62,420**	**620,931**
(Surplus) or deficit on the provision of services	**175,309**	**-**	**11,811**	**187,120**	**(159,093)**	**28,027**

2011/12 Comparative Data	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in CI & E	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(52,771)	-	-	**(52,771)**	-	**(52,771)**
Interest and investment income	-	116	(96)	**20**	11,106	**11,126**
Income from council tax	-	-	-	**-**	(106,710)	**(106,710)**
Government grants and contributions	(345,999)	-	20,780	**(325,219)**	(124,841)	**(450,060)**
Total income	**(398,770)**	**116**	**20,684**	**(377,970)**	**(220,445)**	**(598,415)**
Employee expenses	176,870	-	867	**177,737**	-	**177,737**
Other service expenses	399,619	9,141	(70,648)	**338,112**	-	**33 8,112**
Depreciation, amortisation and impairment	-	2,078	256,158	**258,236**	-	**258,236**
Interest Payments	-	(851)	-	**(851)**	12,352	**11,501**
Exceptional item – pension back funding	(4,069)	-	-	**(4,069)**	-	**(4,069)**
Precepts and Levies	-	-	-	**-**	11,646	**11,646**
Payments to Housing Capital Receipts Pool	-	-	1,496	**1,496**	1,461	**2,957**
Gain or Loss on Disposal of Fixed Assets	-	-	12,352	**12,352**	-	**12,352**
Total expenditure	**572,420**	**10,368**	**200,225**	**783,013**	**25,459**	**808,472**
Deficit or (Surplus) on the provision of services	**173,650**	**10,484**	**220,909**	**405,043**	**(194,986)**	**210,057**

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.

2011/12 £000		**2012/13 £000**
173,650	Net expenditure in the Directorate Analysis	175,309
10,484	Net expenditure of services and support services not included in the Analysis (including movement in Housing Revenue Account balance)	11,810
220,909	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	-
405,043	**Cost of Services in Comprehensive Income and Expenditure Statement**	**187,119**

28. Acquired and Discontinued Operations

No material operations have been acquired or discontinued in the year and there are no outstanding liabilities in respect of discontinued operations.

29. Trading Operations

	2012/13 Income £000	2012/13 Expenditure £000	2012/13 (Surplus)/ Deficit £000	2011/12 (Surplus)/ Deficit £000
a) Open Air Market				
The Council operates an open air market three days a week	(671)	681	10	442
b) Other Trading Accounts				
Highways	(4,197)	4,082	(115)	13
Schools/Welfare Catering	(5,747)	6,297	550	916

The Market expenditure figure for 2012/13 includes impairment costs of £30k relating to the Market revaluation adjustment. The comparable figure for 2011/12 was £436k

The Highways Trading account relates to repair and maintenance work on the Borough's highways, footways and paved areas. Costs are recharged mainly to Streetcare Services.

The Catering Service has a £112k surplus before overheads in 2012/2013. The improvement in financial performance is due to additional £195k income received with a corresponding £123k increase in expenditure. Overheads Reduced in 2012/2013 by £293k to £662k. The 2011/12 overhead figure has been restated from £724k to £955k. As a consequence of this the deficit for 2011/12 has been re-stated as £916k (previously £675k).

30. Pooled Budgets

(a) Learning Disabilities

Under the National Health Services Act 2006 & Local Government Acts 1972 & 2000 a partnership arrangement was established with the Havering Primary Care Trust. The agreement provided for The London Borough of Havering (LBH) to host a pooled budget between the two partners.

However, the partnership was dissolved in 2011/12 due to the abolition of the PCT and there was no activity in the current year.

(b) Mental Health

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

	2012/13 £000	2011/12 £000
Funding		
Section 75 Joint Pooled Budget between LBH and NELFTCouncil	1,808	1,884
Recharges (Excluded from the Pooled Budget)	274	200
Non Pooled Budget Codes	1,252	1,175
Total Funding	**3,334**	**3,259**
Final Outturn	**3,048**	**3,015**

31. Members' Allowances

Payments in the year were £1,103,774 including expenses (£1,112,386 in 11/12). Additionally, payments to co-opted Members totalled £1,278 (£2,304 in 2011/12).

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 were:

			2012/13			2011/12		
Lower Band		Upper Band	Schools	Other	**Total**	Schools	Other	**Total**
£50,000	-	£55,000	38	21	**59**	34	26	**60**
£55,000	-	£60,000	30	26	**56**	26	26	**52**
£60,000	-	£65,000	20	21	**41**	21	31	**52**
£65,000	-	£70,000	16	10	**26**	13	7	**20**
£70,000	-	£75,000	7	8	**15**	2	9	**11**
£75,000	-	£80,000	6	1	**7**	7	3	**10**
£80,000	-	£85,000	12	4	**16**	6	5	**11**
£85,000	-	£90,000	4	2	**6**	2	-	**2**
£90,000	-	£95,000	-	3	**3**	-	5	**5**
£95,000	-	£100,000	-	1	**1**	-	3	**3**
£100,000	-	£105,000	-	3	**3**	-	3	**3**
£105,000	-	£110,000	-	1	**1**	-	2	**2**
£110,000	-	£115,000	0	1	**1**	-	1	**1**
£115,000	-	£120,000	-	1	**1**	-	-	**-**
£120,000	-	£125,000	-	-	**-**	-	-	**-**
£125,000	-	£130,000	-	3	**3**	-	2	**2**
£140,000	-	£145,000	-	-	**-**	-	-	**-**
£160,000	-	£165,000	-	1	**1**	-	1	**1**
			133	**107**	**240**	**111**	**124**	**235**

The table includes staff who are the subject of additional disclosures as set out below (Senior Officers Remuneration).

One school transferred to Academy status in 2012/13 which resulted in 6 employees being excluded from the 2011/12 comparative data.

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 4 of the Accounts and Audit (Amendment No.2) Regulations 2009. Under the revised regulations, the definitions of Senior Officers which are relevant to the Council 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 Council's Chief Executive and Corporate Management Team.

The relevant proportion of the Council'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 2012/13 £	Employer's Pension contribution £	Total Remuneration including pension contributions 2012/13 £
Chief Executive - C Coppell	1	163,920	7,658	**171,578**	-	**171,578**
Group Director of Culture and Communities		130,000	-	**130,000**	20,280	**150,280**
Group Director of Finance and Commerce		130,000	-	**130,000**	20,280	**150,280**
Group Director of Adults and Health		130,000	-	**130,000**	20,280	**150,280**
Group Director of Children Services		116,792	-	**116,792**	18,220	**135,012**
Assistant Chief Executive Legal and Democratic Services		106,449	-	**106,449**	16,606	**123,055**
Group Director of Social Care and Learning	2	35,080	-	**35,080**	5,472	**40,552**
Total		**812,241**	**7,658**	**819,899**	**101,138**	**921,037**

Note 1 Amounts included under expense allowances represent sums received in respect of the role as the Counting Officer at the GLA election held on the 3rd of May 2012.

Note 2 - The Group Director of Social Care and Learning was appointed on the 11th of January 2013. This is to take on the responsibilities currently provided by the Group Director of Adults and Health and Group Director of Children Services who are currently providing capacity during the transitional period. The Full-time equivalent of the Group Director of Social Care and Learning is £130,000.

The comparative figures for 2011/12 are as follows:

Post Holder Information	Notes	Salary	Other Payments	Total Remuneration excluding pension contributions 2011/12	Employer's Pension contribution	Total Remuneration including pension contributions 2011/12
		£	£	£	£	£
Chief Executive - C Coppell	1	163,920	5,554	**169,474**	26,438	**195,912**
Group Director of Culture and Communities		130,000	-	**130,000**	20,280	**150,280**
Group Director of Finance and Commerce		130,000	-	**130,000**	20,280	**150,280**
Group Director of Social Care and Learning – resigned on 31st Oct 2011	2	84,583	-	**84,583**	13,195	**97,778**
Group Director of Adults and Health – started 1st Oct 2011	2	49,416	-	**49,416**	7,709	**57,125**
Group Director of Adults and Health - 1st of October 2011		63,602	-	**63,602**	9,922	**73,524**
Assistant Chief Executive – left 5th Sept 2011	3	113,929	-	**113,929**	12,880	**126,809**
Assistant Chief Executive Legal and Democratic Services	4	54,002	-	**54,002**	8,424	**62,426**
Total		**789,452**	**5,554**	**795,006**	**119,128**	**914,134**

33. External Audit Costs

The Council incurred the following fees relating to external audit and inspection:

2011/12 £000		2012/13 £000
378	Fees payable with regard to external audit services carried out by appointed auditor	223
77	Fees payable for the certification of grant claims and returns carried out by the appointed auditor	34
-	Fees payable in respect of other services provided by the appointed auditor	-
455	**Total for year**	**257**

34. Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant. 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 a Council wide basis and for the Individual Schools Budget, 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 2012/13 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	**Individual Schools Budget £000**	**Totals £000**
Final DSG for 2012/13 before Academy Recoupment			184,739
Less Academy Figure Recouped for 2012/13			(55,373)
Total DSG after Academy Recoupment for 2012/13			129,366
Brought forward from 2011/12			4,904
Carry forward to 2012/13 agreed in advance			-
Agreed Initial Budgeted Distribution for 2012/13	16,589	117,681	134,270
In Year Adjustments	-	-	-
Final budgeted distribution for 2012/13	**16,589**	**117,681**	**134,270**
Less Actual Central Expenditure	(13,675)	-	(13,675)
Plus Actual ISB deployed to Schools	-	(117,681)	(117,681)
Carry forward to 2013/14	**2,914**	**-**	**2,914**

35. Grant Income

a) The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

2011/12 £000		2012/13 £000
Credited to Taxation an Non Specific Grant Income		
13,348	Revenue Support Grant	1,028
43,184	Redistributed Business Rates	53,015
2,680	Council Tax Freeze Grant	2,693
19,714	Non-ringfenced Grant	22,368
45,915	Capital grants	30,886
124,841	**Total**	**109,990**
Credited to Services		
48,719	Rent Allowances	52,062
33,033	HRA rent rebates	35,220
19,219	Council Tax benefits	19,161
-	Decent Homes Grant	15,151
(9,973)	Housing subsidies	-
145,707	Dedicated Schools Grant	129,366
6,609	Learning Skills Councils / Young People Learning Agency	6,716
1,516	Revenues and Benefits	1,599
8,316	Other	2,107
253,241	**Total**	**261,382**

Current Liabilities

b) Capital Grants – receipts in advance:

2011/12 £000		2012/13 £000
10,753	Brought forward	10,787
44,000	Amounts received in year	1,649
(43,966)	Amounts applied to meet new capital investment	(4,811)
10,787	**Carried forward**	**7,625**

36. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Organisations	Member	Payments to Organisations by the Authority £'000	Balance Outstanding £'000	Income	Income Outstanding
East London Waste Authority	Cllr S Kelly Cllr B Tebbutt	11,669	21	(1,027)	(87)
Housing ALMO	Cllr Alexander Cllr Misir	10,790	-	(2,809)	(854)
Age Concern: Havering	Cllr J Alexander Cllr S Kelly	769	11	(38)	(11)
Havering Theatre Trust	Cllr M Armstrong Cllr A Curtin Cllr R Ramsey Cllr G Ford Cllr L Thorpe	550	(21)	(12)	(3)
Havering Association for People with Disabilities	Cllr Van Den Hende Cllr Dodin Cllr S Kelly	77	-	-	-
Old Ford Housing Association	Cllr M Armstrong	-	373	(353)	(373)

Of the 55 Councillors, three declarations were not received by the end of June 2013; in the absence of a signed declaration, the information above has been based on last year's return and the respective register of interest

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework, within which it operates, provides the majority of funding in the form of grants and prescribes the terms of many of its transactions with other parties (e.g. housing benefits).

37. Capital Expenditure and Capital Financing

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

2011/12 £000	Capital Expenditure	2012/13 £000
68,028	Property, Plant and Equipment	58,619
3,224	Intangible Fixed Assets	1,061
167,366	Revenue expenditure funded from capital under statute	2,002
238,618	**Total Capital Expenditure**	**61,682**
	Less financed from	
(11,527)	Capital Receipts	(7,685)
(3,002)	Major Repairs	(6,315)
(10,157)	Revenue Funds	(11,334)
(35,064)	Grants and Contributions	(36,348)
178,868	**Increase in Need to Borrow Supported by Government**	**0**

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

31st March 2012 £000	Capital Financing Requirement	31st March 2013 £000
877,500	Tangible Fixed Assets	833,226
5,972	Intangible Assets	4,824
(131,095)	Revaluation Reserve	(134,003)
(510,195)	Capital Adjustment Account	(463,728)
(1,333)	Finance Lease Liability	(947)
-	Grants Deferred Account	-
-	HRA charges not taken through the CAA	120
240,849	**Net Requirement**	**239,492**

38. Leases

Council as Lessee

Finance Leases

The Council has 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 1st April 2010 and these have subsequently been re-categorised as finance leases.

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

31st March 2012 £000	Vehicles, Plant, Furniture and Equipment	31st March 2013 £000
3	Transport	2
409	Schools	83
412	**Net Asset Values**	**85**

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

31st March 2012 £000	Finance lease liabilities (net present value of minimum lease payments):	31st March 2013 £000
207	• Current	61
168	• Non current	46
105	Finance costs payable in future years	44
480	**Minimum lease payments**	**151**

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

	Finance Lease Liabilities		Minimum Lease Payments	
	31st March 2013 £000	31st March 2012 £000	31st March 2013 £000	31st March 2012 £000
Not later than one year	61	207	88	272
Later than one year and not later than five years	46	168	63	208
Later than five years	-	-	-	-
	107	**375**	**151**	**480**

Operating Leases

The Council 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:

31st March 2012 £000		31st March 2013 £000
33	Not later than one year	33
37	Later than one year and not later than five years	4
-	Later than five years	-
70	**Minimum lease payments**	**37**

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

2011/12 £000		2012/13 £000
37	Highways, Roads and Transport Services	33
37	**Minimum lease payments**	**33**

The Council 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:

31st March 2012 £000		31st March 2013 £000
356	Not later than one year	276
1,026	Later than one year and not later than five years	737
1,587	Later than five years	1
2,969	**Minimum lease payments**	**1,014**

The minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.378m (£0.883m in 2011/12). In most cases these rents are charged to Central Support Services and subsequently recharged to the appropriate Service in accordance with *SeRCOP*.

39. Public Private Partnership (PPP)

On the 16 May 2003 the Council 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. This contract will last for 15 years.

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

The assets acquired through this scheme are recorded on the Balance Sheet with a net book value of £747,000 as at 31st March 2013. Depreciation of £106,000 was charged to Children's and Education Services within the Income and Expenditure Account in 2012/13.

Contract payments in 2012/13 total £164,000, of which £46,000 was allocated to financing costs and £118,000 to reduce the liability in accordance with requirements of the IFRS Code of Practice.

The current year position is shown below:

31st March 2012 £000	Finance Lease Liability	31st March 2013 £000
1,071	Balance brought forward	958
(113)	Repayments in year	(118)
958	**Balance carried forward**	**840**

The minimum lease payments are made up of the following amounts.

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£000	£000	£000	£000
Not later than one year	122	124	40	286
Later than one year and not later than five years	518	559	99	1,176
Later than five years	138	157	7	302

40. Impairment Losses

During 2012/13, The Council has recognised an impairment loss of £6.6m in the Comprehensive Income & 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&E £ 000
Council Dwellings	4,057
Other Land and Buildings	2,573
Vehicles, Plant, Furniture and Equipment	-
Infrastructure Assets	-
Community Assets	-
Surplus Assets	-
Assets Under Construction	-

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	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
£0 - £20,000	57	30	32	12	89	42	687,632	312,590
£20,001 - £40,000	9	8	10	7	19	15	509,338	414,962
£40,001 - £60,000	4	2	6	1	10	3	526,165	133,213
£60,001 - £80,000	1	-	5	0	6	-	426,170	-
£80,001 - £100,000	-	-	1	0	1	-	89,584	-
£100,001 - £150,000	1	-	1	1	2	1	220,775	109,910
Total	**72**	**40**	**55**	**21**	**127**	**61**	**2,459,664**	**960,675**

The Authority terminated the contracts of a number of employees in 2012/13, incurring costs of £970,452 (£2,459,644 in 2011/12). All redundancies in 2012/13 were as a result of the Havering 2014 transformation programme.

42. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers Pensions

Teachers employed by the Council 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 Council 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 Council 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 2012/13 the Council paid £6.5m (£8.7m 2011/12) to Teachers Pensions in respect of teachers pension contributions. This represented 14.1 % of teachers' pensionable pay (14.1% in 2011/12). There were no contributions remaining payable at the end of the period.

The Council is responsible for the costs of any additional benefits awarded upon early retirements outside the terms of the Teachers' scheme. These benefits are fully accrued in the pension's liability.

43. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its employees the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in two pension schemes:

The Teachers' Pension Scheme for teachers – this is a national scheme administered by the Department for Education (DfE). The employer's pension cost charged to the accounts is fixed by the contribution rate set by DfE on the basis of a notional fund.

The Local Government Pension Scheme for other employees which is administered by the Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

Transactions relating to Retirement benefits

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the contributions payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in Reserves. 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.

	2012/13 £000	**2011/12 £000**
Net Cost of Services:		
Current service cost	14,972	13,262
Past service costs / (Gain)	631	110
Losses / (Gains) on curtailments and settlements	(782)	(5,117)
Net Operating Expenditure:		
Interest cost	32,402	33,120
Expected return on pension fund assets	(18,471)	(21,328)
Net Charge to C, I and E and surplus / deficit on the Provision of Services	**28,752**	**20,047**
Movement on Pension Fund Reserve	(8,414)	(1,140)
Actual amount charged against Council Tax for pensions in the year	**20,338**	**18,907**
Payments in Year		
Employer Contributions	19,238	17,799
Unfunded pension payments	1,100	1,108
Actual amount charged against Council Tax for pensions in the year	**20,338**	**18,907**

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial losses of £41.7m (2011/12: loss of £53m) were included in the Statement of Movements in Reserves.

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pensions assets and liabilities line was at 31st March 2013 a loss of £189m and at 31st March 2012 was a loss of £147.3m.

44. Assets and Liabilities in relation to Retirement Benefits.

Reconciliation of Scheme Liabilities

Funded Liabilities	**2012/13 £000**	**2011/12 £000**
Opening Balance	672,832	618,479
Current Service Cost	14,972	13,262
Interest Cost	32,402	33,120
Contributions by Scheme Participants	4,875	4,892
Actuarial (Gains) / Losses	74,931	44,981
Unfunded benefits paid	(1,100)	(1,108)
Benefits Paid	(28,269)	(27,064)
Past Service Costs / (Gains)	115	110
Liabilities assumed on business combination	18,540	-
Liabilities Extinguished on Settlements	(7,229)	(15,313)
Losses on curtailment	469	1,473
Closing Balance	**782,538**	**672,832**

Reconciliation of fair value of the scheme assets:

Scheme Assets	**2012/13 £000**	**2011/12 £000**
Opening Balance	337,482	337,260
Expected Rate of Return	18,471	21,328
Actuarial Gains or (Losses)	33,211	(8,010)
Assets Distributed on Settlements	(5,979)	(8,723)
Employer Contributions	20,338	18,907
Contributions by Scheme Participants	4,875	4,892
Assets acquired in business combination	18,025	-
Benefits Paid	(29,369)	(28,172)
Closing Balance	**397,054**	**337,482**

The Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted market principles. The assumed rate of return on each asset is set out within this note. The overall expected return on assets is therefore derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31st March 2013.

The actual gain on scheme assets in the year was £51.8m (£13.32m in 2011/12).

Scheme history

	2012/13 £000	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000
Present Value of Fund Liabilities	(782,538)	(672,832)	(618,479)	(736,240)	(548,510)
Fair Value of assets in the Scheme	397,054	337,482	337,260	314,290	229,610
Net Surplus/ (Deficit)	**(385,484)**	**(335,350)**	**(281,219)**	**(421,950)**	**(318,900)**

Assets are measured at current bid price.

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £385.4m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a reduction in the overall balance from £726.3m to £340.9m, a reduction of 53%. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions as assessed by the scheme actuary.
- Finance is only required to be raised to cover unfunded pensions when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2014 is £17.4 m. This does not take account of any “strain on fund contributions” which may be required.

Basis of 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. Hymans Robertson LLP, the actuaries to the Council Pension Fund, have assessed the liabilities, with estimates being based on the latest full valuation of the schemes as at 31st March 2013.

The main assumptions used in their calculations are as follows:

	31st March 2013	31st March 2012
Long-term expected rate of return on assets in the scheme		
Equity Investments	4.5%	6.2%
Bonds	4.5%	4.0%
Property	4.5%	4.4%
Cash	4.5%	3.5%
Mortality assumptions:		
Longevity at 65 for current pensioners: Men Women	 21.9 24.6	 21.9 24.6
Longevity at 65 for future pensioners: Men Women	 23.8 26.5	 23.8 26.5
Rate of inflation	2.8%	2.5%
Rate of increase in salaries *	4.6%	4.3%
Rate of increase in pensions in payment	2.8%	2.5%
Rate of increase in deferred pensions	2.8%	2.5%
Discount Rate	4.5%	4.8%
Take-up of option to convert annual pension into retirement lump sum	75%	75%

* *Salary increases are assumed to be 1% until 31st March 2015 reverting to the long term assumption thereafter. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:*

	31st March 2013 %	31st March 2012 %
Equity Investment	73	63
Property	5	6
Bonds	21	30
Cash	1	1
Total	**100**	**100**

History of Experience Gains and Losses

The actuarial gains / (losses) identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories:

	2012/13 £000	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000
Experience / (losses) gains on Assets	33,211	(8,010)	3,176	74,330	(104,330)
Experience (losses)/gains on Liabilities	(74,931)	(44,981)	82,942	(162,540)	(2,790)

45. Contingent Liabilities

Employee related liabilities

There are 8 non equal pay complaints against the Council in Employment Tribunals, which are at various stages in the process. At this time it is not possible to assess the potential liability because it is either too early in the process or it is in respect of a claim where there is no limit of liability.

There are potentially 65 equal pay claims that are no longer time barred as a result of a recent court decision. These claims are subject to negotiation to reach settlement.

Contractual

Two separate claims have been lodged by the Council's contractors, of approximately £1.5m in total relating to repairs and constructions works which are claimed to fall outside the scope of their respective contracts. The Council disputes the sums involved. Further discussions will take place between all parties before an agreement is reached.

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. The Council has made provision for the levy in 2012/13. However, the Council's liability under the scheme remains uncertain until the Administrator settles the remaining claims.

Group actions – Local land charges

The Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a claim of approximately £20,000 plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims at present is approximately £220,000 plus interest and costs. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

46. Contingent Assets

Employers Liability Trigger litigation

Following judgement of the Supreme Court on 28th March 2012 the Council expects to receive a reimbursement of approximately £400k from Municipal Mutual Insurance in respect of the Council's incurred liability for mesothelioma claims. The decision has however triggered the scheme of arrangement and any reimbursement will be added to the councils potential liability under the claw-back. The decision has Periods of self funding and issues of limitation which could prevent or reduce recovery.

47. Nature and Extent of Risks Arising from Financial Instruments

Key risks

The Council’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 Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitment to make payments;
- Re-financing and maturity risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

Overall procedures for managing risk

The Council’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 Council 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 Council 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 Council ’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;
    - 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 Council’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 Council's financial instrument exposure. Actual performance is also reported annually to Members.

These policies are implemented by the Group Director of Resources. The Council 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 Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined in the procedures referred to above.

This risk is addressed within the Treasury Management Strategy Statement (TMSS) approved annually at Full Council. The latest version was approved in February 2013. 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 Council 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 Council's strategy can be found in the TMSS which is available on the Council'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 Council.

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

	Amount at 31st March 2013 **£000**	**Historical experience of default** **%**	**Estimated maximum exposure to default and un-collectability** **%**	**Estimated maximum exposure at 31st March 2013** **£000**
Deposits with Banks and financial Institutions:				
UK Banks with a long term rating of AA- or higher	11,000	0%	0%	-
UK Banks with a long term rating of A- to A+	94,719	0%	0%	-
Local Government	6,000	0%	0%	-
Customers (Debtors)	58,633	1.1%	35%	20,521

No breaches of the Council's counterparty criteria occurred during the year and the Council does not expect any additional losses from non-performance by any of the counter parties in relation to deposits. The amount stated for customers excludes provision for bad debts.

The Council does not normally allow credit for its customers; however, £17.5m of £58.6m shown in the above table is past its due date and is in excess of one year in arrears. The Council 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 Council 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.

	2012/13 £000	2011/12 £000
Less than three months	42,612	36,987
Less than six months	2,181	1,989
Six months to one year	2,355	2,110
More than one year	19,327	15,955
Long Term Debtors	1,433	1,592
	67,908	**58,633**

Long term debtors include loans secured by mortgage to the value of £1.6m. Debts to the value of £1.8m are also secured by way of a legal charge.

Liquidity risk

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow needs. If unexpected movements happen the Council has ready access to borrowings from the money market and Public Works Loans Board. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, 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 Council 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 Council maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council 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 Council approved Treasury and Investment Strategies address the main risks and the Financial Services Team address the operational risks within the approved parameters.

The maturity analysis of loans is as follows:

	2012/13 £000	2011/12 £000
Less than one year	12,968	4,050
Between one and two years	-	-
Between two and five years	-	-
More than five years	210,234	210,234
	223,202	**214,284**

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

Market risk

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, 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 Income and Expenditure Account 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 Income and Expenditure Account 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 Account. 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 Council'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:

	2012/13 £000	2011/12 £000
Increase in interest payable on variable borrowings	(69)	(58)
Increase in interest receivable on investments	1,235	909
Impact upon C, I and E Account	**1,166**	**851**

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

48. Heritage Assets: Five-year Summary of Transactions

There were no acquisitions or disposals of heritage assets within the last 5 years.

49. Trust Funds

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

	Richard Ballard Charity £	**Lucas Children's Play site Charity £**
Balance 31st March 2012	6,500	146,196
Receipts	24	625
Payments	(24)	-
Balance 31st March 2013	**6,500**	**146,821**

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 childrens' playgrounds and equipment in the borough.

Housing Revenue Account
Income and Expenditure Statement 2012-13

The Housing Revenue Account (HRA) includes all transactions relating to the provision, management and maintenance of the Council'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.

2011/12 £'000		Notes	2012/13 £'000
	Income		
38,439	Dwelling rents		41,675
2,495	Non-dwelling rents		2,166
5,857	Charges for services and facilities		6,262
1,682	Contributions towards expenditure		1,641
-	Decent Home Grant	8	15,150
8,780	Housing subsidy receivable	6	91
57,253	**Total Income**		**66,985**
	Expenditure		
8,072	Repairs and maintenance		7,621
17,850	Supervision and management		17,532
530	Rents, rates, taxes and other charges		394
18,753	Negative subsidy payable to the Secretary of State	6	-
308	Increased provision for bad/doubtful debts		329
38,808	Depreciation and Impairment of tangible fixed assets	4	40,158
222	Revenue expenditure funded from capital under statute amortised	5	853
4	Debt management		51
165,248	Local Authority Housing – Settlement payment to Government for HRA Self Financing	3 & 5	-
249,795	**Total Expenditure**		**66,938**
192,542	**Net Cost of Services included in the Comprehensive I & E Statement**		**(47)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(2,078)	Net gain on HRA assets		(3,329)
851	Interest payable and similar charges		6,674
(116)	Interest and investment income		(114)
191,199	**(Surplus) / deficit for the year on HRA Services**		**3,184**

Movement on the Housing Revenue Account Balance during 2012/13

2011/12 £'000		2012/13 £'000
(4,194)	**Housing Revenue Account balance brought forward**	**(5,825)**
191,199	(Surplus) or Deficit for the Year on the HRA I & E Account	3,184
(195,476)	Adjustments between accounting basis and funding basis under regulations	(15,659)
(8,471)	**HRA Balance before transfer to earmarked reserves**	**(18,300)**
2,646	**Transfers to/from earmarked reserves**	**8,075**
(5,825)	**Housing Revenue Account balance carried forward**	**(10,225)**

Note to the Statement of Movement on the Housing Revenue Account Balance 2012/13

2011/12 £'000	Notes	2012/13 £'000
	Items included in the HRA Income and Expenditure Account but excluded from the movement in the HRA balance	
(197,644)	Depreciation and impairment of fixed assets	(34,286)
0	Amortisation of Deferred Grant	15,150
2,078	Gain or (loss) on fixed assets	3,329
90	Net charge made for retirement benefits	148
(195,476)		**(15,659)**
	Items not included in the HRA Income and Expenditure Account but included from the movement in the HRA balance	
2,146	Net contribution from the major repairs reserve	-
500	Capital Expenditure funded by the HRA	8,075
2,646		**8,075**
(192,830)	**Net additional amount required by statute to be debited or credited to the HRA balance**	**(7,584)**

Notes to the Housing Revenue Account

1. Information on Housing Fixed Assets

a) Number of Dwellings

	2012/13 Number	2011/12 Number
Flats		
1 bedroom	3,032	3,039
2 bedrooms	2,379	2,398
3 bedrooms	391	391
4 or more bedrooms	21	21
Houses		
1 bedroom	336	336
2 bedrooms	1,165	1,185
3 bedroom	2,477	2,486
4 or more bedrooms	153	148
Total Number of Dwellings	**9,954**	**10,004**

In addition to the stock above, 3 hostels providing 65 units of accommodation are owned by the Council and accounted for in the HRA. There are also 5 properties in which the Council has a 50% shared ownership.

b) Balance sheet value of HRA tangible fixed assets

	2012/13 £'000	2011/12 £'000
Operational		
Dwellings	336,090	336,920
Other Land and Buildings	21,022	22,389
Vehicles, Plant and Equipment	344	163
Infrastructure	3,081	3,241
	360,537	362,713
Non-operational		
Investment Properties	20,118	19,951
Held for Sale	426	247
	20,544	20,198
Total Tangible Fixed Assets	**381,081**	**382,911**

c) Valuation of Council dwellings at year end

	1st April 13 £m	1st April 12 £m
Vacant possession value	1,344	1,348
Excess of vacant possession value over balance sheet value	1,008	1,011

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

	2012/13 £'000	2011/12 £'000
Total depreciation from Capital Adjustment Account	6,604	6,634
Net contribution (to)/from HRA for difference between Major Repairs Allowance and depreciation	-	2,146
Net Income equal to Major Repairs Allowance	6,604	8,780
Capital expenditure on HRA capital assets:		
Dwellings	5,724	3,026
Other Land and Buildings	516	-
Equipment	47	-
Infrastructure	-	(24)
Grants	29	-
Total Capital Expenditure	6,316	3,002
Balance brought forward at start of year	5,917	139
Balance carried forward at end of year	**6,205**	**5,917**

3. a) Total Capital Expenditure and Funding

	2012/13 £'000	2011/12 £'000
Capital expenditure on HRA property and other assets:		
Dwellings	27,875	17,071
Other Land and Buildings	1,627	151
Equipment	224	92
Infrastructure	177	87
Revenue expenditure funded from capital under statute and intangibles	853	222
Renovations & Defects Grant	-	-
Housing Self Financing Settlement	-	165,248
Total Expenditure	**30,756**	**182,871**
Financed from:		
Borrowing	-	178,868
Major Repairs Reserve	6,316	3,002
Grants and Contributions	16,218	214
Revenue Contributions	8,265	500
Capital Receipts	(43)	287
Total Funding	**30,756**	**182,871**

b) HRA Capital Receipts

	2012/13 £'000	2011/12 £'000
Right to Buy Sales	3,425	1,663
Other Property Sales	1,907	977
Other Receipts	-	-
Total Cash Receipts	5,332	2,640
Transferred for Pooling	(657)	(1,461)
Total New Usable	**4,675**	**1,179**

4. Depreciation and Impairment Charge

The depreciation charged to the HRA breaks down as follows:

	2012/13 £'000	2011/12 £'000
Dwellings	5,815	5,810
Other Buildings	408	490
Equipment	44	10
Infrastructure	337	324
Surplus Property	-	-
Total HRA depreciation	**6,604**	**6,634**
Impairment charge	**33,554**	**32,174**
Total HRA depreciation and impairment charge	**40,158**	**38,808**

5. Amortisation of Revenue expenditure funded from capital under statute and Intangible Fixed Assets

	2012/13 £'000	2011/12 £'000
Housing Self Financing Settlement	-	165,248
Mobility Grants and Other Revenue expenditure funded from capital under statute	853	222
Intangible Assets: Computer Software	-	-
Total Amortised	**853**	**165,470**

Revenue expenditure funded from capital under statute arises where capital expenditure is incurred but no physical asset is created in Havering's ownership. Revenue expenditure funded from capital under statute is written-off in the year it is incurred. The purchase of software licences and associated costs are treated as intangible fixed assets and written-off over an appropriate period, currently a maximum of 5 years.

6. Housing Revenue Account Subsidy Payable

Allowances:	2012/13 £'000	2011/12 £'000
Management and maintenance	-	18,778
Others	-	1,454
Guide line rent	-	(38,989)
Prior years adjustments	91	4
Sub-total subsidy payable	**91**	**(18,753)**
Major Repairs Allowance	-	8,780
Sub-total subsidy receivable	**-**	**8,780**
Total subsidy payable	**91**	**(9,973)**

In 2011/12, the Council paid £165m in order to extinguish its Housing Revenue Account Subsidy obligations. As a consequence no Housing Subsidy is payable in 2012/13 or future years. The Council set aside £135k to cover the final Housing Subsidy charge for 2011/12. However, the final settlement came to £44k, resulting in a £91k surplus.

7. Rent Income, Arrears and Bad Debts

	2012/13	2011/12
Average weekly rent (including service charges unpooled)	£85.86	£78.90

The increase in average weekly rents was 8.82%.

	2012/13 £'000	2011/12 £'000
Rent arrears at 31st March	2,469	2,219
Bad debts provision at 31st March	1,909	1723

The bad debts provision previously reported £1,521k for 2011/12. This has changed to £1,723k as it now incorporates bad debts provision for services charges.

8. 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 received its first tranche of £15m for Decent Home Grant Funding in 2012/13. (Previous years allocations had been as borrowing approvals). The council expects to receive the final two tranches of £15m in 2013/14 and £23.5m in 2014/15

Collection Fund 2012/2013

These Accounts represent the transactions of the Collection Fund and have been consolidated with the Council'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 surplus and deficit.

Income and Expenditure Account

2011/12 £'000		Note	2012/13 £'000
	Income		
117,890	Income from Council Taxpayers		118,244
	Transfers from General Fund		
19,021	Council Tax benefit		18,945
40	Prompt payment discounts		41
(2)	Transitional relief		(2)
66,269	Income collectable from Non Domestic Rates	2a	65,815
2,038	Income collectable from Business Rate Supplement	2b	2,110
205,256	**Total Income**		**205,153**
	Expenditure		
134,999	Precepts and Demands	3	135,380
(1,055)	Distribution of previous year's Council Tax (deficit)/surplus		1,270
	Bad and doubtful debts provision		
1,439	Write-offs		836
766	Provisions		1,063
	Non Domestic Rates		
65,991	Payment to National Pool		65,542
278	Cost of Collection		273
	Business Rate supplement		
2,025	Payment to Greater London Authority		2,098
13	Cost of Collection		12
204,456	**Total Expenditure**		**206,474**
(800)	Movement in fund balance		1,321
(66)	Net (surplus) at start of year		(866)
(866)	**Net (surplus) deficit carried forward**	**4**	**455**

Notes to the Collection Fund Accounts

1. Income from Council Tax

The Local Government Finance Act 1992 abolished the Community Charge and established the Council Tax. This Tax is based partly on the valuation of domestic properties and is partly a Personal Tax with discounts for single occupiers. The Council set the level of Council Tax in 2012/13 at £1,501.90 for band D properties. The number of band D equivalent properties in each band making up the Council Tax base was as follows:

Band	Number of Band D Equivalent Properties
A1	3
A	2,821
B	6,648
C	20,016
D	31,527
E	16,824
F	8,420
G	4,737
H	514
Allowance for losses in collection 1.5%	(1,372)
Tax Base	**90,138**

2. Income from Business Rates

Under the arrangements for uniform business rates, the Council collects Non-Domestic Rates (NNDR) for its area. These are based on local rateable values of £182.2 million at 31st March 2013 (£184.3 million at 31st March 2012) multiplied by uniform rates for large and small businesses. In 2012/13 the rate was 45.8p for large businesses (43.3p in 2011/12) and 45p for small (42.6p in 2011/12). The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government. In addition to the multiplier used to calculate business rates, all London councils 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

	2012/13 £'000	2011/12 £'000
Gross NNDR due in year	75,566	75,215
Less: allowances and other adjustments	(9,751)	(8,946)
	65,815	**66,269**

2b) Income collectable from Business Rate Supplement

	2012/13 £'000	2011/12 £'000
Gross Supplement due in year	2,269	2,353
Less: allowances and other adjustments	(159)	(315)
	2,110	**2,038**

3. Precepts and Demands

The Collection Fund is required to meet in full the precept of the precepting Authority and the demand of the billing Council. Details are as follows:

	2012/13 £'000	2011/12 £'000
London Borough of Havering	107,732	107,208
Greater London Authority	27,648	27,791
	135,380	**134,999**

4. Collection Fund Surplus / Deficit

The deficit on the Collection Fund will be met by the precepting Council and the billing Council in the following proportions and will be recovered by adjusting the level of precepts and demands during 2011/12 and 2012/13.

	2012/13 £'000	2011/12 £'000
London Borough of Havering	359	(688)
Greater London Authority	96	(178)
Deficit/(Surplus)	**455**	**(866)**

Pension Fund

Introduction

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 Finance and Commerce.

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 2012/13 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 final salary scheme and operates as a funded, 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.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments.

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.

During 2012/13 four schools converted to Academies and Innovate and Family Mosaic were admitted as new employers to the fund. Homes in Havering were brought back under the authorities control so ceased as a scheduled body. Morrison's were taken over by the Mears Group.

The other employers in the Pension Fund are as follows:

Scheduled Bodies:
Havering College of Further Education
Havering Sixth Form College
Homes in Havering (ceased 31 October 2012)

Secondary Schools
Drapers Academy (Academy from 1 September 2010)
Abbs Cross School (Academy from 1 April 2011)
Brittons School & Technology College (Academy from 1 April 2011)
Coopers' Company & Coborn School (Academy from1 April 11)
The Albany School (Academy from 1 August 2011)
Campion School (Academy from 1 August 2011)
Hall Mead Secondary School (Academy from 1 August 2011)
Sacred Heart of Mary's Girl's School (Academy from 1 August 2011)
St Edwards CE Secondary Comprehensive (Academy from 1 August 2011)
Emerson Park (Academy from 1 September 2011)
Redden Court (Academy from 1 September 2011)
Frances Bardsley School for Girls (Academy from 1 July 2012)
Bower Park (Academy from 1 February 2013)

Primary School
Upminster Junior School (Academy from 1 November 2012)
Upminster Infant School (Academy from 1 November 2012)

Admitted Bodies:
Havering Citizens Advice Bureau
Mears (November 12 – took over Morrison's)
Sports & Leisure Management Ltd
KGB Cleaners
Volker (joined 1 November 2011- Replaced May Gurney)
Innovate (joined 1 August 2012)
Family Mosaic (joined 1 November 2012)

Designated Bodies:
Trust Schools
Corbets Tey Special School

Foundation Schools
Marshall Park (Foundation from 1 September 2011)
Royal Liberty
The Chafford School
The Sanders Draper School
The Mawney Primary School

Voluntary Aided Schools
St Alban's Catholic Primary
St Edwards CE Primary
St Joseph's RC Primary
St Mary's RC Primary
St Patrick's Catholic Primary School
St Peter's Catholic Primary School
St Ursula's RC Junior School
St Ursula's RC Infant School
La Salette RC Primary School

Membership

The membership of the Pension Fund is as follows:

	As at 31st March 2013	As at 31st March 2012
Contributors		
Havering	4,501	4,629
Scheduled bodies	1,085	1,153
Admitted bodies	169	96
Contributor Total	**5,755**	**5,878**
Deferred pensioners:		
Havering	4,178	3,930
Scheduled bodies	483	435
Admitted bodies	41	40
Deferred Total	**4,702**	**4,405**
Pensioners and Dependants:		
Havering	5,204	5,000
Scheduled bodies	204	211
Admitted bodies	45	42
Pensioners & Dependants Total	**5,453**	**5,253**
TOTAL	**15,910**	**15,536**

Investment Arrangements

The overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee. The Pensions Committee also oversees the Fund's investment arrangements and publishes a Statement of Investment Principles (SIP) on the Council's website in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005.

In September 2010 the Pensions Committee decided to terminate the mandate with the Global Equities Manager (Alliance Bernstein) and assets were placed with the Passive Equity Manager (State Street Global Assets) until a new Global Equity Manager was appointed. Baillie Gifford was awarded the mandate for Global equities in December 2011; assets were transferred from UK Equities (Standard Life), Investment Grade Bonds (Royal London) and the passive UK/Global Equities (State Street Global assets) managers. Baillie Gifford commenced trading in April 2012. A review of the Fund's investment strategy was undertaken during 2012 and the allocation to the Absolute Return Manager (Ruffer) was increased, funded by reducing the allocation to the Passive UK/Global Equities Manager (State Street Global Assets).

The Fund's property manager (UBS) served a liquidation notice on the fund on the 1 January 2013; this was due to the increase in a number of redemption requests from the fund. The liquidation request was revoked in June 2013 when UBS received new investments from three UK Pension fund and some existing clients withdrew redemption requests.

Further strategy implementation (including rebalancing) will be undertaken during 2013/14.

The fund managers and the market value of assets under their management as at 31 March 2013 were as follows:

Value 31 March 2012		Manager	Mandate	Value 31 March 2013	
£'000	%			£'000	%
90,178	22.4	Standard Life	UK Equities	85,693	18.7
104,182	25.9	Royal London	Investment Grade Bonds	98,302	21.5
26,654	6.6	UBS	Property	22,471	4.9
39,146	9.8	Ruffer	Absolute Return	64,531	14.1
142,116	35.3	State Street Global Assets	Passive UK/Global Equities	109,991	24.1
21	0	Alliance Bernstein	Global Equities	0	0
0	0	Baillie Gifford	Pooled Global Equities	76,297	16.7
22	0	Other		48	0
402,319	**100.0**	**Total Fund**		**457,333**	**100**

The main investment objective is to maximise the overall return on the Pension Fund's investments from income and capital appreciation without high risk. Also, to maintain the ready marketability of the portfolio to meet the Fund's fluctuating cash requirements.

Performance

Havering Pension Fund uses the services of The WM Company to provide comparative statistics on the performance of this Fund. The performance of the Fund is measured against a tactical and a strategic benchmark. The tactical benchmark is a combination of all the individual benchmarks set for each manager. The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 2.9% (net of fees) p.a. The main factor in meeting the strategic benchmark is market performance.

In 2012/13, the overall return on the Fund's investments was 14.4% (2011/12 4.2%). This represented an over performance of 1.1% against the tactical benchmark (2011/12 underperformance of -0.6%) and an over performance of 2.9% against the strategic benchmark (2011/12 underperformance -16.9%).

The longer term performance is as follows:

	3 years to 31.3.13 %	5 years to 31.3.13 %
Fund return	**8.2**	**5.6**
Tactical Benchmark	8.8	7.1
Performance	**-0.5**	**-1.4**
Fund return	**8.2**	**5.6**
Strategic benchmark	15.3	12.0
Performance	**-6.1**	**-5.7**

A geometric method of calculation has been used in the above and consequently this does not sum

Pension Fund Account for the year ended 31st March 2013

2011/12 £'000		Note	2012/13 £'000
	Contributions and benefits		
30,286	Contributions	3	30,222
2,637	Transfers in from other pension funds	4	3,706
32,923			**33,928**
(31,215)	Benefits	5	(31,272)
(2,581)	Payments to and on account of leavers	6	(2,423)
(586)	Administration expenses	7	(632)
(34,382)			**(34,327)**
(1,459)	**Net additions / (withdrawals) from dealings with members**		**(399)**
	Returns on Investments		
(1,138)	Investment Management Expenses	8	(1,147)
8,360	Investment income	9	9,518
9,108	Profit and losses on disposal of investments and changes in the market value of investments	10	49,098
16,330	**Net returns on investments**		**57,469**
14,871	**Net Increase in the net assets available for benefits during the year**		**57,070**
388,634	Net assets of the Fund at start of year		403,505
403,505	**Net assets of the Fund at end of year**		**460,575**

Net Asset Statement as at 31 March

2012 £'000		Note	2013 £'000
406,792	Investment Assets	11	459,162
(4,473)	Investment Liabilities	11	(1,829)
1,695	Current Assets	12	3,709
(509)	Current Liabilities	13	(467)
403,505	**Net assets of the fund available to fund benefits at end of the year**		**460,575**

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. Basis of Preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

2. 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 4 and 6)

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 are 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) 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.

(g) Investment management expenses
All investment management expenses are accounted for on an accruals basis.

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

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

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

Net Assets Statement

(h) 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 closing bid price if both the bid and offer prices are published; or if single priced, at the closing single price.

(i) 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

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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 3)

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 funds 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

3. Contributions

	2012/13 £'000	2011/12 £'000
Employers		
Normal:		
Havering	11,053	11,322
Scheduled Bodies	3,519	3,421
Admitted Bodies	572	541
Deficit funding:		
Havering	8,647	6,994
Augmentation:		
Havering	204	1,083
Scheduled Bodies	19	63
Admitted Bodies	0	499
Employer Total	**24,014**	**23,923**
Members		
Normal:		
Havering	4,870	5,029
Scheduled bodies	1,094	1,060
Admitted bodies	161	150
Additional contributions:		
Havering	66	96
Scheduled bodies	16	27
Admitted bodies	1	1
Members Total	**6,208**	**6,363**
	30,222	**30,286**

Note: Some employees made additional voluntary contributions (AVC's) of £64,785 (£80,030 11/12) excluded from these statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2012/13 were £54,571 to the Prudential and £10,214 to Standard Life.

4. Transfers in from other pension funds

	2012/13 £'000	2011/12 £'000
Individual transfers in from other schemes	3,706	2,637

5. Benefits

	2012/13 £'000	2011/12 £'000
Pensions		
Havering	23,675	22,274
Scheduled Bodies	641	483
Admitted Bodies	384	278
Pension Total	**24,700**	**23,035**
Commutation & Lump Sum Retirements		
Havering	4,784	5,773
Scheduled Bodies	339	562
Admitted Bodies	178	868
Commutation Total	**5,301**	**7,203**
Lump sum death benefits		
Havering	1,093	610
Scheduled Bodies	102	270
Admitted Bodies	76	97
Death Benefits Total	**1,271**	**977**
	31,272	**31,215**

6. Payments To and On Account of leavers

	2012/13 £'000	2011/12 £'000
Refunds to members leaving service	1	2
Individual transfers to other schemes	2,422	2,579
	2,423	**2,581**

7. Administrative Expenses

	2012/13 £'000	2011/12 £'000
Administration & Processing	566	522
Actuarial Fees	30	9
Audit Fees	21	35
Other Fees & Expenses	15	20
	632	**586**

8. Investment management expenses

	2012/13 £'000	2011/12 £'000
Administration, management and custody	1,063	1,053
Performance measurement services	12	12
Other Advisory Fees	72	73
	1,147	**1,138**

9. Investment Income

	2012/13 £'000	2011/12 £'000
Equity dividend	3,362	3,700
Fixed Interest securities	**3,663	*4,137
Pooled property income	1,421	1,260
Foreign Exchange Profits/(Losses)	978	(791)
Interest on Cash & Deposits	12	54
Other income	82	0
Total Income	**9,518**	**8,360**

* Income includes Index linked Interest of £532k

** Income includes index Linked Interest of £404k

10 (a). Reconciliation of movements in investments & derivatives 2012/13

	Market Value at 31st March 2012 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Cash & Other Movements £'000	Market Value at 31st March 2013 £'000
Equities	104,209	92,538	(69,656)	11,644	(31,334)	107,401
Fixed interest Securities	70,854	75,981	(85,351)	5,491	(1,469)	65,506
Index-linked Securities	46,660	173,141	(172,307)	4,578	1,469	53,541
Pooled Investment Vehicles	175,456	7,787	(922)	28,284	12,391	222,996
Derivatives	516	-	-	(903)	-	(387)
Cash instruments	673	9,452	(9,070)	-	-	1,055
Cash deposits (fund managers)	3,231	-	-	-	2,488	5,719
	401,599	**358,899**	**(337,306)**	**49,094**	**(16,455)**	**455,831**
Other Investment Balances	720	-	-	4	778	1,502
	402,319	**358,899**	**(337,306)**	**49,098**	**(15,677)**	**457,333**

10 (b). Reconciliation of movements in investments & derivatives 2011/12

	Market Value at 31st March 2011 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Cash & Other Movements £'000	Market Value at 31st March 2012 £'000
Equities	96,138	38,337	(24,975)	(5,291)	-	104,209
Fixed interest Securities	76,134	103,666	(111,287)	5,201	(2,860)	70,854
Index-linked Securities	37,255	279,301	(281,406)	8,650	2,860	46,660
Pooled Investment Vehicles	165,765	12,325	(2,516)	(118)	-	175,456
Derivatives	(164)	-	-	680	-	516
Cash instruments	-	8,867	(8,194)	-	-	673
Cash deposits (fund managers)	2,655	-	-	-	576	3,231
	377,783	**442,496**	**(428,378)**	**9,122**	**576**	**401,599**
Short term investments	8,495	-	-	-	(8,495)	-
Other Investment Balances	2,243	-	-	(14)	(1,509)	720
	388,521	**442,496**	**(428,378)**	**9,108**	**(9,428)**	**402,319**

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 as supplied by the Fund's custodian amounted to £318,000 (2011/12 £201,591). 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.

11. Analysis of investments

	2012/13 £'000	2011/12 £'000
Investment Assets		
Equities		
UK Quoted	89,525	91,511
Overseas quoted	17,876	12,698
	107,401	**104,209**
Fixed Interest Securities		
UK Public sector	7,512	9,716
UK Private (corporate)	56,197	59,671
Overseas Public sector	1,797	1,467
	65,506	**70,854**
Index-Linked Securities		
UK Public sector	40,681	36,887
UK Private (corporate)	660	575
Overseas Public sector	12,200	9,198
	53,541	**46,660**
Derivative Contracts		
Forward FX Contracts	130	539
	130	**539**
Pooled Investment Vehicles		
UK Managed Funds		
UK Quoted	199,566	147,750
UK Unquoted	20	22
Overseas	620	1,111
Property	1,248	981
UK Unit Trust		
UK Property	21,542	25,592
	222,996	**175,456**
Cash Instruments		
UK	1,055	673
	1,055	**673**
Cash Deposits		
Managers	5,719	3,231
	5,719	**3,231**
Outstanding Sales	816	3,004
Investment Income	1,160	1,325
Outstanding dividend and recoverable withholding tax	836	841
Investment Income due	2	0
	2,814	**5,170**
Total Investment Assets	**459,162**	**406,792**

11. Analysis of investments (Cont'd)

	2012/13 £'000	2011/12 £'000
Investment Liabilities		
Derivative Contracts		
Forward FX Contracts	(517)	(23)
Outstanding purchases	(1,312)	(4,448)
Investment Income Due		(2)
Total Investment Liabilities	**(1,829)**	**(4,473)**
Total Net Investments	**457,333**	**402,319**

12. Current Assets

	2012/13 £'000	2011/12 £'000
Pension Grants	9	13
Contributions due from Employers	168	378
Contributions due from members	58	109
Cash deposit with LB Havering	3,474	1,195
Current Assets	**3,709**	**1,695**

Analysis of Debtors

	2012/13 £'000	2011/12 £'000
NHS bodies	9	13
Public corporation and trading funds	168	378
Other entities and individuals	58	109
LB Havering	3,474	1,195
Total	**3,709**	**1,695**

13. Current Liabilities

	2012/13 £'000	2011/12 £'000
Unpaid Benefits	(166)	(178)
Accrued Expenses	(301)	(331)
Current Liabilities	**(467)**	**(509)**

Analysis of Creditors

	2012/13 £'000	2011/12 £'000
Other entities and individuals	(467)	(509)
Total	**(467)**	**(509)**

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 2013 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	GBP	219	JPY	31,259	0	0
Up to one month	GBP	232	JPY	33,100	0	0
Up to one month	GBP	4.316	JPY	619,110	0	(21)
Up to one month	GBP	1,792	JPY	260,930	0	(36)
Up to one month	GBP	146	USD	221	1	0
Up to one month	GBP	3	USD	5	0	0
Up to one month	GBP	506	AUD	738	0	0
Up to one month	GBP	346	AUD	504	0	0
Up to one month	GBP	949	EUR	1,140	0	(15)
Up to one month	GBP	1,003	SEK	10,844	0	(95)
Up to one month	GBP	1,048	SEK	10,919	0	(57)
Up to one month	GBP	1,052	SEK	10,906	0	(52)
Up to one month	GBP	1,064	SEK	10,372	13	0
Up to one month	GBP	896	USD	1,460	0	(66)
Up to one month	GBP	469	USD	755	0	(29)
Up to one month	GBP	3	USD	5	0	0
Up to one month	GBP	1,056	USD	1,198	4	0
Up to one month	JPY	2,952	GBP	422,300	6	0
Up to one month	CAD	63	GBP	100	2	0
Up to one month	EUR	57	GBP	70	2	0
Up to one month	EUR	932	GBP	1,101	0	(1)
Up to one month	EUR	46	GBP	53	0	(1)
Up to one month	SEK	1,024	GBP	10,800	70	0
Up to one month	USD	486	GBP	752	9	0
Up to one month	USD	239	GBP	370	4	0
Up to one month	USD	3	GBP	5	0	0
Up to two months	GBP	5,593	USD	8,710	0	(144)
Up to three months	GBP	556	635	635	19	0
Gross Open forward currency contracts at 31 March 2013					**130**	**(517)**
Net Forward currency contracts at 31 March 2013						**(387)**
Prior year comparative						
Gross Open forward currency contracts at 31 March 2012					**539**	**(23)**
Net Forward currency contracts at 31 March 2012					**516**	

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

Market Value 31 March 2012	% of total fund	Security	Market Value 31 March 2013	% of total fund
£'000			£'000	
83,881	20.8	MPF All World Equity index	109,991	23.9
-	-	Baillie Gifford Global Alpha Pension Fund	76,297	16.6
25,592	6.3	UBS Global Asset Management	-	-
20,722	5.1	MPF North America Equity Index	-	-

14. 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 2012				31 March 2013		
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			
104,209	-	-	Equities	107,401	-	-
70,854	-	-	Fixed Interest Securities	65,506	-	-
46,660	-	-	Index linked securities	53,541	-	-
539	-	-	Derivative contracts	92	-	-
149,864	-	-	Pooled investment Vehicles	201,454	-	-
25,592	-	-	Property	21,542	-	-
	3,904	-	Cash	-	6,774	-
	-	-	Other investment balances	-	-	-
	6,865	-	Debtors	-	6,523	-
397,718	**10,769**	**-**	**Financial Assets Total**	**449,536**	**13,297**	**-**
			Financial Liabilities			
(23)	-	-	Derivative contracts	(479)	-	-
-	-	-	Other investment balances	-	-	-
-	-	(4,959)	Creditors	-	-	(1,779)
(23)	-	(4,959)	**Financial Liabilities Total**	(479)	-	(1,779)
397,695	**10,769**	**(4,959)**	**Grand total**	**449,057**	**13,297**	**(1,779)**

(b) Net gains and losses on financial instruments

	2012/13	2011/12
	£'000	£'000
Financial assets		
Fair value through fund account	49,098	9,122
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	-
Financial liabilities		
Fair value through fund account	-	-
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	(14)
Total	**49,098**	**9,108**

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

2011/12			2012/13	
Carrying Value	Fair Value		Carrying Value	Fair Value
£'000	£'000		£'000	£'000
		Financial assets		
397,718	397,718	Fair value through fund account	449,536	449,536
10,769	10,769	Loans & receivables	13,297	13,297
408,487	**408,487**	**Total financial assets**	**462,833**	**462,833**
		Financial liabilities		
(23)	(23)	Fair value through fund account	(479)	(479)
(4,959)	(4,959)	Financial liabilities at amortised cost	(1,779)	(1,779)
(4,982)	**(4,982)**	**Total financial liabilities**	**(2,258)**	**(2,258)**

The council 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.

Values at 31 March 2013	Quoted Market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through profit and loss	436,152	26	21,542	457,720
Loans and receivables	3,709	-	-	3,709
Total financial Assets	**439,861**	**26**	**21,542**	**461,429**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(387)	-	-	(387)
Financial liabilities at amortised cost	(467)	-	-	(467)
Total Financial Liabilities	**(854)**	**-**	**-**	**(854)**
Net Financial Assets	**439,007**	**26**	**21,542**	**460,575**

Values at 31 March 2012	Quoted Market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through fund account	376,705	22	25,592	402,319
Loans and receivables	1,695	-	-	1,695
Total financial Assets	**378,400**	**22**	**25,592**	**403,014**
Financial Liabilities				
Financial liabilities at fair value through fund account	-	-	-	-
Financial liabilities at amortised cost	(509)	-	-	(509)
Total Financial Liabilities	**(509)**	**-**	**-**	**(509)**
Net Financial Assets	**377,891**	**22**	**25,592**	**403,505**

15. 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 council 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 2013/14 reporting period:

Asset Type	31 March 2013 Potential market movements (+/-)	31 March 2012 Potential market movements (+/-)
UK Equities	18.30%	21.53%
Overseas Equities	0.00%	15.68%
Global Pooled inc UK	13.30%	0%
Fixed Interest Bonds	6.10%	7.03%
Index Linked bonds	9.90%	8.02%
Property	3.80%	4.05%
Cash	0.00%	0.02%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of assets.

If the market price of the fund 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 2013 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	89,525	18.30	105,908	73,142
Global Pooled inc.UK	219,330	13.30	248,501	190,159
Fixed Interest Bonds	65,506	6.10	69,502	61,510
Index linked bonds	53,541	9.90	58,842	48,240
Property	21,542	3.80	22,361	20,723
Cash	6,774	0.00	6,774	6,774
Total	**456,218**		**511,888**	**400,548**

Asset Type	Value as at 31 March 2012 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	239,900	21.53	291,551	188,249
Overseas Equities	14,173	15.68	16,395	11,950
Fixed Interest Bonds	70,854	7.03	75,835	65,873
Index linked bonds	46,660	8.02	50,402	42,917
Property	25,592	4.05	26,629	24,556
Cash	3,904	0.02	3,904	3,904
Total	**401,083**		**464,716**	**337,449**

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. £sterling.

The table below summarises the fund's currency exposure by asset type as at 31 March 2013 and 31 March 2012.

Currency Exposure by asset Type	Value as at 31 March 2013 £'000	Value as at 31 March 2012 £'000
Overseas Equities	17,876	14,172
Overseas Pooled	3,819	-
Overseas Fixed Interest bonds	1,797	1,467
Overseas Index Linked bonds	12,200	9,198
Overseas Cash	13	66
Total overseas assets	**35,705**	**24,903**

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 6.9% over a rolling 36 month period.

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

A 6.9% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset Type	Value as at 31 March 2013	Change to net assets available to pay benefits	
		+6.9%	-6.9%
	£'000	£'000	£'000
Overseas Equities	17,876	19,109	16,642
Overseas Pooled	3,819	4,082	3,555
Overseas Index Linked Bonds	12,200	13,042	11,358
Overseas Fixed interest Bonds	1,797	1,921	1,673
Overseas Cash	13	14	12
Total	**35,705**	**38,168**	**33,240**

Currency exposure - Asset Type	Value as at 31 March 2012	Change to net assets available to pay benefits	
		+6.9%	-6.9%
	£'000	£'000	£'000
Overseas Equities	14,172	15,150	13,194
Overseas Pooled	-	-	-
Overseas Fixed Interest Bonds	1,467	1,568	1,366
Overseas Index Linked Bonds	9,198	9,833	8,563
Overseas Cash	66	71	61
Total	**24,903**	**26,622**	**23,184**

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 2013 and 31 March 2012 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 2013 £'000	As at 31 March 2012 £'000
Fixed interest securities	119,047	117,514
Cash and cash equivalent	5,719	3,904
Cash Balances	1,055	1,195
Total	**125,821**	**122,613**

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 2013	Change in year in the net assets available to pay benefits	
		+100BPS	-100BPS
	£'000	£'000	£'000
Fixed Interest Securities	119,047	1,190	(1,190)
Cash and cash equivalent	5,719	57	(57)
Cash Balance	1,055	11	(11)
Total Change in asset value	**125,821**	**1,258**	**(1,258)**

(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.

16. Related Party Transactions

The Havering pension fund is administered by Havering Council. Consequently there is a strong relationship between the council and the pension fund.

There were no transactions with related parties other than those disclosed elsewhere within the accounts. During the year fees were paid to certain trustees for their services to the scheme. 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.

In 2012/13, £0.566m was paid to the Council for administration (£0.522m in 2011/12) and £19.700m (£19.398m in 2011/12) was paid by the Council to the Pension Fund in respect of employer's contributions.

Part of the pension fund 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 2013 cash holdings totalled £3.4m.

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.

17. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2013 totalled £186k (2011/12 £186K).This commitment relates to outstanding commitment due on an unquoted private equity fund.

18. Contingent Assets

Three admitted bodies in the Havering pension fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £5.1m and are drawn down in favour of the pension fund and payment will only be triggered in the event of employer default.

19. Impairment losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2012/13.

20. Actuarial Present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

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 21). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2013 was £895m (31 March 2012 £764m). The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2010 triennial funding valuation (see Note 21) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.
Assumptions used for the IAS 19 valuation are as follows:

	31 March 2013	31 March 2012
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.8	2.5
Salary Increase Rate	4.6	4.3*
Discount Rate	4.5	4.8

* Salary increases are assumed to be 1% until 31 March 2015 reverting to long term assumption shown thereafter.

21. Actuarial Valuation

London Borough of Havering ("the Fund")
Actuarial Statement for 2011/12
This statement has been prepared in accordance with Regulation 34(1) (d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of Funding Policy
The funding policy is set out in the London Borough of Havering Funding Strategy Statement (FSS), dated February 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering Authority considers it reasonable to do so;
- 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 50% chance that the Fund will return to full funding over 24 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 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £361 million, were sufficient to meet 61.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £228 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London borough of Havering, administrating authority to the fund.

The Fund recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 20 years.

Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are

described in the valuation report dated 30 March 2011.

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 2010 valuation were as follows:

	31 March 2010	
Assumptions	**Nominal**	**Real**
Discount Rate for Period	6.3%	3.0%
Pay increases *	4.8%	1.5%
Price inflation/Pension increases	3.3%	-

** Plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% for 10/11 11/12 and 12/13, 3.3% for 13/14 and 14/15 before reverting to 4.8% thereafter.*

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.6 years
Future Pensioners *	23.8 years	26.5 years

** Future pensioners are assumed to be age 45 currently*

Experience over the period since April 2010

The funding level is likely to have worsened since the latest formal funding valuation.

There have been significant falls in government bond yields and to market expectations for long term inflation. The drop in bond yields is greater than the decrease in inflation expectations. The result is a decrease to the discount rate net of inflation which places a higher value on the liabilities.

Although total investment returns since the latest formal valuation have been higher than the long term assumption made at the 2010 valuation, this would only partially offset the impact the lower net discount rate has on the deficit.

The next valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

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

	Future Service %	Past Service %	Total Pensionable Pay %
April 11 to March 12	15.6	6.4	22.0
April 12 to March 13	15.6	6.4	22.0
April 13 to March 14	15.6	6.4	22.0

The employer contributions for the other employers in the fund range from 14.7% to 25.3% of pensionable pay.

22. 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 IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

23. Events after the year end date

Local Government Pension Scheme

Changes to the Local Government Pension Scheme (LGPS) follow on from Lord Hutton's review of public sector pensions. The new Local Government Pension Scheme is expected to be implemented from the 1 April 2014. The main change of the new scheme involves a move from final salary to a pension based on average earnings over the career of the member. Under the new scheme existing benefits will be protected up to 31 March 2014. The pension fund liability, as disclosed in the Council's accounts, does not reflect the impact of the proposed scheme. The impact of the proposals are currently being evaluated but the precise impact on fund liabilities will not be known until a further valuation is carried out by the fund's actuary. This change is deemed to be a non-adjusting post year end event.

24. 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 2013 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 actuaries estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £89m.

Introduction to the Group Financial Statements

Basis of Consolidation

The Group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the London Borough of Havering and Homes in Havering. Homes in Havering were incorporated as a subsidiary using the acquisition method of accounting; the Council's investment in the company is incorporated into the Group Accounts by combining the results of the Council and Homes in Havering and net of any inter party transactions. Homes in Havering began its operations on 1st July 2006 and its results are consolidated within the group from that date.

The Group Accounts have been consolidated using the audited accounts of Homes in Havering as provided on 13h June 2013. .

Introduction

The Group Accounts incorporate the financial statements and disclosures required by statute. These Statements are as follows:

- Group Comprehensive Income and Expenditure Statement (CI & E).
- Reconciliation of single entity surplus or deficit for the year to the Group Surplus Deficit.
- Group Statement of Movement in Reserves.
- Group Balance Sheet.
- Group Cash Flow Statement.

The Group Accounts consolidate the results of Homes in Havering, a private company limited by guarantee whose sole member is the London Borough of Havering. The company was formed to provide a housing management service to the Council with effect from 1st July 2006.

An agreement to terminate the services of Homes in Havering with effect from 1st October 2013 was signed by both parties on 11th September 2013. The services of HiH have been re-integrated by the Council and the company is now in the process of being wound up.

Notes to the Group Accounts

Notes to the Group Accounts have not been produced. The impact of consolidating the results of Homes in Havering's results do not have a significant impact upon the financial data reported in the single entity accounts.

Group Comprehensive Income and Expenditure Statement 2012/2013

This statement shows the group 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 Group Movement in Reserves Statement.

	Note	1st April 2012 – 31st March 2013			1st April 2011 – 31st March 2012		
		£000s Gross Expenditure	£000s Gross Income	£000s Net	£000s Gross Expenditure	£000s Gross Income	£000s Net
Gross expenditure, gross income and net expenditure of continuing operations							
Central Services to the Public		10,888	(4,450)	6,438	13,292	(4,014)	9,278
Cultural and Related Services		15,448	(2,002)	13,446	15,717	(2,185)	13,532
Environment and Regulatory services		19,919	(6,708)	13,211	19,863	(6,997)	12,866
Planning Services		7,823	(3,627)	4,196	15,941	(2,875)	13,066
Children's and Education Services		205,802	(149,847)	55,955	239,641	(167,401)	72,240
Highways, Roads and Transport Services		27,019	(5,554)	21,465	25,504	(5,893)	19,611
Other Housing Services		118,017	(117,501)	516	113,275	(111,187)	2,088
Council Housing (HRA)		66,062	(65,454)	608	83,814	(56,618)	27,196
Exceptional item - HRA Self-Determination		-	-	-	165,248	-	165,248
Adult Social Care Services		79,759	(12,855)	66,904	81,331	(13,324)	68,007
Corporate and Democratic Core		5,461	(270)	5,191	6,706	(97)	6,609
Non Distributed Costs		1,437	(1,592)	(155)	1,946	(6,744)	(4,798)
Cost Of Services		**557,635**	**(369,860)**	**187,775**	**782,278**	**(377,335)**	**404,943**
Other Operating Expenditure				40,844			25,459
Financing and Investment Income and Expenditure				18,737			10,868
Taxation and Non-Specific Grant Income				(218,731)			(231,551)
Group (Surplus) or Deficit on Provision of Services				**28,625**			**209,719**
Surplus or deficit on revaluation of property, plant and equipment assets				(18,905)			(24,261)
Surplus or deficit on revaluation of available for sale financial assets				-			-
Actuarial gains / losses on pension assets / liabilities	23d			41,673			53,514
Other Comprehensive Income and Expenditure				**22,768**			**29,253**
Group Comprehensive Income and Expenditure				**51,393**			**238,972**

Reconciliation of Single Entity Surplus or Deficit for the Year to Group Surplus or Deficit

2011/12 £'000		2012/13 £'000
210,057	(Surplus) / deficit on the provision of services in the Council's single entity Comprehensive Income and Expenditure Statement for the Year	28,027
(338)	Add: (Surplus) or deficit arising from Subsidiaries	598
209,719	**Group Account (Surplus) or Deficit in the year**	**28,625**

Group Movement in Reserves Statement 2012/13

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

	General Fund Balance £000	General Balances £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Grants Unapplied Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000	Council Share of Other Group Reserves £000	Total Group Reserves £000
Balance at 1st April 2011	**23,302**	**929**	**37,765**	**4,193**	**-**	**1,980**	**139**	**68,308**	**562,181**	**630,489**	**736**	**631,225**
Movement in reserves during 2011/12												
Surplus or (deficit) on provision of services	(18,857)	-	-	(191,199)	-	-	-	(210,056)	-	(210,056)	338	(209,718)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(28,731)	(28,731)	(523)	(29,254)
Total Comprehensive Expenditure and Income	**(18,857)**	**-**	**-**	**(191,199)**	**-**	**-**	**-**	**(210,056)**	**(28,731)**	**(238,787)**	**(185)**	**(238,972)**
Adjustments between accounting basis and funding basis under regulations	29,446	-	-	195,476	-	(543)	5,778	230,157	(230,157)	-	-	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**10,589**	**-**	**-**	**4,277**	**-**	**(543)**	**5,778**	**20,101**	**(258,888)**	**(238,787)**	**(185)**	**(238,972)**
Transfers to/from Earmarked Reserves	(10,015)	886	924	(2,647)	10,852	-	-	-	-	-	-	-
Increase/Decrease in Year	**574**	**886**	**924**	**1,630**	**10,852**	**(543)**	**5,778**	**20,101**	**(258,888)**	**(238,787)**	**(185)**	**(238,972)**
Balance at 31st March 2012	**23,876**	**1,815**	**38,689**	**5,823**	**10,852**	**1,437**	**5,917**	**88,409**	**303,293**	**391,702**	**551**	**392,253**
Movement in reserves during 2012/13												
Surplus or (deficit) on provision of services	(24,843)	-	-	(3,184)	-	-	-	(28,027)	-	(28,027)	(598)	(28,625)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(22,815)	(22,815)	47	(22,768)
Total Comprehensive Expenditure and Income	**(24,843)**	-	-	**(3,184)**	-	-	-	**(28,027)**	**(22,815)**	**(50,842)**	**(551)**	**(51,393)**
Adjustments between accounting basis and funding basis under regulations	27,204	-	-	15,659	9,689	19,452	289	72,293	(72,293)	-	-	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**2,361**	-	-	**12,475**	**9,689**	**19,452**	**289**	**44,266**	**(95,108)**	**(50,842)**	**(551)**	**(51,393)**
Transfers to/from Earmarked Reserves	(2,839)	913	10,001	(8,075)	-	-	-	-	-	-	-	-
Increase/Decrease (movement) in Year	**(478)**	**913**	**10,001**	**4,400**	**9,689**	**19,452**	**289**	**44,266**	**(95,108)**	**(50,842)**	**(551)**	**(51,393)**
Balance at 31st March 2013	**23,398**	**2,728**	**48,690**	**10,223**	**20,541**	**20,889**	**6,206**	**132,675**	**208,185**	**340,860**	**-**	**340,860**

Group Balance Sheet as at 31st March 2013

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council 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 Council 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 Group Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'

	31st March 2013 £000s	31st March 2012 £000s
Property, Plant and Equipment	787,508	816,440
Investment Property	33,728	61,097
Intangible Assets	4,823	5,972
Long Term Debtors	1,433	1,592
Long Term Assets	**827,492**	**885,101**
Short Term Investments	100,403	55,903
Inventories	344	309
Assets Held For Sale (<1Yr)	11,990	-
Short Term Debtors	44,395	37,924
Cash and Cash Equivalents	24,815	26,279
Current Assets	**181,947**	**120,415**
Bank Overdraft	(1,256)	(1,744)
Short Term Borrowing	(12,916)	(4,364)
Short Term Creditors	(43,822)	(43,528)
Liabilities in disposal groups	-	-
Current tax liability (groups)	-	-
Current Liabilities	**(57,994)**	**(49,636)**
Provisions	(6,462)	(6,237)
Long Term Borrowing	(211,013)	(211,253)
Other Long Term Liabilities	(385,484)	(335,350)
Capital Grants Receipts in Advance	(7,625)	(10,787)
Long Term Liabilities	**(610,584)**	**(563,627)**
Net Assets	**340,861**	**392,253**
Usable reserves	132,676	88,960
Unusable Reserves	208,185	303,293
Total Reserves	**340,861**	**392,253**

Group Cash Flow Statement as at 31st March 2013

The Group Cash Flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council 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 Council are funded by way of taxation and grant income or from the recipients of services of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2011/12 £000s		2012/13 £000s
209,719	Net deficit on the provision of services	28,625
(268,728)	Adjust net surplus or deficit on the provision of services for non-cash movements	(125,887)
45,916	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	73,965
(13,093)	Net cash flows from Operating Activities	(23,297)
-	Taxation	-
165,718	Investing Activities	32,710
(153,935)	Financing Activities	(8,437)
(1,310)	Net (increase) or decrease in cash and cash equivalents	976
(23,225)	Cash and cash equivalents at the beginning of the reporting period	(24,535)
(24,535)	**Cash and cash equivalents at the end of the reporting period**	**(23,559)**

Group Notes and Accounting Policies

Homes in Havering are a private company limited by guarantee under the Companies Act 2006. As such it has no share capital. The company's sole member is the London Borough of Havering. The Council is required to prepare Group Accounts where it has interests in subsidiaries, associates and joint ventures. It has determined that the interest held in Homes in Havering is such that it requires Group Accounts to be prepared.

The financial statements in the group accounts are prepared in accordance with the policies set out in the statement of accounting polices of the London Borough of Havering with the exception of the following:

1. Property Plant and Equipment

Expenditure on the acquisition, creation or enhancement of Property Plant and Equipment (PPE) is capitalised on an accruals basis in the accounts. Expenditure on PPE is capitalised, provided that the fixed asset yields benefits to the Council and the service it provides, for a period of more than one year. Expenditure on routine repairs and maintenance of fixed assets is charged direct to service revenue accounts.

The London Borough of Havering has the following de-minimis rules 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-minimus limits for the following categories: land acquisition, vehicles and plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled and intangible assets and deferred charges.

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

Homes in Havering operate a de minimis level of £500 for the capitalisation of fixed assets. Their assets are consolidated into the group accounts on that basis. The value of HiH assets stood at £37,000 as at 31st March 2012. The impact of this policy on the disclosures included in the Group Financial Statements is not considered to have a material impact on the valuation of assets as disclosed in the Group Balance Sheet.

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 Council on the Fund's financial position and recommended employers' contribution rates.

Agency Arrangement An arrangement whereby a Council (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.

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

Budget A forecast of future expenditure plans for the Council. 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 a Council's capital borrowing need under the Prudential Code and the Local Government Act 2003: it is made up of the total value of the Council'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.

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

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

Comprehensive Income and Expenditure Account A statement showing the income and expenditure for the year of all the functions for which the Council 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 Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

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

Revenue Expenditure Funded from Capital Under Statute (formerly known as Deferred Charges) 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.

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

Financial Asset A right to future economic benefits controlled by the Council 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 Council.

Financial Liability An obligation to transfer economic benefits controlled by the Council 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 Council.

Fixed Assets Assets that yield benefit to the Council 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 Council'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 Council 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 Council in accordance with statutory guidance or loans fund principal charges). The charge has been determined as 4% of the Capital Financing Requirement.

National Non-Domestic Rates Pool (NNDR Pool) Non-Domestic Rates are paid into a central pool controlled by Central Government. This money is then redistributed to Local Authorities on a formula basis.

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 Council but not directly occupied, used or consumed in the delivery of its services. Examples include investment and surplus properties.

Operational Assets Fixed assets held, occupied, used or consumed by the Council in the direct delivery of its services.

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.

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, Finance and Commerce.

Precept The charge made by one Council (e.g. Greater London Authority) on another Council (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 Councils 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 Council, e.g. pay, goods and services and depreciation.

Revenue Support Grant The main grant paid by the Government to Local Authorities.

Statement of Movements in Reserves
This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council'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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London Borough of Havering 2012/13

Report to those charged with governance

Report to the Audit Committee on the audit for the year ended 31 March 2013 *(ISA (UK&I)) 260)*

Government and Public Sector

September 2013

Contents

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.

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. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

A list of these reports is included at Appendix 1 to this report.

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Executive summary

Background

This report tells you about the significant findings from our audit. We presented our plan to you in February 2013; we have reviewed the plan and concluded that it remains appropriate.

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 in September 2013.
- The key outstanding matters, where our work has commenced but is not yet finalised, are:
    - Certification work on the Housing and Council Tax Benefits grant claim is subject to completion;
    - The review of our certification grant claim work on business rates;
    - Review of the final draft of the Statement of Accounts;
    - Approval of the Statement of Accounts and letters of representation;
    - Completion procedures including subsequent events review;
    - Audit procedures on the Whole of government accounts return.

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

We look forward to discussing our report with you on 26 September 2013. Attending the meeting from PwC will be Ciaran T McLaughlin, Chris Hughes and Amit Patel.

Acknowledgements

We would like to thank Mike Stringer, Mike Board, Nigel Foster, Alison Umoh and their team for the considerable help and assistance provided to us during the course of our audit.

We note that the first draft of the accounts provided to us at the commencement of the audit was of a good quality.

We worked with management to deliver the audit in a shorter timescale than in the previous year and we were able to complete our audit work in accordance with the timetable we agreed with management.

We have explained the key elements that make up the PwC audit.

Audit approach

Smart People

We continue to deploy quality on your audit, supported by a substantial investment in training and in our industry programme.

It is our intention that, wherever possible, the same senior staff work on the London Borough of Havering audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We have held periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Smart Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2013 the work included:

- Testing manual journals through data analytics, so we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk.

We will also continue to explore ways to extend our use of smart technology and data into other areas where we see an opportunity to add value, as well as for quality and efficiency.

Centre of Excellence

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Delivery centres

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the Statement of Accounts.

Smart Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities. Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key local government audit cycles.

In our plan presented to you in February 2013, we detailed our risk assessment. This allowed us to determine where our audit effort would be focused. We have documented our approach and findings to the risks noted.

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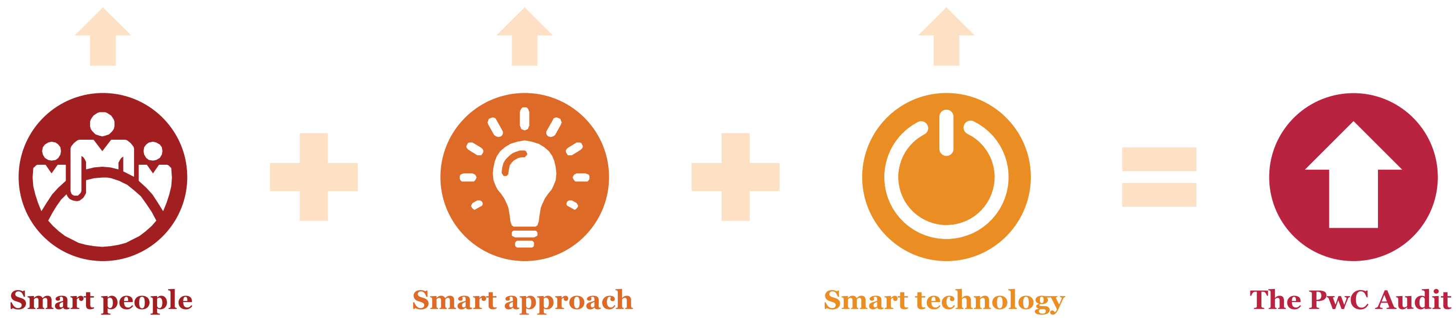


We have summarised below the significant risks we identified in our audit plan and the audit approach we took to address them.

Risk	Categorisation	Audit approach
Risk of Mangement override of controls	Significant	During the audit we focused on areas where management could override the control environment to materially misstate the financial statements. We: • tested the appropriateness of journal entries by testing a sample based upon our risk assessment criteria; • evaluated the business rationale underlying significant transactions; • evaluated significant management judgements and estimations and considered if they are reasonable, objective and not subject to bias; • We also took comfort from the work carried out in response to the risks of material misstatement in revenue and expenditure recognition; and • performed 'unpredictable' procedures in our audit testing which vary year to year. We did not identify any issues to report to you as a result of our work.

Risk	Categorisation	Audit approach
Recognition of income and expenditure	Significant	We obtained an understanding of key revenue and expenditure controls and performed the following: • evaluated and tested the accounting policy for income and expenditure recognition to ensure that it is consistent with the requirements of the Code of Practice on Local Authority Accounting for 2012/13 (“the Code”); • tested revenue and expenditure transactions focussing on the areas of greatest risk; • reviewed significant accounting estimates and judgements for indicators of management bias; • tested a sample of journal entries based on our risk assessment criteria; • Carried out cut off testing on expenditure and income at year end to ensure that the sampled income and expenditure had been recorded in the correct financial year; • tested expenditure invoices to ensure they had been correctly classified in the accounts as either revenue or capital expenditure; • tested grant income receipts to verify that they occurred and have been recorded in the correct period; and • performed testing for unrecorded liabilities post year end for expenditure that should have been accrued in 2012/13. We did not identify any issues to report to you as a result of our work.

Risk	Categorisation	Audit approach
Government and non-government grants	Elevated	We performed detailed testing of a sample of government and non-government grants to consider the Council's assessment as to whether the grants have conditions or restrictions in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. We did not identify any issues with the accounting treatment within the financial statements.
Saving plans	Elevated	We considered: • the systems and processes the Council has put in place to manage effectively its financial risks and opportunities, and to secure a stable financial position; • the Authority's budget monitoring process to identify any areas of concern; • your arrangements to review the value for money which your services provide; • the adequacy of your planned level of reserves and contingencies against your stated policy and the level of future risk in delivering the Medium Term Financial Strategy; and • the impact of the Local Government Finance Settlement (LGFS) on the Council's budget and future service provision. Our work is subject to completion however we do not anticipate bringing any matters to your attention.

We have set out the matters that remain to be resolved before our audit can be completed; a verbal update will be provided to the Committee on the 26 September 2013

In addition, we have detailed matters relating to the audit of the Statement of Accounts that we wish to draw to your attention.

Significant audit and accounting matters

Accounts

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

- Certification work on the Housing and Council Tax Benefits grant claim is subject to completion;
- The review of our certification grant claim work on business rates;
- Review of the final draft of the Statement of Accounts;
- Approval of the Statement of Accounts and letters of representation;
- Completion procedures including subsequent events review; and
- Audit procedures on the Whole of government accounts return.

Subject to the satisfactory resolution of these matters, we expect to issue an unqualified audit opinion.

Accounting matters

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 two matters during the course of our work that we wish to draw to your attention.

1. treatment for construction and transfer of academies
2. accounting standards issued but not yet adopted

We identified two matters during the course of our work that we wish to draw to your attention

We have identified one uncorrected misstatement during the audit which we bring to your attention

1. Treatment for construction and transfer of academies

The Authority entered into an agreement in 2011 with Drapers Academy Schools to build an Academy in the Borough. The Drapers Academy was recorded in the balance sheet at 31 March 2012 as an asset under construction with a value of approximately £5.1m. There has been further capital expenditure of £5m during 2012/13.

The school has been funded through a grant received from the Department of Education with 3% of the project costs being met by the Authority, including costs associated with freeing up the Academy site. The school was opened in October 2012, and from that date Authority has leased the land and building to the Academy for a peppercorn rent for a period of 125 years.

The asset has been removed from the Authority's Balance Sheet as at 31 March 2013 and a loss on disposal for £10.1m has been recorded within Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. An adjustment is made through the Capital Adjustment Account so there is no impact on the General Fund.

The treatment of Academy Schools is subject to ongoing consideration by CIPFA/LASAAC. We have considered an alternative approach to that adopted by the Authority, which would be to treat the expenditure incurred to build the Academy as revenue expenditure funded by Capital Expenditure Funded Under Statute (REFCUS).

REFCUS would be recognised within the Comprehensive Income and Expenditure Statement in the period in which it is incurred. A transfer is then made from the Capital Adjustment Account so there is no impact on the balance of the General Fund.

We are not minded to challenge the accounting treatment adopted by the authority given that the difference in approach is not material to the financial statements.

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.

We identified two uncorrected misstatements which have been explained in Appendix 1 of this report.

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 draw your attention to significant judgements and accounting estimates used in the preparation of the financial statements

Judgments and accounting estimates

The following significant judgments or accounting estimates were used in the preparation of the Statement of Accounts.

Valuation of property, plant and equipment and investment properties

In line with its accounting policy the Authority re-values Council Dwellings and Investment Properties on an annual basis. All other asset classes are re-valued on a five year rolling basis. Impairment losses of £6.6 million were charged to the Comprehensive Income and Expenditure Statement during the year in relation to these assets.

The Authority has utilised the expertise of external valuers in evaluating the valuation of the Authority's property, plant and equipment and investment properties.

Our internal valuation experts have reviewed the assumptions and methodologies used by the external valuer.

We draw your attention to the following in relation to the assumptions:

1. Useful Economic Lives (UEL) – some of the assumptions on the remaining lives were considered to be simplistic and should reflect the specific characteristics of the property.

2. Apportioning land values –the external valuer has used an approach of apportioning land values as a percentage of building costs in their valuation. However, PwC valuers would adopt an approach that derived the land values by using a land value per acre based on market comparables.

These matters regarding the assumptions have been reviewed and considered by Management including the Council's Internal Property team who are comfortable that the assumptions and methodology adopted by WH&E do not materially misstate the financial statements.

We have considered the approach adopted by WH&E and the Authority and, in the context of the truth and fairness of the accounts as a whole, are not minded to challeng. However, we recommend that management, WH&E, and our internal valuers discuss the approach to be adopted for the 2013/14 valuations.

Management have also carried out an impairment review during the year, for assets that were not re-valued in 2012/13 and are comfortable that the values of these land and buildings assets are not materially misstated in the financial statements.

Pensions liability

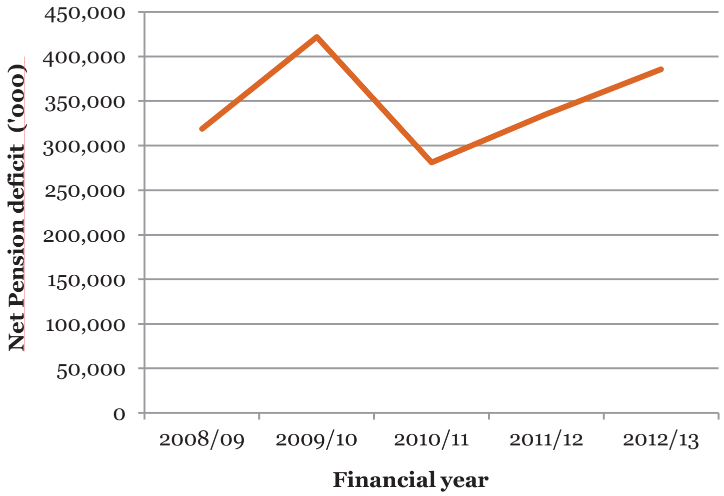
The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the London Borough of Havering pension fund.

London Borough of Havering Pension Fund's net assets increased by £57.1m in 2012/13 and now stand at £460.6m compared to £403.5m as at 31 March 2012. Your net pension deficit (liability) at 31 March 2013 was £385.4 million (2012 - £335.3 million).

The 2013 triennial valuation is yet to be concluded and will be reflected in the 2013/14 Statement of Accounts. The deficit for the Local Government Pension Scheme as a whole nationally is expected to have increased from £38bn to £80bn since 2010.

The chart shows the significant movement in your net pension deficit over the last five years.

Council Pension deficit between 2008/09 and 2012/13[1]



We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range.
We validated the data supplied to the actuary on which to base their calculations.

Changes to IAS 19: Employee Benefits

From 2013/14 there will be changes to the accounting for defined benefit schemes and termination benefits. For defined benefit schemes the net finance cost will be used.

The net scheme liabilities/assets will be unwound using the discount rate for the pension liability and the costs of administering the scheme will be recognised directly in expenses.

The definition of termination benefits has changed and does not now include liabilities where there is a future service element. They do not include any 'voluntary' element.

The impact of the proposals are currently being evaluated by the Council's actuary Hymans and Robertson LLP, but the precise impact on the fund liabilities will not be known until a further valuation is carried out by Hymans.

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[1] The Government announced in June 2010 a change to the measure that it uses for cost of living increases to public sector pensions. This means that cost of living increases to pensions in payment and to deferred pensions under the LGPS would be linked to the rise in the Consumer Prices Index (CPI), rather than to the rise in the Retail Prices Index (RPI). The change took effect from April 2011.

We have ask management to review and sign the representation letter in Appendix 3 of the report

We have draw to your attention services provided to the Council in addition to the audit during 2012/13

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 3.

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.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers’ teams whose work we intend to use when forming our opinion on the truth and fairness of the Statement of Accounts.

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 a partner review, including all significant judgements taken, 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 provided advisory services to the Council, relating to Investment in Local Infrastructure Assets during 2012/13. The PwC Report was considered by the Pension Fund Committee on the 30 April 2013. The fee for the piece of work was £25,000. As part of our consideration of accepting this piece of work, we considered if there were any threats to our independence as auditors of the Authority. We identified the following threats (and safeguards) to our independence:

Management – the threat that PwC might make management decisions. The safeguard in place was that the Authority has designated a competent employee within senior management to be responsible for evaluating the results of PwC’s work and making management decisions. PwC has not made any management decisions as a result of this work.

Self-review – the threat is that information prepared by PwC or a judgement made by PwC has to be re-evaluated in the course of PwC’s audit. The safeguard in place is that no member of the PwC audit team was involved in this engagement.

Advocacy – the threat is that PwC promotes an audit client’s position or opinion to the point that subsequent objectivity may be compromised. The safeguard in place was that PwC did not advocate a position taken by the Authority to a regulatory body, potential investors or lenders.

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We have reviewed the Annual Governance Statement; there are no matters that we wish to draw to your attention

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2013 is included on page 14. 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 auditors 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 Auditing Practices Board (APB) Ethical Standard 3, it will subsequently approve auditors 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 Cabinet, 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 would 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. There are no matters that we wish to draw to your attention in this regard.

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. We anticipate issuing an unqualified value for money Opinion.

In accordance with ISA (UK&I) 265 we are required to communicate deficiencies in internal control to those charged with governance.

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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.

We report internal control issues separately to the Audit Committee / and action plans have been agreed with officers.

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 significant internal control deficiencies

Deficiency	Issue	Recommendation	Management's response
Payroll reconciliation	The payroll reconciliation was not completed for the year end on a timely basis. We understand from payroll team that payroll reconciliations have been produced throughout the year, but with issues needing to be resolved. PwC worked together with the payroll team to determine the right payroll report needed for the purpose of reconciling the payroll system to the General Ledger. We received the payroll reconciliation after five weeks from the start of the audit. The remains a small difference on the payroll reconciliation which should be reconciled jointly by the payroll and finance teams.	We would recommend the payroll reconciliation is performed on a monthly basis. The difference found on the year end 2012/13 reconciliation should be reconciled jointly by the payroll and finance teams.	ISS Management have discussed with PwC the format of reconciliations and agreed a revised format to be put in place for 2013/14. Separate monthly reconciliations will be in place during this year (2013/14) in the agreed format. The automation of the payroll reconciliation report is still in development therefore ISS is still reliant on Business Systems resources to produce adhoc reports.

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the Statement of Accounts taken as a whole are free from material misstatement, whether caused by fraud or error.

Risk of fraud

We discussed with you your understanding of the risk of fraud and corruption and any reported instances when presenting our plan.

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 – see Appendix 3.

We have provided a fees update against the plan we presented in February 2013.

We also draw your attention to services we have provided the Council with in addition to the audit during 2012/13

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Fees update

We reported our fee proposals in our plan.

Our actual fees were in line with our proposals, subject to completion of the outstanding areas highlighted in this report.

	2012/13 outturn	2012/13 fee proposal
Financial statements, local value for money conclusion and Whole of Government Accounts	201,359	199,859
Pension Fund	21,000	21,000
Certification for claims and returns*	34,000	34,000
TOTAL	256,359	254,859

*Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance in January 2014 within the Grants Report to Management in relation to 2012/13 grants.

We reported in the Audit Plan, the fee is an estimate based a number of assumptions, the audit team has performed additional work to be comfortable over the completeness and accuracy of the payroll reconciliation produced by the Council. The additional cost for this is £1,500 which has been included in the table above (£201,359 is made up of £199,859 plus £1,500).

PwC also provided advisory work on Investment in Local Infrastructure Assets, during 2012/13 which was considered by the Pension Fund Committee on 30 April 2013. The fee for this work was £25,000 and is not included in the above table.

Appendices

Appendix 1: Summary of uncorrected misstatements

We found the following errors during the audit that has not been adjusted by management. You are requested to consider these formally and determine whether you would wish the accounts to be amended. If the misstatement is not adjusted we will need a written representation from you explaining your reasons for not making the adjustment.

The uncorrected misstatements are not material to the financial statements.

No	Description		Income statement		Balance sheet	
		Type of Error	Dr	Cr	Dr	Cr
1	The Council have incorrectly not accrued for their statutory share of the Collection Fund deficit within the CI&ES as at 31 March 2013. The overall impact on the Council's reserves is neutral as an equal adjustment is made through the Collection Fund Adjustment Account. **Dr Council Tax Income** to reflect the Council's share of the deficit on the CI&ES **Cr Accounts Payables** to reflect the deficit as an outstanding amount payable as at 31 March 2013	Factual	£358,00			£358,000
2	The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 has introduced a number of changes to accounting policies which will be required from 1 April 2013. The most significant standard being, *"amendments to IAS 19 Employee Benefits (June*	Disclosure	As this is a disclosure issue, there is no impact on the Income statement or the balance sheet.			

2011)".

The Authority has not disclosed the financial impact of this standard in accordance with the Code paragraph 3.3.4.3, which states, *"An authority shall disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted".*

Total uncorrected misstatements	**£358,000**	**£358,000**

Appendix 2: Audit reports issued in 2012/13

We have issued, or will issue, the following audit reports in relation to the 2012/13 audit of London Borough of Havering and London Borough of Havering Pension Fund:

- London Borough of Havering 2012/13 Audit Plan;
- London Borough of Havering Pension Fund 2012/13 Audit Plan;
- London Borough of Havering ISA 260 Report to those charged with Governance;
- London Borough of Havering Pension Fund ISA 260 Report to those charged with Governance;
- Certification Report to Management in relation to 2012/13 claims and returns.

Appendix 3: Letter of representation

Dear Sirs

Representation letter – audit of the London Borough of Havering's (the Authority) Statement of Accounts for the year ended 31 March 2013

The Authority is responsible for preparing consolidated statement of accounts in respect of itself and its subsidiary undertakings (together "the group").

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority and the group give a true and fair view of the state of affairs of the Authority and group as at 31 March 2013 and of its deficit and cash flows of the group 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 2012/13 supported by the Service Reporting Code of Practice 2012/13.

Subsequent references in this letter to "the Statement of Accounts" refer to both the statement of accounts of the authority and the consolidated statement of accounts of the group.

I acknowledge my responsibilities as Chief Financial Officer 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 and the Group 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 2012/13 supported by the Service Reporting Code of Practice 2012/13; in particular the Statement of Accounts gives 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 and group 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 2012/13 requires adjustment or disclosure have been adjusted or disclosed.

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 and group'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 and group'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 Group 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 and Group'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 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 and the group conducts its business and which are central to the authority's and the group'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 we have disclosed to you the identity of the Authority and group's related parties and all the related party relationships and transactions of which we are aware.

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 2012/13.

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.

Employee Benefits

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

Contractual arrangements/agreements

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

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 2012/13.

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 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.

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2013, 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 2013 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.

Using the work of experts

I agree with the findings of Wilks, Head & Eve LLP ("WH&E") and the Council's own property experts, in evaluating the valuation of the Authority's property, plant and equipment and investment properties and 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.

I agree the assumptions used by WH&E and the Council's own property expert are appropriate, in particular;

- the useful economic lives accurately reflect the remaining lives of the assets
- I consider it appropriate to not deduct purchaser costs from the gross capital value in their Existing Use Value or Market Value valuation
- the valuations have assumed that the existing property is able to deliver the same level of service provision
- I consider it appropriate to apportioning land values using a percentage of building costs

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.

Assets and liabilities

- The Authority and the group 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 and the group 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.
- The Authority and the group confirms its intentions to dispose of assets disclosed as assets held for sale within the next twelve months.
- The Authority and the group has satisfactory title to all assets and there are no liens or encumbrances on the Authority's and the group'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.

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.

Retirement benefits

- All significant retirement benefits that the Authority and Group 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.

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 and Group 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 and Grouo 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 and the Group on behalf of an affiliate, member, officer or any other third party.

Items specific to Local Government

- I confirm that the Authority and the Group do not have plans to implement any redundancy/early retirement programmes other than those disclosed in note 22 to the Statement of Accounts 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 Single Status provisions on the General Fund balance
- I confirm that the Authority has determined a proper application of the statutory provisions for the deferral of the impact of impairment losses in relation to investments held in Icelandic Banks on the General Fund balance.
- I confirm that the Authority and group has determined a proper application of the statutory provisions for the treatment of leases that have changed status on transition to IFRS.

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.

As minuted by the Audit Committee at its meeting on 26 September 2013.

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Group Director - Resources

Date

For and on behalf of the London Borough of Havering pwc

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Appendix 1

Response to the Report to those Charged with Governance (ISA260)

We are pleased to note that the PwC expect to issue an unqualified opinion on the accounts and that their work should be concluded by the statutory deadline of 30th September.

We note the comments set out in the ISA260 report and are generally in agreement with the conclusions. In response we have set out our comments below in order to give further clarity to issues raised or to set out our proposed course of action.

ISA 260 Reference	response
Page 7. Treatment for construction and transfer of academies	The IFRS code of practice offers no definitive guidance on the accounting treatment required in respect of the construction and transfer of academies. This has led to the development of a number of potentially acceptable accounting treatments being adopted or proposed by practitioners. However, the accounting treatment adopted by Havering is consistent with that of a number of other Local Authorities. We would also point out that the adoption of the alternative accounting treatment set out by PWC would have had no impact on the Council's closing Balance Sheet or on the level of reserves.
Page 8. Valuation of property, plant and equipment and investment properties	We note that the auditors have not challenged the accounting disclosures but have recommended that we review the valuation arrangements for 2013/14. We will arrange a meeting with our internal and external valuers in order to clarify these arrangements for 2013/14. We will discuss the outcome with PwC prior the commencement of the external valuation.
Page 12. Payroll Reconciliation	ISS Management have discussed with PWC the format of reconciliations and agreed a revised format to be put in place for 2013/14. Separate monthly reconciliations will be in place during this year (2013/14) in the agreed format. The automation of the payroll reconciliation report is still in development and therefore ISS are still reliant on Business Systems resources to produce adhoc reports.
Page 16. Collection Fund	During the course of the audit an error has been identified in the Collection Fund transfer to the CI&ES. We agree that the overall impact on the accounts is neutral as the adjustment would be reversed out through the Collection Fund Adjustment Account. As a consequence no alteration has been made to the accounts in 2012/13.
Page 16 Disclosure of the impact of changes to IAS19 with effect from 1st April 2013.	Changes in the accounting disclosures relating to pension costs will be adopted for 2013/14. The Council cannot quantify these changes without commissioning further work from our external actuary. However, this will be undertaken as part of the IAS19 valuation required for 2013/14. However, the changes to the code are not expected to impact upon the council's useable reserves or its Council Tax requirement.