Public Document Pack

AUDIT COMMITTEE SUPPLEMENTARY AGENDA

22 September 2011

Supplementary Information to reports

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

5 **ANNUAL STATEMENT OF ACCOUNTS 2010/2011** (Pages 1 - 124)

Report attached.

6 **REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260** (Pages 125 - 146)

Report attached.

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

Report attached.

Ian Buckmaster
Committee Administration and Member Support Manager

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London Borough of Havering

Statement of Accounts

For the Financial Year

2010/11

Contents

Explanatory Foreword

1. Introduction from the Responsible Financial Officer

I am pleased to introduce the Council's Statement of Accounts for 2010/11. Havering 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 & E)
- 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, 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.

2. IFRS 2011

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the *Best Value Accounting Code of Practice 2010/11*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government 2003 Act.

The Code sets out the proper accounting practices required by statute to be followed in preparing the statement of accounts. The principal changes which have been made to Havering's accounts since 2009/2010 can be summarised as follows:

- Accruals have been raised for short term accumulating absences (e.g. unpaid leave)
- A number of operating leases have been reclassified as finance leases.
- Revaluation gains in asset values have been credited to the C I & E Account where they match a previous impairment loss.
- The net assets/liabilities of Foundation and Voluntary Aided schools have been removed from the Council's Balance sheet. The related revenue transactions of schools have also been removed from the C I & E and have been replaced with the Council's funding obligations.

Statutory provisions have been passed which mitigate the impact of these changes for Local Authorities and as such the impact upon the level of Council Tax to be raised is neutral.

Prior year adjustment has been made in respect of each these changes in accounting practice and the 2008/09 Balance Sheet and 2009/10 accounts have been re-stated accordingly. An explanation of these changes is included in note 1 of the notes to the core financial statements.

3. Review of 2010/11

During 2010/11 the Council embarked on an ambitious transformation programme designed to increase efficiency and reduce bureaucracy. A significant investment in services, funded from the strategic reserve has commenced which will deliver efficiency savings in 2011/12 and beyond.

The new Coalition Government announced plans for significant reductions in public expenditure during 2010 in order to reduce the public sector deficit. The local government financial settlement for 2011/12 indicates major reductions in funding over the next four years.

The Council recognises the importance of minimising the impact on front line services by transforming the way in which back office functions are delivered. In recognising the lead in time required to introduce major changes of this kind, a significant investment in services began 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 the year, 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 reduce its element of the council tax charge by 0.5% in 2010/11 (equivalent to £6 p.a. for a band D property).

The following matters are particularly worthy of note:

- Overall financial performance remained consistent with 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 £11.7 m.

- The revenue outturn included £7m of expenditure directed towards the delivery of the Transformation Agenda. This included two major projects, Internal Shared Services and Customer Services which are designed to increase efficiency and reduce the cost of both back office and front office services. These major organisational changes were introduced in April 2011.

- Interest rates have continued to remain low throughout the year. 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 budget settlement.

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 2010/11 deposits were restricted to a limited number of Institutions meeting the Council's lending criteria.

Total investments currently stand at £79.8 million with borrowing at £46.1m.

c) Pension Fund

The value of pension fund assets increased by £28.1 million in 2010/11. Asset values now stand at £388.6 million as compared with £360.5 million as at 31 March 2010. This positive result is tempered by the continuing upward pressure on longer term pension fund liabilities.

The latest 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, Havering's fund is in deficit which was valued at £227m as at 31 March 2011. The Council's share of the pension fund liability is disclosed in the Council's accounts at the higher level of £281m based on the requirements of IAS19 rather than the triennial valuation. Further information on the basis of the IAS19 disclosure is included at note 43. As part of that review the Council's external Actuary has recommended the level of contribution rates for employer bodies for a further three years. The level of the Council's employer contributions remains unaltered.

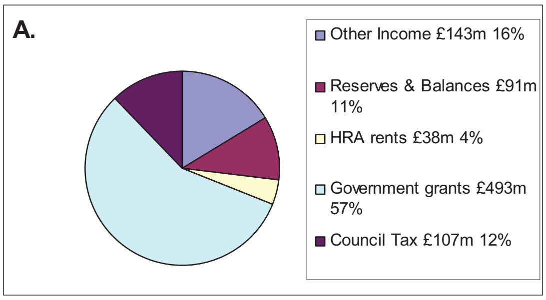
The Independent Public Service Pensions Committee chaired by Lord Hutton reported on the future of Public Sector Pensions, including the Local Government Pension Scheme. The impact of the Committee's proposals are not reflected in the actuary's report.

impairment charge.

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.



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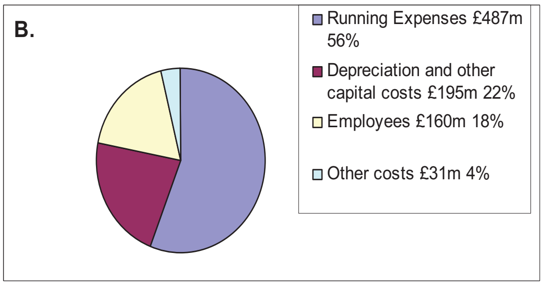
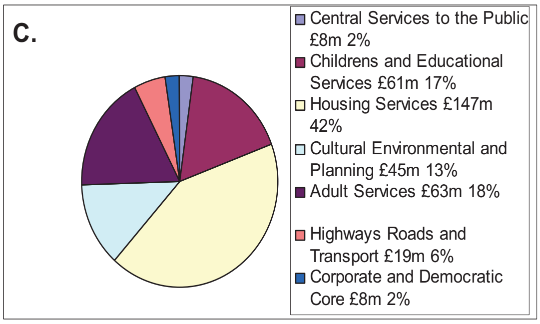
B. REVENUE EXPENDITURE

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 22% of spending and are financed from statutory reserves.



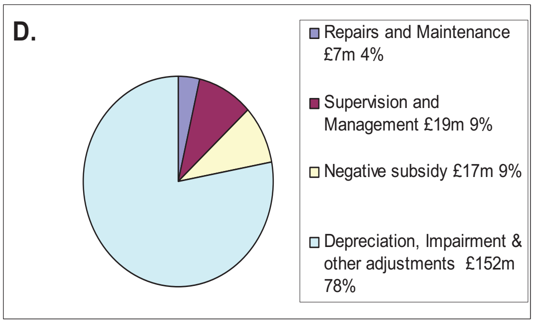
C. SERVICES PROVIDED

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. Housing services include Impairment charges of £131m (see also note 5 to the accounts).



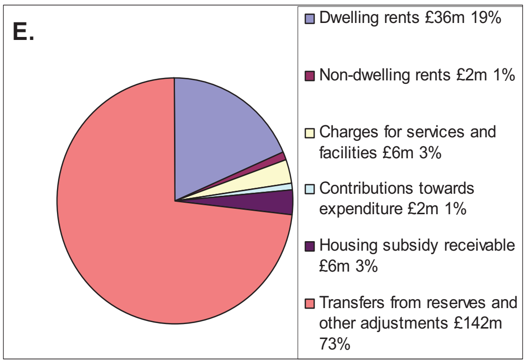
D. HOUSING REVENUE EXPENDITURE

HRA Expenditure is consolidated within the CI & E and is reflected in charts A to C above. This chart shows the main categories of expenditure within the Housing Revenue Account in 2010/11. One off impairment charges of £131m are included in the chart (see also note 5 to the accounts).



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. Reserves and balances include statutory adjustments to reverse the



5. The 2010/11 Budget

The Council's General Fund budget and how it was planned to be financed is set out in the following table. The 2010/11 outturn was delivered in line with budget at £161.8m after contributions to and from earmarked and statutory reserves.

	Original Budget
	£'000
Net Expenditure	**161,802**
Financed by:	
Revenue Support Grant	7,014
NNDR	48,300
Collection fund surplus/(deficit)	(100)
Precept on the Collection Fund	106,588
Surplus/ (deficit)	**0**

Note: The precept on the Collection Fund is met from Council Tax. For more details see page 86 to the accounts.

6. Capital

In 2010/11 the Council spent £77.3 million on capital projects. The main areas of capital expenditure were:

- £32.0m on schools and education
- £17.1m on housing and the enhancement and improvement of council dwellings
- £6.5m on roads and transport
- £3.4m on leisure and sport
- £9.5m on public offices, IT and other central costs
- £8.6m on regeneration, policy & planning
- £0.2m 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 2010/11 £9.1m of capital expenditure was financed in this way. The balance of the funding requirement came from capital grants (£42.4m), loans (£16.4m), revenue contributions (£3.1m) and Major Repairs Allowance (£6.3m). Total long term loans outstanding owed to external lenders amounted to £45.0m. This sum should be viewed in relation to the Council's fixed assets, which have a net book value of £911.9m as at 31 March 2011.

7. Reserves and Balances

The General Fund working balance stood at £11.7 million (excluding schools balances) as at 31 March 2011 (£11.7 million as at 31 March 2010). Earmarked reserves and balances fell by £1 million to £37.8 million.

8. Further Information

Further information about the accounts is available from:

Group Director of Finance and Commerce
Town Hall
Romford
RM1 3BD

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. For 2010/11 the inspection period took place between 25 July 2011 and 21 August 2011. These dates were advertised in the local press on 14 June 2011.

Andrew Blake-Herbert, CPFA
Group Director of Finance and Commerce
29 June 2011

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 Finance and Commerce.
- Manage its affairs to secure economic efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Group Director - Finance and Commerce's Responsibilities

The Group Director of Finance and Commerce 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 ("the code of practice").

In preparing the Statement of Accounts the Group Director - Finance and Commerce can confirm that they:

- 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 - Finance and Commerce 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 Authority as at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Councillor Georgina Galpin
Chairman, Audit Committee
22 September 2011

Andrew Blake-Herbert
Group Director of Finance and Commerce
22 September 2011

Draft Independent auditor's report to the Members of the London Borough of Havering

We have audited the financial statements of the London Borough of Havering and its Group for the year ended 31 March 2011 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 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 their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom supported by the Best Value Accounting Code of Practice 2010/11.

Respective responsibilities of the Group Director – Finance and Commerce and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 5, the Group Director – Finance and Commerce is responsible for the preparation of the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice 2010/11 and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report, including the opinions, has been prepared for and only for the London Borough of Havering's members as a body in accordance with 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, 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. The maintenance and integrity of the London Borough of Havering's 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 financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the Authority and Group's affairs as at 31 March 2011 and of the Authority and Group income and expenditure and cash flows for the year then ended; and
- have been prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice 2010/11.

Opinion on other matters

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

Matters on which we are required to report by exception

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

Julian Rickett (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Atrium, St Georges Street, Norwich, NR3 1AG

September 2011

Opinion on the pension fund accounts

We have audited the pension fund accounting statements for the year ended 31 March 2011 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 Group Director – Finance and Commerce and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 5, the Group Director – Finance and Commerce is responsible for the preparation of the pension fund accounting statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the London Borough of Havering's members as a body in accordance with 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, 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 pension fund accounts

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

Opinion on the pension fund accounting statements

In our opinion the pension fund's accounting statements:

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

Opinion on other matters

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

Julian Rickett (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Atrium, St Georges Street, Norwich, NR3 1AG

September 2011

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

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires 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.

Basis of conclusion

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

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

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, 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 2011.

Delay in certification of completion of the audit

We are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of London Borough of Havering. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2011. As the Authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements. We are also responding to an objection by an elector to the statement of accounts for the year ended 31 March 2010 which is currently being addressed.

We are therefore unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Julian Rickett (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Atrium, St Georges Street, Norwich, NR3 1AG

September 2011

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 were 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 2010/11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by 30th June 2011 (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 2010/11 and the *Best Value Accounting Code of Practice 2010/11*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

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

ii. Accruals of Income and Expenditure

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

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

iii. Acquisitions and Discontinued Operations

Acquired operations

The authority has not acquired any material operations (or transferred operations under machinery of government arrangements) during the financial year.

Discontinued operations

The authority has not discontinued any material operations (or transferred operations under machinery of government arrangements) during the financial year.

iv. 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.

v. 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 Authority's financial performance.

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

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

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

vii. 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 authority in accordance with statutory guidance (the Minimum Revenue Provision). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by an adjusting transfer to the General Fund Balance from the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

viii. Employee Benefits
Benefits Payable During Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the 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 wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

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

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

Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits
Employees of the Authority are members of two separate pension schemes:

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

- The Local Government Pensions Scheme, administered by the London Borough of Havering.

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

Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bond (iboxx sterling corporates AA over 15 year index)).

The assets of the London Borough of Havering pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions debited 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 Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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

ix. Events After the Balance Sheet Date
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.

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the 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 Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets
Financial assets are classified into two types:
- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables
Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying

amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

xi. Foreign Currency Translation

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

xii. Government Grants and Contributions

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

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

Amounts recognised as due to the 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.

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.

Area Based Grant

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

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 Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

xiii. Intangible Assets

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

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive

Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

xiv. Interests in Companies and Other Entities
The Authority has a material interest in another legal entity, “Homes in Havering,” which has the nature of a subsidiary and therefore requires the Authority to prepare group accounts. 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 Inventories. These are included in the Balance Sheet at the lower of cost and net realisable value.

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. Jointly Controlled Operations and Jointly Controlled Assets
Jointly controlled operations are activities undertaken by the Authority in conjunction with other ventures that involve the use of the assets and resources of the ventures rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure its incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other ventures, with the assets being used to obtain benefits for the ventures. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

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

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

The Authority as Lessee
Finance Leases
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the

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

Lease payments are apportioned between:

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

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

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

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

The Authority as Lessor
Finance Leases
Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, 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. A gain, representing the Authority's net investment in the lease, is 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), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to [the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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

as rental income.

xix. Overheads and Support Services

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

- Corporate and Democratic Core – costs relating to the Authority's status as a 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 BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

xx. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
- The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

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 & plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled.

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain would be held in a Donated Assets Account (although the Council has not identified any such assets at the Balance Sheet date). Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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 regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. 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 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- 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. The Council had not previously accounted for component depreciation as was allowed under the Statement of Recommended Practice (SORP). With effect from 1st April 2010, and as permitted under the new code, 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 £100,000 per scheme.
- Assets valued at less than £500,000.

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 Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

xxi. 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 Authority 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).

xxii. Provisions, Contingent Liabilities and Contingent Assets

Provisions
Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

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

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

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

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

Statement of Movements in Reserves 2010/11

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	General Balances	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2009	**18,312**	**944**	**34,044**	**371**	**19,941**	**134**	**73,746**	**612,929**	**686,675**
Movement in reserves during 2009/10									
Surplus or (deficit) on provision of services	**(21,041)**	**0**	**0**	**16,303**	**0**	**0**	**(4,738)**	**0**	**(4,738)**
Other Comprehensive Expenditure and Income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(82,386)**	**(82,386)**
Total Comprehensive Expenditure and Income	**(21,041)**	**0**	**0**	**16,303**	**0**	**0**	**(4,738)**	**(82,386)**	**(87,124)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	21,881	0	0	(14,050)	3,763	(46)	**11,548**	**(11,548)**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**840**	**0**	**0**	**2,253**	**3,763**	**(46)**	**6,810**	**(93,934)**	**(87,124)**
Transfers to/from Earmarked Reserves (Note 8)	1,819	(46)	4,724	(898)	(21,432)	0	**(15,833)**	**15,833**	**0**
Increase/Decrease (movement) in Year	**2,659**	**(46)**	**4,724**	**1,355**	**(17,669)**	**(46)**	**(9,023)**	**(78,101)**	**87,124**
Balance at 31 March 2010 carried forward	**20,971**	**898**	**38,768**	**1,726**	**2,272**	**88**	**64,723**	**534,828**	**599,551**
Surplus or (deficit) on provision of services	**49,636**	**0**	**0**	**(140,841)**	**0**	**0**	**(91,205)**	**0**	**(91,205)**
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	**0**	**122,143**	**122,143**
Total Comprehensive Expenditure and Income	**49,636**	**0**	**0**	**(140,841)**	**0**	**0**	**(91,205)**	**122,143**	**30,938**
Adjustments between accounting basis & funding basis under regulations (Note 7)	(48,398)	0	0	144,431	8,886	51	**104,970**	**(104,970)**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**1,238**	**0**	**0**	**3,590**	**8,886**	**51**	**13,765**	**17,173**	**30,938**
Transfers to/from Earmarked Reserves (Note 8)	1,093	31	(1,003)	(1,123)	(9,178)	0	**(10,180)**	**10,180**	**0**
Increase/Decrease in Year	**2,331**	**31**	**(1,003)**	**2,467**	**(292)**	**51**	**3,585**	**27,353**	**30,938**
Balance at 31 March 2011 carried forward	**23,302**	**929**	**37,765**	**4,193**	**1,980**	**139**	**68,308**	**562,181**	**630,489**

Comprehensive Income and Expenditure Statement 2010/2011

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.

		31 March 2011			31 March 2010		
	Notes	£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		10,665	(3,086)	7,579	28,162	(22,243)	5,919
Cultural, Environmental, Regulatory and Planning Services		57,685	(12,648)	45,037	45,854	(13,330)	32,524
Children's and Education Services		284,807	(224,094)	60,713	257,667	(208,431)	49,236
Highways, Roads and Transport Services		24,062	(5,027)	19,035	20,512	(4,584)	15,928
Other Housing Services		107,487	(105,090)	2,397	86,453	(84,058)	2,395
Local Authority Housing (HRA)		194,054	(49,830)	144,224	66,552	(79,558)	(13,006)
Adult Social Care Services		83,810	(21,117)	62,693	76,184	(19,854)	56,330
Corporate and Democratic Core		7,826	(207)	7,619	18,674	(403)	18,271
Non Distributed Costs		2,271	(69,795)	(67,524)	3,330	(2,187)	1,143
Cost Of Services		**772,667**	**(490,894)**	**281,773**	**603,388**	**(434,648)**	**168,740**
Other Operating Expenditure	9	-	-	12,071	-	-	11,360
Financing and Investment Income and Expenditure	10	-	-	14,057	-	-	17,878
Taxation and Non-Specific Grant Income	11	-	-	(216,696)	-	-	(193,240)
(Surplus) or Deficit on Provision of Services		-	-	**91,205**	-	-	**4,738**
(Surplus) or deficit on revaluation of property, plant and equipment assets	22	-	-	(36,025)	-	-	(5,824)
(Surplus) or deficit on revaluation of available for sale financial assets		-	-	0	-	-	0
Actuarial (gains) / losses on pension assets / liabilities	22	-	-	(86,118)	-	-	88,210
Other Comprehensive Income and Expenditure		**-**	-	**(122,143)**	**-**	-	**82,386**
Total Comprehensive Income and Expenditure		**-**	**-**	**(30,938)**	**-**	**-**	**87,124**

Balance Sheet as at 31 March 2011

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

	Notes	31 March 2011 £000s	31 March 2010 £000s	1 April 2009 £000s
Property, Plant & Equipment	12	878,005	981,591	952,277
Investment Property	13	29,145	30,139	28,358
Intangible Assets	14	4,742	2,019	800
Long Term Debtors	15	1,763	2,123	2,382
Long Term Assets		**913,655**	**1,015,872**	**983,817**
Short Term Investments	15	73,185	48,284	98,729
Inventories	16	361	290	242
Short Term Debtors	17	45,548	39,196	29,805
Cash and Cash Equivalents	18	26,921	43,891	16,401
Current Assets		**146,015**	**131,661**	**145,177**
Bank Overdraft	18	(8,341)	(4,463)	0
Short Term Borrowing	15	(15,185)	(1,621)	(1,829)
Short Term Creditors	19	(61,535)	(54,159)	(59,880)
Current Liabilities		**(85,061)**	**(60,243)**	**(61,709)**
Provisions	20	(5,745)	(5,101)	(5,261)
Long Term Borrowing	15	(46,403)	(46,545)	(46,610)
Other Long Term Liabilities	22	(281,219)	(421,950)	(318,900)
Capital Grants Receipts in Advance	34	(10,753)	(14,143)	(9,839)
Long Term Liabilities		**(344,120)**	**(487,739)**	**(380,610)**
Net Assets		**630,489**	**599,551**	**686,675**
Usable reserves	21	68,308	64,723	73,746
Unusable Reserves	22	562,181	534,828	612,929
Total Reserves		**630,489**	**599,551**	**686,675**

Cash Flow Statement as at 31st March 2011

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 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.

2009/10 £000s		Note	2010/11 £000s
4,738	Net (surplus) or deficit on the provision of services		91,205
(35,902)	Adjust net surplus or deficit on the provision of services for non-cash movements		(154,610)
22,492	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		42,414
(8,672)	Net cash flows from Operating Activities		(20,991)
(15,206)	Investing Activities	24	55,261
851	Financing Activities	25	(13,422)
(23,027)	Net (increase) or decrease in cash and cash equivalents		20,848
(16,401)	Cash and cash equivalents at the beginning of the reporting period		(39,428)
(39,428)	**Cash and cash equivalents at the end of the reporting period**	**18**	**(18,580)**

Notes to the Core Financial Statements

1. Transition to IFRS

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

<u>Short-term accumulating compensated absences</u>

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay.

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

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

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £000	**Adjustments Made £000**
Creditors	(57,625)	(3,924)
Accumulated Absences Account	0	3,924

31 March 2010 Balance Sheet

	2009/10 Statements £000	**Adjustments Made £000**
Creditors	(50,841)	(4,475)
Accumulated Absences Account	0	4,475

2009/10 Comprehensive Income and Expenditure Statement

Cost of Services (Net):

	2009/10 Statements £000	**Adjustments Made £000**
Central Services to the Public	5,917	2
Cultural, Environmental and Planning	31,758	(41)
Children's and Education Services	46,324	346
Highways, Roads and Transport Services	15,281	(15)
Housing General Fund Services	1,356	(3)
Housing Revenue Account	10,108	(1)
Adult Services	56,415	(85)
Corporate and Democratic core	6,648	345
Non Distributed costs	964	0

Leases

The accounting treatment of leases has been amended by the new code. This change can result in a lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The Government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Authority is the lessee) will be unchanged.

The Authority has identified a number of operating leases for vehicles, plant and equipment which should be treated as finance leases following the introduction of the Code. As a consequence of classifying these arrangements as finance leases, the financial statements have been amended as follows:

- The Authority has recognised the assets (vehicles plant and equipment) and the related finance lease liabilities on the Balance sheet.

- The operating lease charges within Cultural, Environmental and Planning Services and Children's and Education Services have been removed.

- Depreciation charges have been levied in respect of the leased assets and have been included within Cultural, Environmental and Planning Services and Children's and Education Services.

- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account. This transfer has been reflected in the Balance Sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year.

- The interest element of the lease payments have been charged to the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet:

	2009/10 Statements £000	**Adjustments Made £000**
Property, Plant and Equipment (leased assets)	0	771
Other Long-Term Liabilities (other finance lease liability	0	(832)
Capital Adjustment Account	(884,546)	61

31 March 2010 Balance Sheet:

	2009/10 Statements £000	**Adjustments Made £000**
Property, Plant and Equipment (leased assets)	0	893
Other Long-Term Liabilities (other finance lease liabilities)	0	(907)
Capital Adjustment Account	(872,955)	14

2009/10 Comprehensive Income and Expenditure Statement:

	2009/10 Statements £000	**Adjustments Made £000**
Cultural, Environmental, Regulatory and Planning Services	31,758	(81)
Children's and Education Services	46,324	(177)
Financing and Investment Income and Expenditure	23,952	136

The net change to Cultural, Environmental and Planning Services consists of the removal of the operating lease charge (reduction of £319k) and the inclusion of the depreciation charge (increase of £238k).

The net change to Children's and Education Services consists of the removal of the operating lease charge (reduction of £322k) and the inclusion of the depreciation charge (increase of £145k)

The net increase in the Surplus or Deficit on the Provision of Services is removed by the transfer of the depreciation charge to the Capital Adjustment Account. This transfer is shown in the Movement in Reserves Statement.

Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet.
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet:

	2009/10 Statements £000	**Adjustments Made £000**
Government Grants Deferred Account	(32,835)	32,835
Capital Adjustment Account	(884,546)	(32,835)

Investment Properties – Revaluation gains

For assets classed as Investment properties any gains should be credited to the Capital Adjustment Account rather than the Revaluation Reserve. As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- Gains held in the revaluation reserve at 31 March 2009 have been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet.
- Revaluation gains arising in 2009/10 which reversed out a previous loss charged to the CI & E in 2008/09 have been written back.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet:

	2009/10 Statements £000	**Adjustments Made £000**
Revaluation Reserve	108,964	4,455
Capital Adjustment Account	(884,546)	(4,455)

31 March 2010 Balance Sheet:

	2009/10 Statements £000	Adjustments Made £000
Revaluation Reserve	140,515	27,289
Capital Adjustment Account	(872,955)	(27,289)

Comprehensive Income and Expenditure Statement 2009/10:

	2009/10 Statements £000	Adjustments Made £000
Movement in General Fund Balance		27,289
Net Cost of Services		(27,289)

Foundation and Voluntary-aided Schools

The financial transactions of Foundation and Voluntary-Aided schools were previously consolidated within the Council's Statement of Accounts. Under the revised code of practice, the option to consolidate can no longer be exercised where the Schools operate under a high level of autonomy. The Council has determined that the net assets of 20 such schools in 2009/10 (18 in 2008/09) should be removed and the Council's Balance Sheet has been re-stated accordingly.

Net Assets of the Schools previously included in the Council's Balance Sheet are as follows;

	2008/09 £000	2009/10 £000
Property, Plant & Equipment	87,490	85,943
Short term Debtors	494	1,026
Cash and cash equivalents	2,733	1,920
Short term Creditors	(3,336)	(3,851)
Useable Reserves	(1,555)	(759)
Unusable Reserves	(85,826)	(84,279)

Net expenditure on Children's and Education services as recorded in the C I & E has also been re-stated to reflect the removal of revenue transactions listed below.

	2009/10 **£000**
Depreciation on fixed assets	1,547
accruals	796

The number of staff reported at note 31 has also been adjusted to reflect the removal of Foundation Schools staff as identified below.

Banding			Numbers
£50,000	-	£54,999	20
£55,000	-	£59,999	15
£60,000	-	£64,999	6
£65,000	-	£69,999	5
£70,000	-	£74,999	5
£75,000	-	£79,999	2
£80,000	-	£84,999	1
£85,000	-	£89,999	1
£95,000	-	£99,999	1
£100,000	-	£104,999	1

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

In accordance with FRS 30 Heritage Assets are to be recognised as a separate class of asset for the first time in 2011/12 financial statements. No assets have been recorded in this asset class but a review of the Asset Register is planned to be undertaken during 2011/12 in order to identify any Heritage Assets in the Council's ownership prior to the completion of the 2011/12 accounts.

3. Critical Judgements in Applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for Local Government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The accounting disclosures relating to the provision of pensions are based upon the regulations in force during 2010/11, most notably those applying to the Local Government Pension Scheme. In June 2011, the Independent Public Service Pensions Committee chaired by Lord Hutton reported on the future of Public Sector Pensions. No account has been taken of proposed changes in the LGPS benefit structure or contribution rates. 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 £2.037 million has been charged to the Comprehensive Income and Expenditure Statement in 2010/11 in respect of the impairment of these assets. The Council has lodged claims with the administrators and expects to receive 85-90% of the value of these deposits on the winding up of these companies.

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

The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if Actual Results Differ from Assumptions**
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. Assets have been valued by the Council's external valuers on the basis of a five year rolling valuation programme. In the current economic climate, the Balance sheet valuation of £878 million may be subject to fluctuations.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £4.99m for every year that useful lives had to be reduced If the asset valuation of all Property Plant & Equipment were to fall by 1% a reduction in value of £8.78 m would arise. This would normally be reversed back against the revaluation reserve. Where revaluation losses exceed unrealised gains, the net loss would be charged to the C I & E statement and subsequently written off to the Capital Adjustment Account.
Provisions	The Authority has made a provision of £5.1 million for the settlement of insurance claims based upon an actuarial assessment of the current level of liability.	An increase over the forthcoming year of 10% in the value of claims to be settled would have the effect of adding £0.5m to the provision required.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £48m. However, the assumptions interact in complex ways. During 2010/1, the Authority's actuaries advised that the net pensions liability had decreased by £82.9 m primarily as a result of using CPI rather than RPI as the basis of assessing inflation.
Arrears	At 31 March 2011, the Authority had a gross debtors balance of £64.8 m. A review of significant balances suggested that an impairment of doubtful debts of 27% (£17.5 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 £8.75m to set aside as an allowance.

5. Material Items of Income and Expense

Asset Valuation

During 2010/11, the Authority has recognised a decrease in the value of its housing stock of £141.5m of which £131m was charged to Local Authority Housing within the Cost of Services section of the C I & E. The balance has been written off against the revaluation reserve. Further details are recorded at note 39. This reduction in valuation arises from a change in legislation requiring a change in the percentage used to discount the value of local authority dwellings to their existing use value (below their market valuation). Without the change in discount factor a gain of £31.9m would have been recognised in the revaluation reserve. However, these adjustments are subsequently reversed out through the Capital Adjustment Account and have no impact upon the cost of services to be raised from Council Tax or Housing rents.

Transformation

In 2010/11 the Council embarked on a major transformation programme designed to deliver efficiciencies in both front and back office services from 2011/12. Expenditure of £7.1m is included in the net cost of services section of the C I & E in relation to the delivery of eleven transformation projects undertaken during the year. 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 Expenditure Code of Practice (SERCOP). These additional costs have been met from earmarked reserves established for this purpose.

Pension Costs - Past Service Gain

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. The Council's actuary has determined that this gives rise to a past service gain of £67.9 m which is included within non distributed costs as reported on the face of the C I & E. The impact of the Council's pension fund liability is reported at notes 42 and 43.

6. Events after the Balance Sheet Date

A number of Schools applied for, and have been granted Academy status by the Department of Education. Three schools converted to Academy status on 1 April 2011 with a further eight planning to convert during the remainder of 2011/12.

Under these arrangements, these Schools have freedom from Local Authority control. As a consequence the net assets of Academies will be transferred to Schools management and the related financial transactions will be adjusted from the date that Academy status was achieved. No prior year adjustments will be required.

The land and buildings of two of the three Schools converting to Academy status on 1 April are already vested in their name, The land and buildings in respect of the third school, recorded on the Council's Balance Sheet at 31 March 2011 at £15.3 million will be transferred into School ownership on 1st April 2011.

As part of the Council's transformation programme a number of staff were identified as being at risk of redundancy or early retirement as at 31 March 2011. In the event that staff are not redeployed the Council will incur redundancy and pension costs of up to £1.66 million in 2011/12.

Authorisation of Accounts for Issue

The accounts were approved by Andrew Blake-Herbert, Group Director - Finance and Commerce on 29 June 2011. No material post balance sheet events were identified at that date other than the matter discussed in note 6.

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

	Usable Reserves					
2010/11	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>						
Charges for depreciation and impairment of non current assets	(49,367)	(145,743)	0	0	0	195,110
Revaluation losses on Property Plant and Equipment	0	0	0	0	0	0
Movements in the market value of Investment Properties	0	0	0	0	0	0
Amortisation of intangible assets	(1,485)	0	0	0	0	1,485
Capital grants and contributions applied	42,414	0	0	0	0	(42,414)
Movement in the Donated Assets Account	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	(4,842)	0	0	0	0	4,842
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	0	0	0	0	0	0
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>						
Statutory provision for the financing of capital investment	1,222	0	0	0	0	(1,222)
Capital expenditure charged against the General Fund and HRA balances	3,115	0	0	0	0	(3,115)
Adjustments involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	0

2010/11	Usable Reserves: General Fund Balance	Usable Reserves: Housing Revenue Account	Usable Reserves: Capital Receipts Reserve	Usable Reserves: Major Repairs Reserve	Usable Reserves: Capital Grants Unapplied	Movement in Unusable Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
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	174	1,271	(10,629)	0	0	9,184
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(1,743)	0	1,743	0	0	0
Transfer from Deferred Capital Receipts Reserve	(317)	0	0	0	0	317
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	0	0	0	(317)	0	317
Transfer to the Capital Receipts Reserve upon receipt of cash	0	0	0	317	0	(317)
Adjustment involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	1,022	0	0	(1,022)	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	971	0	(971)
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	2,523	0	0	0	0	(2,523)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	35,359	41	0	0	0	(35,400)
Employer's pensions contributions and direct payments to pensioners payable in the year	19,214	0	0	0	0	(19,214)

	Usable Reserves					
2010/11	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments 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	394	0	0	0	0	(394)
Adjustment involving the Unequal Pay Back Pay Adjustment Account:						
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0
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	715	0	0	0	0	(715)
Total Adjustments	**48,398**	**(144,431)**	**(8,886)**	**(51)**	**0**	**104,970**

	Usable Reserves					
2009/10 comparative figures	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments 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	(39,856)	(14,340)	0	0	0	54,196
Revaluation gains/ (losses) on Property Plant and Equipment	0	27,289	0	0	0	(27,289)
Movements in the market value of Investment Properties	3,759	0	0	0	0	(3,759)
Amortisation of intangible assets	(658)	0	0	0	0	658
Capital grants and contributions applied	29,121	0	0	0	0	(29,121)

	Usable Reserves					
2009/10 comparative figures	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Revenue expenditure funded from capital under statute	(4,452)	0	0	0	0	4,452
Amounts on Non Current Assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	1,062	0	0	0	0	(1,062)
Capital expenditure charged against the General Fund and HRA balances	4,247	0	0	0	0	(4,247)
Adjustments involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	0
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	514	988	(5,169)	0	0	3,667
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(1,406)	0	1,406	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	(317)	0	0	0	0	317
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	0	0	(317)	0	0	317
Transfer to the Capital Receipts Reserve upon receipt of cash			317			(317)
Adjustment involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	760	0	0	(760)	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	806	0	(806)

2009/10 comparative figures	**Usable Reserves**					
	General Fund Balance	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments 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	439	(31)	0	0	0	(408)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(35,895)	143	0	0	0	35,752
Employer's pensions contributions and direct payments to pensioners payable in the year	20,770	0	0	0	0	(20,770)
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	579	0	0	0	0	(579)
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	(548)	1	0	0	0	547
Total Adjustments	**(21,881)**	**14,050**	**(3,763)**	**46**	**0**	**11,548**

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 2010/11.

	Balance as at 31 3 2009	Transfers to/from Revenue	Transfers between reserves	Balance as at 31 3 2010	Transfers to/from Revenue	Transfers between reserves	Balance as at 31 3 2011
	£000	£000	£000	£000	£000	£000	£000
Corporate Transformation Reserve	0	0	16,500	16,500	**(1,323)**	(831)	**14,346**
Strategic Projects Reserve	17,094	(4,306)	(6,287)	6,501	**(1,062)**	0	**5,439**
Insurance Reserve	4,180	(505)	1,000	4,675	**(394)**	0	**4,281**
Revenue Contributions for future Capital Schemes	1,956	608	954	3,518	**1,559**	0	**5,077**
Capital bridge funding	1,000	0	0	1,000	**0**	0	**1,000**
Primary School Bridge Funding	370	570	0	940	**420**	0	**1,360**
Property Strategy Review	531	44	54	629	**(100)**	0	**529**
Legal Reserve	700	(393)	78	385	**(153)**	0	**232**
Standards Fund LEA Contribution	332	49	0	381	**(49)**	0	**332**
Crematorium & Cemetery Funds	351	7	0	358	**40**	0	**398**
Property Management	405	(52)	0	353	**0**	0	**353**
Other Reserves	7,125	8,702	(12,299)	3,528	**59**	831	**4,418**
Totals	**34,044**	**4,724**	**0**	**38,768**	**(1,003)**	**0**	**37,765**

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.

Revenue Contribution for future Capital Schemes

This reserve is for revenue contributions to capital schemes where expenditure will be incurred in future financial years. It was set up to deal principally with the complex grant arrangements relating to education.

Capital and Primary School Bridge Funding

Property market and delays in receipts mean a need to plan for temporary transitional borrowing prior to receipts being generated.

Property Strategy Review

This reserve was created in order to facilitate the implementation of the Property Strategy as agreed by Cabinet 18 July 2005..

Legal Reserve

To provide funding for legal cases.

Standards Funds LEA Contribution

To meet the Council's contribution for Standards Fund in order to maximise Government Grants to schools.

Crematorium & 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

(c) Memorial Garden Fund

Property Management

These monies remain from revenue property budgets. The Council is reviewing its arrangements to ensure a holistic approach, including regular condition surveys.

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 equipments renewals and joint IT strategies.

9. Other Operating Expenditure

2009/10 £000		2010/11 £000
11,139	Levies	11,458
1,406	Payments to the Government Housing Capital Receipts Pool	1,743
(1,185)	Gains/(losses) on the disposal of non current assets	(1,130)
11,360	**Total**	**12,071**

10. Financing and Investment Income and Expenditure

2009/10 £000		2010/11 £000
2,611	Interest payable and similar charges	2,647
23,690	Pensions interest cost and expected return on pensions assets	16,177
(2,534)	Interest receivable and similar income	(1,404)
(6,074)	Income and expenditure in relation to investment properties	(2,978)
185	changes in the fair value of Investment property	(385)
17,878	**Total**	**14,057**

11. Taxation and Non Specific Grant Income

2009/10 £000		2010/11 £000
106,926	Council tax income	106,852
44,298	Non domestic rates	48,300
19,244	Non-ringfenced government grants	19,130
22,772	Capital grants and contributions	42,414
193,240	**Total**	**216,696**

12. Property, Plant and Equipment

Movements on Balances

Movements in 2010/11:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation								
At 1 April 2010	533,553	451,504	29,437	85,186	3,255	0	7,433	**1,110,368**
Additions	14,336	25,082	3,249	13,646	70	0	11,885	**68,268**
Revaluation increases/(decreases) to:								
• Revaluation Reserve	(7,268)	43,149	0	0	146			**36,027**
• Capital Adjustment Account	(2,767)	3,538	0	0	2			**773**
• Consolidated I & E	(131,470)	(17,572)	0	0	(4)			**(149,046)**
De-recognition - Disposals	(749)	(4,909)	0	0	0	0	0	**(5,658)**
Other movements in Cost or Valuation	0	0	(379)	0	0	0	0	**(379)**
At 31 March 2011	**405,635**	**500,792**	**32,307**	**98,832**	**3,469**	**0**	**19,318**	**1,060,353**
Accumulated Depreciation and Impairment								
At 1 April 2010	30,727	47,465	20,247	30,313	25	0	0	**128,777**
Depreciation charge	4,483	10,105	2,423	4,466	40	0	0	**21,517**
Impairment losses/ (reversals) recognised in the Revaluation Reserve	14,336	17,648	0	0	70	0	0	**32,054**
At 31 March 2011	**49,546**	**75,218**	**22,670**	**34,779**	**135**	**0**	**0**	**182,348**
Net Book Value								
At 31 March 2011	**356,089**	**425,574**	**9,637**	**64,053**	**3,334**	**0**	**19,318**	**878,005**
At 31 March 2010	**502,826**	**404,039**	**9,190**	**54,873**	**3,230**	**0**	**7,433**	**981,591**

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation							
At 1 April 2009	491,834	431,096	24,456	71,275	1,108	1,279	**1,021,048**
Additions	14,164	21,287	4,428	13,911	862	6,154	**60,806**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	29,091	287	0	0	1,285	0	**30,663**
Derecognition - Disposals	(1,216)	0	0	0	0	0	**(1,216)**
Derecognition - Other	0	(1,471)	553	0	0	0	**(918)**
Other movements in Cost or Valuation	(320)	305	0	0	0	0	**(15)**
At 31 March 2010	**533,553**	**451,504**	**29,437**	**85,186**	**3,255**	**7,433**	**1,110,368**
Accumulated Depreciation and Impairment							
At 1 April 2009	8,020	17,408	16,769	26,552	22	0	**68,771**
Depreciation charge	8,543	9,599	3,331	3,761	3	0	**25,237**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	14,164	20,458	147	0	0	0	**34,769**
At 31 March 2010	**30,727**	**47,465**	**20,247**	**30,313**	**25**	**0**	**128,777**
Net Book Value							
As at 31 March 2010	**502,826**	**404,039**	**9,190**	**54,873**	**3,230**	**7,433**	**981,591**
As at 31 March 2009	**483,814**	**413,688**	**7,687**	**44,723**	**1,086**	**1,279**	**952,277**

Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in the years 2011/12 to 2012/13.

	31 March 2011 £000	31 March 2010 £000
General Fund		
Arts, Culture, Sport & Leisure	599	3,835
Roads, Footways and Bridges	4,520	3,515
Education Capital Schemes	24,929	24,695
Town Centre & Environmental Improvements	1,081	7,145
Office Accommodation, Equipment, ICT and Vehicles	2,733	9,931
Housing & Public Protection	3,117	2,262
Other Smaller GF Schemes	459	1,470
Total General Fund Commitments	**37,438**	**52,853**
Housing HRA	10,177	9,743
Total Commitments	**47,615**	**62,596**

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 2011.

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. Investment Properties

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

2009/10 £000		2010/11 £000
3,046	Rental income from investment property	3,054
(72)	Direct operating expenses arising from investment property	(76)
2,974	**Net gain/(loss)**	**2,978**

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

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

2009/10 £000		2010/11 £000
28,359	Balance at start of year	30,139
1,782	Revaluation gains/(losses) from fair value adjustments	2,243
	Disposal of investment properties	(3,237)
30,139	**Balance at end of the year**	**29,145**

14. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets represents 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 £1.485m charged to revenue in 2010/11 was charged to Central Support Services and then absorbed as an overhead across all the service headings in the Net 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:

2009/10 **£000**	**Intangible Fixed Assets Software & System Development**	**2010/11** **£000**
800	**Opening Balance**	**2,019**
1,877	Capital Expenditure	4,208
(658)	Amortisation	(1,485)
2,019	**Closing Balance**	**4,742**

15. Financial Instruments

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

	Long Term				Current		
	31 March 2011 £000	**31 March 2010 £000**	**1 April 2009 £000**		**31 March 2011 £000**	**31 March 2010 £000**	**1 April 2009 £000**
Investments							
Loans and Receivables	0	0	0		73,185	48,284	98.729
Financial assets at fair value through profit and loss	0	0	0		0	0	
Total Investments	**0**	**0**	**0**		**73,185**	**48,284**	**98,729**
Debtors							
Loans and receivables	0	0	0		0	0	0
Financial assets carried at contract amounts	1,763	2,123	2,382		45,548	39,196	29,629
Total Debtors	**1,763**	**2,123**	**2,382**		**45,548**	**39,196**	**29,629**
Borrowings							
Financial liabilities at amortised cost	44,986	44,986	44,986		14,871	1,095	1,340
Financial liabilities at fair value through profit and loss	0	0	0		0	0	0
Total Borrowings	**44,986**	**44,986**	**44,986**		**14,871**	**1,095**	**1,340**
Other Long term Liabilities							
PPP and finance lease liabilities	1,417	1,559	1,625		314	526	489
Total other Long term Liabilities	**1,417**	**1,559**	**1,625**		**314**	**526**	**489**
Total Borrowings & Long term Liabilities	**46,403**	**46,545**	**46,611**		**15,185**	**1,621**	**1,829**
Creditors							
Financial liabilities at amortised cost	0	0	0		61,535	54,159	59,880
Total Creditors	**0**	**0**	**0**		**61,535**	**54,159**	**59,880**

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;
- 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 31/3/11 £000	Fair Value 31/3/11 £000
PWLB debt	3.7% to 6.9%	37,986	37,076
Market Loan	3.6%	7,000	6,929
Temporary Borrowing		14,871	14,871
Finance Lease Liability (PPP)		1,178	1,178
Total debt		61,035	60,054
Creditors		54,159	54,159
Total financial liabilities		**115,194**	**114,213**
Investments		73,185	73,673
Debtors Less than 1 year		39,196	39,196
Long term Debtors		1,763	1,763
Total receivables less liabilities		**1,050**	**(419)**

Comparative figures as at 31 March 2010 were as follows:

	Interest rates %	**Carrying Amount** 31/3/10 £'000	**Fair Value** 31/3/10 £'000
PWLB debt	3.7% to 6.9%	37,986	40,654
Market Loan	3.6%	7,000	7,208
Temporary Borrowing		1,095	1,095
Finance Lease Liability (PPP)		1,178	1,178
Total debt		47,259	50,135
Creditors		54,159	54,159
Total financial liabilities		**101,418**	**104,294**
Investments less than 1 year		79,812	81,829
Debtors Less than 1 year		39,196	39,196
Long term Debtors		2,123	2,123
Total receivables less liabilities		**19,713**	**18,854**

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

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

Methodology and Assumptions

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

Discount rates used in NPV calculation

The rates used in this valuation were obtained from financial markets on 31st March 2011, 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

Explanation of differences between carrying and fair value

The Council's portfolio of loans includes a number of fixed rate loans which were taken out when interest rates were higher than those available for similar loans at the Balance Sheet date. Should the Council wish to settle these loans earlier than current terms, a premium or penalty charge will be payable to the lender. Conversely, where the Council has loans with rates lower than current market rates, earlier settlement of these will attract a discount. The net effect of these factors has resulted in a higher fair value amount for financial liabilities.

16. Inventories

	Total	
	2010/11 £000	**2009/10 £000**
Balance outstanding at start of year	**290**	**242**
Movement in the year	71	48
Balance outstanding at year-end	**361**	**290**

17. Short –Term Debtors

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
		Collection Fund Debtors	
11,004	12,741	Council Taxpayers	13,985
666	544	GLA	548
482	2,787	Central Government (NNDR)	6,599
		Other Debtors	
6,075	12,775	Government Departments	12,264
2,769	2,555	Housing	2,519
15	15	Capital Debtors	15
20,192	20,184	Sundry Debtors	23,746
41,203	51,601	Sub – total	59,676
		Less: Impairment Allowance	
(5,810)	(6,966)	Council Taxpayers	(7,686)
(2,313)	(2,628)	Housing	(2,984)
(5,932)	(6,147)	Sundry Debtors	(6,818)
27,148	**35,860**	Sub-total	**42,188**
2,657	3,336	**Payments in Advance**	3,360
29,805	**39,196**	**Total Short Term Debtors**	**45,548**

18. Cash and Cash Equivalents

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

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
1,642	1,534	Cash held by the Authority	1,492
10,016	10,829	Schools – under the LMS Cheque book Scheme	9,501
4,743	31,528	Short-term deposits with banks – call accounts	15,928
16,401	**43,891**	**Cash at hand**	**26,921**
0	**(4,463)**	Bank current accounts	**(8,341)**
16,401	**39,428**	**Total Cash and Cash Equivalents**	**18,580**

19. Short-Term Creditors

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
6,335	4,791	Central Government	10,403
4,236	4,273	HMRC	4,369
7,999	4,763	Pension Fund	8,494
8,103	10,312	Capital Creditors	11,509
3,552	4,016	Council Tax Payers	4,133
21,428	18,157	Other Sundry Creditors	13,205
8,227	7,847	Income in Advance	9,422
59,880	**54,159**	**Total**	**61,535**

20. Provisions

	a) NNDR £'000	b) Collection fund £000	c) Self - Insurance £000	Total £000
Balance at 1 April 2010	**0**	**340**	**4,761**	**5,101**
Additional provisions made in 2010/11	276	0	1,433	1,709
Amounts used in 2010/11	0	0	(1,434)	(1,434)
Transfers to/from revenue	0	0	369	369
Balance at 31 March 2011	**276**	**340**	**5,129**	**5,745**

a) National Non-Domestic Rates
A new provision has been raised in respect of charitable relief granted in respect of the 2010-11 NNDR accounts which will not be actioned until 2011/12.

b) Collection Fund
Provision has been set aside for the Council's contribution towards the Collection Fund deficit which arose in 2009/10; this will be utilised in 2011/12.

c) 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:

	1 Jan 2011 £000	1 Jan 2010 £000
Public and Employer's Liability	151	148
Motor Vehicles	145	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 cost of these claims.

21. Useable Reserves

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
19,256	21,869	General Fund Balance	24,231
34,044	38,768	Earmarked Reserves	37,765
371	1,726	Housing Revenue Account Balance	4,193
19,941	2,272	Capital Receipts Reserve	1,980
134	88	Major Repairs Reserve	139
73,746	**64,723**	**Total Usable Reserves**	**68,308**

a) General Fund Balance

The General Fund balance can be further analysed as follows:

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
10,028	11,768	General Fund	11,765
943	898	General Reserves	931
10,971	**12,666**	**Sub Total**	**12,696**
5,781	7,051	Schools Balances	7,925
2,504	2,152	Centrally held Schools balances	3,610
19,256	**21,869**	**Total General Fund balance**	**24,231**

22. Unusable Reserves

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
82,407	82,343	Revaluation Reserve	116,919
856,313	881,203	Capital Adjustment Account	729,932
(4,333)	(3,924)	Financial Instruments Adjustment Account	(1,400)
2,290	1,973	Deferred Capital Receipts Reserve	1,656
(318,900)	(421,950)	Pensions Reserve	(281,219)
(921)	(342)	Collection Fund Adjustment Account	52
0	0	Unequal Pay Back Pay Account	0
(3,927)	(4,475)	Accumulated Absences Account	(3,759)
612,929	**534,828**	**Total Unusable Reserves**	**562,181**

Revaluation Reserve

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

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

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

2009/10 £000		2010/11 £000
81,839	**Balance at 1 April**	**82,342**
5,824	Net gain/(losses) on revaluation of fixed assets	36,025
(5,321)	Amount written off to the Capital Adjustment Account	(1,448)
82,342	**Balance at 31 March**	**116,919**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

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

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

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

2009/10 £000		**2010/11 £000**
856,313	**Balance at 1 April**	**881,203**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(62,323)	• Net charges for depreciation and impairment of non current assets	(202,641)
27,289	• Revaluation gain reversing out a previous loss	0
0	• Revaluation losses on Property, Plant and Equipment	774
(658)	• Amortisation of intangible assets	(1,485)
(4,452)	• Revenue expenditure funded from capital under statute	(4,921)
(3,667)	• 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	(8,897)
(43,811)		**(217,170)**
5,321	Adjusting amounts written out of the Revaluation Reserve	1,451
(38,490)	**Net written out amount of the cost of non current assets consumed in the year**	**(215,719)**
	Capital financing applied in the year:	
21,432	• Use of the Capital Receipts Reserve to finance new capital expenditure	9,178
10,108	• Use of the Major Repairs Reserve to finance new capital expenditure	6,276
22,772	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	42,414
1,062	• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	1,222
4,247	• Capital expenditure charged against the General Fund and HRA balances	3,115
59,621		**62,205**
3,759	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	2,243
881,203	**Balance at 31 March**	**729,932**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2011 will be charged to the General Fund over the next 48 years.

2009/10 £000		**2010/11 £000**
(4,333)	**Balance at 1 April**	**(3,924)**
0	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0
65	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	391
344	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	2,133
(3,924)	**Balance at 31 March**	**(1,400)**

Pensions Reserve

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

2009/10 £000		2010/11 £000
(318,900)	**Balance at 1 April**	**(421,950)**
(88,210)	Actuarial gains or (losses) on pensions assets and liabilities	86,118
(35,610)	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	35,399
20,770	Employer's pensions contributions and direct payments to pensioners payable in the year	19,214
(421,950)	**Balance at 31 March**	**(281,219)**

Deferred Capital Receipts Reserve

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

2009/10 £000		2010/11 £000
2,290	**Balance at 1 April**	**1,973**
(317)	Transfer to the Capital Receipts Reserve upon receipt of cash	(318)
1,973	**Balance at 31 March**	**1,655**

Collection Fund Adjustment Account

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

2009/10 £000		2010/11 £000
(921)	**Balance at 1 April**	**(342)**
579	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	394
(342)	**Balance at 31 March**	**52**

Accumulated Absences Account

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

2009/10 £000		2010/11 £000
(3,927)	**Balance at 1 April**	**(4,475)**
3,927	Settlement or cancellation of accrual made at the end of the preceding year	4,475
(4,475)	Amounts accrued at the end of the current year	(3,759)
(548)	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	716
(4,475)	**Balance at 31 March**	**(3,759)**

23. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
(4,797)	Interest received	(2,240)
2,708	Interest paid	2,169

24. Cash Flow Statement – Investing Activities

2009/10 £000		2010/11 £000
60,476	Purchase of property, plant and equipment, investment property and intangible assets	71,279
4,452	Other payments for investing activities	4,921
(5,177)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(10,629)
(26,817)	Capital grants received	(39,023)
(50,445)	Proceeds from shot-term and long-term investments	24,901
2,305	Other receipts from investing activities	3,812
(15,206)	**Net cash flows from investing activities**	**55,261**

25 Cash Flow Statement – Financing Activities

2009/10 £000		2010/11 £000
0	Cash receipts of short- and long-term borrowing	(16,101)
851	Repayments of short- and long-term borrowing	2,679
851	**Net cash flows from financing activities**	**(13,422)**

26. 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 Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- 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.
- Adjustments made to the year end accounts to ensure compliance with IFRS.

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

Directorate Income and Expenditure 2010/11	**Culture & Community £000**	**Social Care & Learning £000**	**Finance & Commerce £000**	**Legal & Democratic Services £000**	**Total £000**
Fees, charges & other service income	**(150,223)**	**(14,506)**	**(6,901)**	**(5,200)**	**(176,830)**
Government grants	(60,160)	(225,764)	(97,226)	(245)	**(383,395)**
Total Income	**(210,383)**	**(240,270)**	**(104,127)**	**(5,445)**	**(560,225)**
Employee expenses	27,630	126,286	29,586	7,460	**190,962**
Other service expenses	236,860	241,812	120,904	(252)	**599,324**
Exceptional item – pension back funding	0	0	(67,567)	0	**(67,567)**
Total Expenditure	**264,490**	**368,098**	**82,923**	**7,208**	**722,719**
Net Expenditure	**54,107**	**127,828**	**(21,204)**	**1,763**	**162,494**

Directorate Income and Expenditure 2009/10 comparative figures	**Culture & Community £000**	**Social Care & Learning £000**	**Finance & Commerce £000**	**Legal & Democratic Services £000**	**Total £000**
Fees, charges & other service income	(63,280)	(19,983)	(8,734)	(1,068)	**(93,065)**
Government grants	(21,526)	(208,465)	(93,086)	(352)	**(323,429**
Total Income	**(84,806)**	**(228,448)**	**(101,820)**	**(1,420)**	**(416,494)**
Employee expenses	28,207	189,900	27,804	5,334	**251,245**
Other service expenses	97,087	143,518	81,683	1,491	**323,779**
Total Expenditure	**125,294**	**333,418**	**109,487**	**6,825**	**575,024**
Net Expenditure	**40,488**	**104,970**	**7,667**	**5,405**	**158,530**

Reconciliation to Subjective Analysis

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement.

2010/11	**Directorate Analysis**	**Amounts not reported to manage-ment for decision making**	**Amounts not included in C I & E**	**Cost of Services**	**Corporate Amounts**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges & other service income	(176,830)	317	0	**(176,513)**	0	**(176,513)**
Interest and investment income	0	0	0	**0**	(4,767)	**(4,767)**
Income from council tax	0	0	0	**0**	(106,852)	**(106,852)**
Government grants and contributions	(383,395)	0	0	**(383,395)**	(109,844)	**(493,239)**
Total income	**(560,225)**	**317**	**0**	**(559,908)**	**(221,463)**	**(781,371)**
Employee expenses	190,962	(4,475)	(26,130)	**160,357**	0	**160,357**
Other service expenses	404,740	139,934	9,633	**554,307**	0	**554,307**
Depreciation, amortisation and impairment	194,584	0	0	**194,584**	0	**194,584**
Interest Payments	0	0	0	**0**	18,824	**18,824**
Past Service gain	(67,567)	0	0	**(67,567)**	0	**(67,567)**
Precepts & Levies	0	0	0	**0**	11,458	**11,458**
Payments to Housing Capital Receipts Pool	0	0	0	**0**	1,743	**1,743**
Gain or Loss on Disposal of Fixed Assets	0	0	0	**0**	(1,130)	**(1,130)**
Total expenditure	**722,719**	**135,459**	**(16,497)**	**841,681**	**30,895**	**872,576**
(Surplus) or deficit on the provision of services	**162,494**	**135,776**	**(16,497)**	**281,773**	**(190,568)**	**91,205**

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.

2009/10 £000		2010/11 £000
158,530	Net expenditure in the Directorate Analysis	162,494
(11,799)	Net expenditure of services and support services not included in the Analysis (including movement in Housing Revenue Account balance)	135,776
22,009	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(16,497)
168,740	**Cost of Services in Comprehensive Income and Expenditure Statement**	**281,773**

Reconciliation to Subjective Analysis

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

2009/10 Comparatives	**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 & other service income	(93,065)	(2,244)	13,366	**(81,943)**	0	**(81,943)**
Interest and investment income	0	0	0	**0**	(8,608)	**(8,608)**
Income from council tax	0	0	0	**0**	(106,926)	**(106,926)**
Government grants and contributions	(323,429)	0	395	**(323,034)**	(86,314)	**(409,348)**
Total income	**(416,494)**	**(2,244)**	**13,761**	**(404,977)**	**(201,848)**	**(606,825)**
Employee expenses	195,810	548	0	**196,358**	0	**196,358**
Other service expenses	318,550	(10,103)	8,423	**316,870**	185	**317,055**
Depreciation, amortisation and impairment	60,664	0	0	**60,664**	0	**60,664**
Interest Payments	0	0		**0**	26,301	**26,301**
Precepts & Levies	0	0	(175)	**(175)**	11,139	**10,964**
Payments to Housing Capital Receipts Pool	0	0	0	**0**	1,406	**1,406**
Gain or Loss on Disposal of Fixed Assets	0	0	0	**0**	(1,185)	**(1,185)**
Total expenditure	**575,024**	**(9,555)**	**8,248**	**573,717**	**37,846**	**611,563**
(Surplus) or deficit on the provision of services	**158,530**	**(11,799)**	**22,009**	**168,740**	**(164,002)**	**4,738**

27. 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.

28. Trading Operations

	2010/11 Income	2010/11 Expenditure	2010/11 (Surplus)/ Deficit	2009/10 (Surplus)/ Deficit
	£000	£000	£000	£000
a) Open Air Market – The Council operates an open air market three days a week	(673)	950	277	(143)
b) Other Trading Accounts				
Highways	(4,363)	4,417	54	33
Schools/Welfare Catering	(5,005)	6,284	1,279	870

The 2009/2010 comparatives have been restated to include increases to pay for single status agreement. The increase in deficit is due to a £470k increase in overheads that has been off-set by £60k extra contribution to overheads.

The Market expenditure figure for 2010/11 includes impairment cost of £228k relating to the Market revaluation adjustment.

The comparative data for the Catering deficit in 2009/10 has been restated to include increases in pay for the single status agreement (£576k) previously shown as a note to the accounts.

29. 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 provides for The London Borough of Havering (LBH) to host a pooled budget between the two partners. This includes integrated services and joint commissioning in relation to the provision of Health & Social Care Services for Adults with Learning Disabilities (LD) qualifying for such provision. Services can be provided to those clients either in borough or at their current location in the United Kingdom, depending on needs and circumstances.

	2010/11 £000	2009/10 £000
Funding		
London Borough of Havering	12,181	12,494
Development Fund	157	157
Primary Care Trust	7,443	7,563
Total Funding	**19,781**	**20,214**
Out-turn	20,610	20,427
(Surplus)/Deficit carried forward due (to)/from LBH	**829**	**213**

Other expenditure contributing to LBH's activity in this service area, including transport expenditure is not formally part of the pool.

(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. The agreement provides for The London Borough of Havering (LBH) to host a pooled budget between the three partners. This includes integrated services and joint commissioning in relation to the provision of Health & Social Care Services for Adults with Mental Health (MH) qualifying for such provision. Services can be provided to those clients either in borough or at their current location in the United Kingdom, depending on needs and circumstances.

	2010/11 £000	**2009/10 £000**
Funding		
London Borough of Havering	3,268	3,113
Havering PCT	243	247
NELFT	82	280
Total Funding	**3,593**	**3,640**
Out-turn	3,576	3,409
(Surplus)/Deficit carried forward due (to)/from LBH	**(17)**	**(231)**

Recharges applicable to LBH's activity in this service area are not formally part of the pool.

This pooled budget came into effect at the start of the 2009/10 financial year and therefore no prior year comparative has been provide

30. Members' Allowances

Payments in the year were £1,113,555 including expenses (£1,126,707 in 2009/10). Additionally, payments to co-opted Members totalled £1,773 (£3,780 in 2009/10).

31. 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:

	2010/11			2009/10		
	Schools	Other	**Total**	Schools	Other	**Total**
£50,000 - £54,999	60	44	**104**	64	37	**101**
£55,000 - £59,999	37	31	**68**	34	32	**66**
£60,000 - £64,999	25	21	**46**	22	12	**34**
£65,000 - £69,999	11	15	**26**	9	14	**23**
£70,000 - £74,999	9	10	**19**	8	9	**17**
£75,000 - £79,999	7	1	**8**	8	2	**10**
£80,000 - £84,999	4	2	**6**	1	8	**9**
£85,000 - £89,999	3	3	**6**	2	1	**3**
£90,000 - £94,999	1	4	**5**	0	5	**5**
£95,000 - £99,999	0	3	**3**	0	2	**2**
£100,000 - £104,999	0	2	**2**	0	1	**1**
£105,000 - £109,999	0	2	**2**	0	2	**2**
£110,000 - £114,999	0	1	**1**	0	0	**0**
£115,000 - £119,999	1	1	**2**	0	0	**0**
£120,000 - £124,999	0	0	**0**	0	0	**0**
£125,000 - £129,999	0	2	**2**	0	0	**0**
£130,000 - £134,999	0	0	**0**	0	0	**0**
£135,000 - £139,999	0	0	**0**	0	1	**1**
£140,000 - £144,999	0	1	**1**	0	1	**1**
£145,000 - £149,999	0	0	**0**	0	0	**0**
£150,000 - £154,999	0	0	**0**	0	0	**0**
£155,000 - £159,000	0	0	**0**	0	0	**0**
£160,000 - £164,999	0	1	**1**	0	1	**1**
	158	**144**	**302**	**148**	**128**	**276**

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

Remuneration).

Senior Officers Remuneration

The following table sets out the remuneration disclosures for Senior Officers whose salaries are more than £50,000 per annum in accordance with regulation 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 London Borough of Havering 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 2010/11	Employer's Pension contribution	Total Remuneration including pension contributions 2010/11
		£	£	£	£	£
Chief Executive - C Coppell	1	163,920	16,293	**180,213**	28,113	**208,326**
Group Director of Social Care and Learning		145,000	0	**145,000**	22,620	**167,620**
Group Director of Culture and Communities		130,000	0	**130,000**	20,280	**150,280**
Group Director of Finance and Commerce		130,000	0	**130,000**	20,280	**150,280**
Assistant Chief Executive – Legal and Democratic Services		105,000	0	**105,000**	16,380	**121,380**
		673,920	**16,293**	**690,213**	**107,673**	**797,886**

Note 1 - Amounts included under other payments represent sums received in respect of the role as returning officer. In May 2010 the returning officer earned £8,508 for managing the local Council elections and £7,785 for managing the national Parliamentary elections. Costs relating to national elections are reimbursed by Central Government.

The comparative figures for 2009/10 are as follows:

Post Holder Information	Notes	Salary	Other Payments	Total Remuneration excluding pension contributions 2009/10	Employer's Pension contribution	Total Remuneration including pension contributions 2009/10
		£	£	**£**	£	£
Chief Executive - C Coppell	Note 1	163,920	9,276	**173,196**	27,019	**200,215**
Group Director of Social Care and Learning		145,000	0	**145,000**	22,620	**167,620**
Group Director of Culture and Communities		139,986	0	**139,986**	21,838	**161,824**
Group Director of Finance and Commerce - Resigned 31st August 2009	Note 2	64,153	0	**64,153**	10,008	**74,161**
Group Director of Finance and Commerce - 1st September 2009	Note 2	73,938	0	**73,938**	11,534	**85,472**
Assistant Chief Executive – Legal and Democratic Services		108,455	0	**108,455**	16,919	**125,374**
		695,452	**9,276**	**704,728**	**109,938**	**814,666**

Note 1 – Payments made in respect of the Chief Executive's role as returning officer in national and local elections are included in the table as other payments. Costs relating to national elections are reimbursed by Central Government.

Note 2 - The Group Director of Finance and Commerce resigned with effect from 31st August 2009 and was replaced on the 1st September 2009. The annualised salary for the Group Director of Finance and Commerce was £139,986 for 2009/10.

32. External Audit Costs

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

2009/10 £000		2010/11 £000
323	Fees payable with regard to external audit services carried out by appointed auditor	389
20	Fees payable to the Audit Commission in respect of statutory inspection	0
89	Fees payable for the certification of grant claims and returns carried out by the appointed auditor	78
6	Fees payable in respect of other services provided by the appointed auditor	0
438	**Total for year**	**467**

33. 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 an authority wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately.

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

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure	**Individual Schools Budget**	**Totals**
	£000	**£000**	**£000**
Final DSG for 2010/11	-	-	158,131
Brought forward from 2009/10	-	-	3,091
Carry forward to 2010/11 agreed in advance	-	-	0
Agreed budget distribution for 2010/11	**18,818**	**142,402**	**161,222**
Actual Central Expenditure	13,810	0	13,810
Actual ISB deployed to Schools	0	142,402	142,404
Local Authority contribution for 2010/11	0	0	0
Carry forward to 2011/12	**5,008**	**0**	**5,008**

34. **Grant Income**

a) The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

2009/10 £000		**2010/11 £000**
Credited to Taxation an Non Specific Grant Income		
10,224	Revenue Support Grant	7,014
9,020	Area Based Grant	12,116
22,272	Capital grants	42,414
41,516	**Total**	**61,544**
Credited to Services		
39,102	Rent Allowances	44,434
31,216	HRA rent rebates	31,248
18,821	Council Tax benefits	19,316
(6,548)	Housing subsidies	(10,610)
153,255	Dedicated Schools Grant	158,131
21,118	Standards Fund	23,220
9,412	Learning Skills Councils / Young People Learning Agency	21,457
4,483	Sure Start	6,059
1,849	Revenues & Benefits	1,701
12,719	Other	7,563
285,427	**Total**	**302,519**

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver. The balances at the year-end are as follows:

b) Capital Grants – receipts in advance:

2009/10 £000		2010/11 £000
9,838	Brought forward	14,143
26,819	Amounts received in year	39,024
(22,514)	Amounts applied to meet new capital investment	(42,414)
14,143	**Carried forward**	**10,753**

35. 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.

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). Grants received from government departments are set out in the subjective analysis in Note 26 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2011 are shown in Note 34. Details of transactions with other Government departments are set out in the notes to the cashflow statement.

Payments for the provision of services totalling £737,184 were made to three voluntary and charitable bodies where eleven members declared an interest. Additionally, payments of £444,725 were made to Havering College of Further & Higher Education in which three members of the council have an interest, payments of £239,488 was made to CEME (Centre for Engineering & Manufacturing Excellence) in which one member of the Council has an interest, and payments of £140,000 were made to London Riverside BId Limited which one member of the Council has an interest. Details are recorded in the Register of Members Interests open to public inspection at the Council offices

Pension Fund: The Council made payments of £19.3 million to the London Borough of Havering Pension Fund in respect of employer's pension contributions. Further details can be found in note 3 to the Pension Fund accounts.

Assisted Organisations: The Council provided material financial assistance to Havering Theatre Trust which comprises more than 50% of their funding. Payments in 2010/11 totalled £0.547 million. The management board of the Trust consists of 16 members of whom five are Council members.

36. Capital Expenditure and Capital Financing

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

2009/10 £000	Capital Expenditure	2010/11 £000
60,806	Property, Plant and Equipment	68,268
1,877	Intangible Fixed Assets	4,208
4,452	Revenue expenditure funded from capital under statute	4,921
67,135	**Total Capital Expenditure**	**77,397**
	Less financed from	
(21,432)	Capital Receipts	(9,178)
(10,108)	Major Repairs	(6,276)
(4,247)	Revenue Funds	(3,115)
(22,772)	Grants & Contributions	(42,414)
8,576	**Increase in Need to Borrow Supported by Government**	**16,414**

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

31 March 2010 £000	Capital Financing Requirement	31 March 2011 £000
1,099,873	Tangible Fixed Assets	907,151
2,019	Intangible Assets	4,742
(140,515)	Revaluation Reserve	(116,919)
(872,955)	Capital Adjustment Account	(729,931)
(1,178)	Finance Lease Liability	(1,734)
(39,127)	Grants Deferred Account	0
48,117	**Net Requirement**	**63,309**

37. Leases

Authority as Lessee

Finance Leases

The Council has acquired vehicles and plant under finance leases. Additionally, a number of Schools have entered into lease arrangements for ICT and other equipment which have been identified 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:

31 March 2010 £000		31 March 2011 £000
	Vehicles, Plant, Furniture and Equipment	
161	Transport	51
732	Schools	571
893	**Net Asset Values**	**622**

The Authority 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 Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2010 £000		31 March 2011 £000
	Finance lease liabilities (net present value of minimum lease payments):	
331	• Current	286
576	• Non current	375
333	Finance costs payable in future years	207
1,240	**Minimum lease payments**	**868**

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

	Finance Lease Liabilities		**Minimum Lease Payments**	
	31 March 2011 £000	**31 March 2010 £000**	**31 March 2011 £000**	**31 March 2010 £000**
Not later than one year	286	331	388	463
Later than one year and not later than five years	375	576	480	777
Later than five years	0	0	0	0
	661	**907**	**868**	**1,240**

Operating Leases

The Authority has acquired vehicles, plant and equipment by entering into operating leases, with asset lives of typically 10 years.

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

31 March 2010 £000		**31 March 2011 £000**
8	Not later than one year	38
14	Later than one year and not later than five years	64
0	Later than five years	0
22		**102**

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

2009/10 £000		2010/11 £000
22	Children's and Education Services	7
7	Highways, Roads and Transport Services	33
29		**40**

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

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

31 March 2010 £000		31 March 2011 £000
1,225	Not later than one year	926
1,784	Later than one year and not later than five years	1,107
2,239	Later than five years	2,036
5,248		**4,069**

The minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £1.228 million. In most cases these rents are charged to Central Support Services and subsequently recharged to the appropriate Service in accordance with the BVACOP.

38. 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 18 November 2005 for Hall Mead and 26 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 £1.071 million as at 31 March 2011. Depreciation of £106,000 was charged to Children's and Education Services within the Income and Expenditure Account in 2009/10.

Contract payments in 2010/11 total £164,000 of which £57,000 has been allocated to financing costs and £108,000 to reducing the liability in accordance with requirements of the IFRS code of practice. The current year position is shown below:

31 March 2010 £000	**Finance Lease Liability**	**31 March 2011 £000**
1,281	Balance brought forward	1,179
(103)	Repayments in year	(108)
1,178	**Balance carried forward**	**1,071**

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	116	113	51	280
Later than one year and not later than five years	493	509	149	1,151
Later than five years	403	449	44	896

39. Impairment Losses

During 2010/11, The Authority has recognised an impairment loss of £149m in the Comprehensive Income & Expenditure Statement (see also note 5). This is in relation to its revaluation of assets and 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	131,470
Other Land & Buildings	17,572
Vehicles, Plant, Furniture & Equipment	0
Infrastructure Assets	0
Community Assets	4
Surplus Assets	0
Assets Under Construction	0

The impairment loss is subsequently reversed out of the General Fund Balance and charged against the Capital Adjustment Account. In accordance with statutory provisions. As such, the impairment charge has no impact upon the amount to be charged for Council Tax or HRA rent setting.

40. Termination Benefits

The Authority terminated the contracts of a number of employees in 2010/11, incurring costs of £231,097 (£1,263,161 in 2009/10).

41. Pensions Schemes Accounted for as Defined Contribution Schemes
Teachers Pensions

Teachers employed by the Authority are members of the Teachers Pension scheme administered by the Department for Education (DfE). It provides teachers with defined benefits upon their retirement and the Authority contributes towards these costs by making contributions based upon a percentage of member's personal salaries.
The Teachers Pension scheme is a defined benefit scheme, administered by the Teachers Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employer's contribution rates paid by Local Education Authorities (LEAs). However, it is not possible for the Authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of the Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme.
In 2010/11 the Authority paid £11.5m (£11.2m 2009/10) to Teachers Pensions in respect of teachers pension contributions. This represented 14.1% of teachers' pensionable pay (14.1% in 2009/10). There were no contributions remaining payable at the end of the period.

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

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

The Authority 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 Authority 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 are 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 Authority 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.

	2010/11 £000	2009/10 £000
Net Cost of Services:		
Current service cost	16,134	11,390
Past service costs	(67,710)	530
Net Operating Expenditure:		
Interest cost	37,481	36,390
Expected return on pension fund assets	(21,304)	(12,700)
Net Charge to C, I and E and surplus / deficit on the Provision of Services	**(35,399)**	**35,610**
Movement on Pension Fund Reserve	54,613	(14,840)
Actual amount charged against Council Tax for pensions in the year	**19,214**	**20,770**
Payments in Year		
Employer Contributions	18,157	19,300
Unfunded pension payments	1,057	1,470
Actual amount charged against Council Tax for pensions in the year	**19,214**	**20,770**

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial gains of £86.1 million (2009/10: losses of £88.2 million) were included in the Statement of Movements in Reserves. The cumulative amount of actuarial losses recognised in the Statement of Movements in Reserves is £129.6 million.

43. Assets and Liabilities in relation to Retirement Benefits.

Reconciliation of Scheme Liabilities

Funded Liabilities	**2010/11 £000**	**2009/10 £000**
Opening Balance	736,240	548,510
Current Service Cost	16, 134	11,390
Interest Cost	37,481	36,390
Contributions by Scheme Participants	5,441	5,530
Actuarial (Gains) / Losses	(82,942)	162,540
Unfunded benefits paid	(1,057)	(1,470)
Benefits Paid	(25,108)	(27,180)
Past Service Costs	(67,730)	530
Losses on curtailment	20	0
Closing Balance	**618,479**	**736,240**

Reconciliation of fair value of the scheme assets:

Scheme Assets	**2010/11 £000**	**2009/10 £000**
Opening Balance	314,290	229,610
Expected Rate of Return	21,304	12,700
Actuarial Gains or (Losses)	3,176	74,330
Employer Contributions	19,214	19,300
Contributions by Scheme Participants	5,441	5,530
Benefits Paid	(26,165)	(27,180)
Closing Balance	**337,260**	**314,290**

The London Borough of Havering 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 31 March 2011.

The actual gain on scheme assets in the year was £24.48 m (as compared with a loss of £87.03m in 2009/10).

Scheme history

	2010/11 £000	2009/10 £000	2008/09 £000	2007/08 £000	2006/07 £000
Present Value of Fund Liabilities	(618,479)	(736,240)	(548,510)	(532,780)	(566,760)
Fair Value of assets in the Scheme	337,260	314,290	229,610	313,610	335,780
Net Surplus/ (Deficit)	**(281,219)**	**(421,950)**	**(318,900)**	**(219,170)**	**(230,980)**

Assets are measured at current bid price.

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £281m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a reduction in the overall balance from £911.7 m to £630.5 m, a reduction of 31%. 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 31 March 2012 is £18.45m. 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 London Borough of Havering Pension Fund, have assessed the liabilities, with estimates being based on the latest full valuation of the schemes as at 31 March 2011

The main assumptions used in their calculations are as follows:

	31 March 2011	31 March 2010
Long-term expected rate of return on assets in the scheme		
Equity Investments	7.5%	8%
Bonds	4.9%	5%
Property	5.5%	8.5%
Cash	4.6%	0.7%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.9	22.6
Women	24.6	24.6
Longevity at 65 for future pensioners:		
Men	23.8	24.6
Women	26.5	26.8
Rate of inflation	2.8%	3.9%
Rate of increase in salaries	4.6%	5.3%
Rate of increase in pensions in payment	2.8%	3.8%
Rate of increase in deferred pensions	2.8%	3.8%
Discount Rate	5.5%	5.5%
Take-up of option to convert annual pension into retirement lump sum	75%	50%

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

	31 March 2011 %	31 March 2010 %
Equity Investment	62.0	59.8
Property	5.0	5.0
Bonds	29.0	30.7
Cash	4.0	4.5
Total	**100.0**	**100.0**

History of Experience Gains and Losses

The actuarial gains / (losses) identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories:

	2010/11	2009/10	2008/09	2007/08	2006/07
	£000	£000	£000	£000	£000
Experience gains / (losses) on Assets	3,176	74,330	(104,330)	(46,660)	930
Experience gains / (losses) on Liabilities	82,942	(162,540)	(2,790)	(5,710)	(1,500)

44. Contingent Liabilities

Employee related liabilities

There are 15 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 were also 128 equal pay claims against the Council as at 31st March 2011. These are at an early stage of the process and some of the claims are duplicates. As such it is not possible to identify the liability at this time.

45. 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 & 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 Finance and Commerce. 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 on 23rd February 2011. 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 31 March 2011 £000	Historical experience of default %	Estimated maximum exposure to default and un-collectability %	Estimated maximum exposure at 31 March 2011 £000
Deposits with Banks and financial Institutions:				
Banks with a long term rating of AA- or higher	81,928	0%	0%	0
Banks with a long term rating of A- to A+	0	0%	0%	0
Customers (Debtors)	64,799	1.1%	27%	17,488

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 £15.4 million of £64.8 million 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.

	2009/10 £000	2010/11 £000
Less than three months	34,105	45,195
Less than six months	2,874	2,063
Six months to one year	3,049	2,132
More than one year	14,873	13,646
Long Term Debtors	2,123	1,763
	57,024	**64,799**

Long term debtors include loans secured by mortgage to the value of £1.8m. Debts to the value of £1.9m 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 authority 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:

	2009/10 **£000**	**2010/11** **£000**
Less than one year	1,095	14,871
Between one and two years	0	0
Between two and five years	0	0
More than five years	44,986	44,986
	46,081	**59,857**

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 of 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 Financial Services 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:

	2009/10 **£000**	**2010/11** **£000**
Increase in interest payable on variable borrowings	(12)	(31)
Increase in interest receivable on investments	1,208	946
Impact upon C, I and E Account	**1,196**	**915**

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

Price risk

The Council does not invest in equity shares (other than in its capacity as the administering authority for the LBH Pension Fund). It therefore has no direct exposure to risk arising from movement in prices.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies (other than in its capacity as the administering authority for the LBH Pension Fund). It therefore has no direct exposure to loss arising from movements in exchange rates.

46. 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 Playsite Charity £**
Balance 31 March 2010	6,500	164,947
Receipts	24	618
Payments	(24)	0
Balance 31 March 2011	**6,500**	**165,565**

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 2010/11

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.

2009/10 £'000		**Notes**	**2010/11**
	Income		
35,432	Dwelling rents		36,097
2,404	Non-dwelling rents		2,393
5,034	Charges for services and facilities		5,577
1,741	Contributions towards expenditure		1,830
27,289	Revaluation gain matching previous impairment		0
10,062	Housing subsidy receivable	6	6,327
81,962	**Total Income**		**52,224**
	Expenditure		
5,999	Repairs and maintenance		7,021
19,194	Supervision and management		18,558
577	Rents, rates, taxes and other charges		374
16,876	Negative subsidy payable to the Secretary of State	6	16,937
244	Increased provision for bad/doubtful debts		132
23,467	Depreciation and Impairment of tangible fixed assets	4	150,969
48	Intangible fixed assets amortised	5	48
127	Revenue expenditure funded from capital under statute amortised	5	31
20	Debt management		4
66,552	**Total Expenditure**		**194,074**
(15,410)	**Net Cost of Services included in the Comprehensive I & E Statement**		**141,850**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(988)	Net gain on HRA assets		(1,273)
191	Interest payable and similar charges		372
(96)	Interest and investment income		(108)
(16,303)	**(Surplus) for the Year on HRA Services**		**140,841**

Movement on the Housing Revenue Account Balance during 2010/11

2009/10 £'000		2010/11 £'000
(371)	**Housing Revenue Account balance brought forward**	**(1,726)**
(16,303)	(Surplus) or Deficit for the Year on the HRA I & E Account	140,841
14,050	Adjustments between accounting basis & funding basis under regulations	(144,431)
(2,624)	**Net increase/decrease before transfer to earmarked reserves**	**(5,316)**
898	Transfers to/from earmarked reserves	1,122
(1,726)	**Housing Revenue Account balance carried forward**	**(4,194)**

Note to the Statement of Movement on the Housing Revenue Account Balance 2010/11

2009/10 £'000	Notes	2010/11 £'000
	Items included in the HRA Income and Expenditure Account but excluded from the movement in the HRA balance	
(14,340)	Depreciation and impairment of fixed assets	(145,744)
27,289	Revaluation gain matching previous impairment	0
1	Short term accumulating absences	0
988	Gain or (loss) on fixed assets	1,273
(31)	Difference between the amounts debited (-) /credited(+) to the I & E account and amounts payable(+)/receivable(-) to be recognised under statutory provisions relating to premiums and discounts	(1)
143	Net charge made for retirement benefits	41
14,050		**(144,431)**
	Items not included in the HRA Income and Expenditure Account but included from the movement in the HRA balance	
760	Net contribution from the major repairs reserve	1,022
138	Capital Expenditure funded by the HRA	100
898		**1,122**
14,948	**Net additional amount required by statute to be debited or credited to the HRA balance**	**(143,309)**

Notes to the Housing Revenue Account

1. Information on Housing Fixed Assets

a) Number of Dwellings

	2010/11 Number	2009/10 Number
Flats		
1 bedroom	3,142	3,144
2 bedrooms	2,403	2,407
3 bedrooms	391	391
4 or more bedrooms	21	21
Houses		
1 bedroom	405	405
2 bedrooms	1,192	1,204
3 bedroom	2,494	2,495
4 or more bedrooms	144	142
Total Number of Dwellings	**10,192**	**10,209**

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

	2010/11 £'000	2009/10 £'000
Operational		
Dwellings	356,089	502,826
Other Land & Buildings	22,861	14,887
Vehicles, Plant & Equipment	81	54
Infrastructure	3,477	3,675
	382,508	521,442
Non-operational		
Investment Properties	21,043	22,972
	21,043	22,972
Total Tangible Fixed Assets	**403,551**	**544,414**

c) Valuation of Council dwellings at year end

	2010/11 £'000	2009/10 £'000
Vacant possession value	1,424	1,356
Excess of vacant possession value over balance sheet value	1,068	854

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

	2010/11 £'000	2009/10 £'000
Total depreciation from Capital Adjustment Account	5,305	9,302
Net contribution (to)/from HRA for difference between Major Repairs Allowance and depreciation	1,022	760
Net Income equal to Major Repairs Allowance	6,327	10,062
Capital expenditure on HRA capital assets:		
Dwellings	6,255	9,873
Other Land & Buildings	21	0
Infrastructure		124
Grants		111
Total Capital Expenditure	6,276	10,108
Balance brought forward at start of year	88	134
Balance carried forward at end of year	**139**	**88**

3. a) Total Capital Expenditure & Funding

	2010/11 £'000	2009/10 £'000
Capital expenditure on HRA property & other assets:		
Dwellings	14,336	14,164
Other Land & Buildings	938	0
Equipment	49	43
Infrastructure	131	195
Revenue expenditure funded from capital under statute and Intangibles	979	1,136
Total Expenditure	**16,433**	**15,538**
Financed from:		
Borrowing	8,809	2,114
Major Repairs Reserve	6,276	10,108
Grants & Contributions	1,929	2,536
Revenue Contributions	100	138
Capital Receipts	(681)	642
Total Funding	**16,433**	**15,538**

b) HRA Capital Receipts

	2010/11 £'000	2009/10 £'000
Right to Buy Sales	2,361	1,874
Other Property Sales	3,542	2,711
Other Receipts	0	69
Total Cash Receipts	5,903	4,654
Transferred for Pooling	(1,743)	(1,406)
Total New Usable	**4,160**	**3,248**

4. Depreciation & Impairment Charge

The depreciation charged to the HRA breaks down as follows:

	2010/11 £'000	2009/10 £'000
Dwellings	4,484	8,543
Other Buildings	471	407
Equipment	21	34
Infrastructure	329	318
Surplus Property	0	0
Total HRA depreciation	**5,305**	**9,302**
Impairment charge	**145,664**	**14,165**
Total HRA depreciation & impairment charge	**150,969**	**23,467**

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

	2010/11 £'000	2009/10 £'000
Mobility Grants & Other Revenue expenditure funded from capital under statute	31	127
Intangible Assets: Computer Software	48	48
Total Amortised	**79**	**175**

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:	2010/11 £'000	2009/10 £'000
Management & maintenance	17,983	17,625
Others	1,207	961
Guide line rent	(36,123)	(35,446)
Prior years adjustments	(4)	(16)
Sub-total subsidy payable	**(16,937)**	**(16,876)**
Major Repairs Allowance	6,327	10,062
Sub-total subsidy receivable	**6,327**	**10,062**
Total subsidy payable	**(10,610)**	**(6,814)**

7. Rent Income, Arrears & Bad Debts

	2010/11	2009/10
Average weekly rent (including service charges unpooled)	£73.43	£71.85

The increase in average weekly rents was 2.2%

	2010/11 £'000	2009/10 £'000
Rent arrears at 31 March	1,975	2,058
Bad debts provision at 31 March	1,394	1,471

Collection Fund 2010/2011

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

Income and Expenditure Account

2009/10 £'000		Note	2010/11 £'000
	Income		
116,914	Income from Council Taxpayers		116,833
	Transfers from General Fund		
18,667	Council Tax benefit		19,093
36	Prompt payment discounts		39
(3)	Transitional relief		(1)
63,580	Income collectable from Business Rates	2	65,654
199,194	**Total Income**		**201,618**
	Expenditure		
134,000	Precepts & Demands	3	134,219
(1,229)	Distribution of previous year's Council Tax surplus/(deficit)		(164)
	Business Rates		
63,293	Payment to National Pool		65,373
287	Cost of Collection		281
	Bad and doubtful debts provision		
647	Write-offs		507
1,462	Provisions		907
198,460	**Total Expenditure**		**201,123**
734	Movement in fund balance		495
(1,163)	Net surplus (deficit) at start of year		(429)
(429)	**Net surplus (deficit) carried forward**	**4**	**66**

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 Authority set the level of Council Tax in 2010/11 at £1,511 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	2,882
B	6,490
C	19,614
D	31,257
E	16,722
F	8,386
G	4,712
H	474
Allowance for losses in collection 1.5%	(1,358)
Tax Base	**89,182**

2. Income from Business Rates

Under the arrangements for uniform business rates, the Authority collects Non-Domestic Rates (NNDR) for its area. These are based on local rateable values (£186.7 million at 31 March 2011 and (£157.4 million at 31 March 2010) multiplied by uniform rates for large and small businesses. In 2010/11 the rate was 41.4p for large businesses (48.5p in 2009/10) and 40.7p for small (48.1p in 2009/10). The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government. Under these arrangements the amounts included in these Accounts can be analysed as follows:

	2010/11 £'000	2009/10 £'000
Gross NNDR due in year	72,702	68,985
Less: allowances and other adjustments	(7,048)	(5,405)
	65,654	**63,580**

3. Precepts & Demands

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

	2010/11 £'000	2009/10 £'000
London Borough of Havering	106,589	106,524
Greater London Authority	27,630	27,476
	134,219	**134,000**

4. Collection Fund Deficit

The deficit on the Collection Fund will be met by the precepting Authority and the billing Authority in the following proportions and will be recovered by adjusting the level of precepts and demands during 2010/11 and 2011/12.

	2010/11 £'000	2009/10 £'000
London Borough of Havering	(53)	340
Greater London Authority	(13)	89
Deficit/(Surplus)	**(66)**	**429**

Pension Fund

Introduction

The Council's Pension Fund is operated under the Local Government Pension Scheme Regulations 2007; the Fund provides benefits for employees (excluding teachers) which include retirement pensions, spouse and children's pensions, death grants and other lump sum payments. Civil partners are now recognised as having the same benefit rights as members' spouses.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Council's consolidated accounts.

Membership

The membership of the Pension Fund is as follows:

	As at 31 March 2011	As at 31 March 2010
Contributors	6,155	6,157
Deferred pensioners	4,041	3,744
Pensioners and Dependants	5,065	4,951
TOTAL	**15,261**	**14,852**

Employers in the Fund

The other employers in the Pension Fund are as follows:

Scheduled bodies

Havering College of Further Education
Havering Sixth Form College
Homes in Havering
Drapers Academy

Admitted Bodies

Havering Citizens Advice Bureau
Morrisons (formerly AWG)
May Gurney
Sports & Leisure Management Ltd
KGB Cleaners

Designated Bodies

Trust Schools
Hall Mead Secondary School
Corbets Tey Special School

Foundation Schools
Frances Bardsley School for Girls
Abbs Cross School
The Chafford School
Brittons School & Technology College
The Sanders Draper School
The Albany School
The Mawney Primary School

Voluntary Aided Schools
Campion School
Sacred Heart of Mary's Girl's School
St Edwards CE Secondary Comprehensive
Coopers' Company & Coborn School
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

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 each year 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.

The Group Director Finance and Commerce supports the Pension's Committee and is responsible for the internal administration arrangements regarding monitoring of the external investment managers' transactions and is also responsible for pension's administration.

Havering Pension Fund appointed five Fund managers in February 2005 with specific investment mandates. A review of the Funds investment strategy took place during the summer of 2008. The main change resulted in the Fund aiming to reduce its asset allocation to Bonds and increase its allocation to Equities. The mandate with the Global Bond Manager was therefore terminated in August 2008. Given that markets had seen unprecedented volatility and market falls during 2008 some of the intended restructuring was postponed. The markets were monitored during 2009 and the Fund carried out a competitive tender process for a Passive Equity Manager and a Multi – asset Manager. The results of this exercise awarded contracts to State Street (passive equities manager) and Ruffer Investment Company (Multi-asset manager) who commenced trading in September 2010. In September 2010 the Pensions Committee decided to terminate the mandate with the Global Equities Manager (Alliance Bernstein) and assets have been placed with the Passive Equity Manager (State Street Global Assets) until the Pensions Committee consider their next steps. Further strategy implementation (including rebalancing) will be undertaken during 2011/12.

The Fund managers and the market value of assets under their management at the 31st March 2011 were as follows:

Manager	Mandate	Value	
		£'000	%
Standard Life	UK Equities	91,172	24.12
Royal London	Investment Grade Bonds	105,943	28.03
UBS	Property	20,316	5.38
Ruffer	Absolute Return	18,365	4.86
State Street Global Assets	Passive UK/Global Equities	141,878	37.54
Alliance Bernstein	Global Equities	150	.04
	Sub total	**377,824**	**99.97**
	Other	123	.03
	Total Fund	**377,947**	**100.00**

The main investment objective is to maximise the overall return on the Pension Fund's investments from income and capital appreciation without high risk and 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 2010/11, the overall return on the Fund's investments was 6.3% (2009/10 38.2%). This represented an under performance of -1.9% against the tactical benchmark (2009/10 outperformance of 2.5%) and an under performance of -3.3% against the strategic benchmark (2009/10 outperformance 34.2%).

Following the unprecedented volatility in financial markets in the wake of the credit crunch and economic downturn, there was some considerable recovery during 2009/10. Although Stock market values have risen over the current year the markets are still very volatile.

The longer term performance is as follows:

	3 years to 31.3.11 %	5 years to 31.3.11 %
Fund return	**3.1**	**1.8**
Tactical Benchmark	5.8	4.1
Performance	**(2.6)**	**(2.1)**
Fund return	**3.1**	**1.8**
Strategic benchmark	8.1	6.8
Performance	**(4.6)**	**(4.6)**

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 2011

2009/10 £'000		Note	2010/11 £'000
	Contributions and benefits		
28,251	Contributions	3	28,337
849	Transfers in	4	4,311
29,100			**32,648**
(26,926)	Benefits	5	(25,702)
(3,488)	Leavers	6	(1,258)
(636)	Administration	7	(613)
(31,050)			**(27,573)**
(1,950)	**Net additions (withdrawals) from dealings with members**		**5,075**
	Returns on Investments		
(1,303)	Investment management expenses	8	(1,282)
11,274	Investment income	9	10,196
89,798	Change in market value of investments	10	14,174
99,769	**Net returns on investments**		**23,088**
97,819	**Net Increase in the Fund during the year**		**28,163**
262,652	Net assets of the scheme at start of year		360,471
360,471	**Net assets of the scheme at end of year**		**388,634**

Net Asset Statement

31 March 2010 £'000		Note	31 March 2011 £'000
360,440	Investment assets	11	388,686
(78)	Investment Liabilities	11	(164)
460	Current assets	12	413
(351)	Current Liabilities	13	(301)
360,471	**Net assets of the scheme at end of year**		**388,634**

The financial statements summarise the transactions of the scheme 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.

I certify that the Pension Fund Account and Net Assets Statements present a true and fair view of the income and expenditure in 2010/11 and the Pension Fund's financial position as at 31st March 2011.

Andrew Blake-Herbert, CPFA
Group Director of Finance and Commerce

Notes to the Pension Fund

1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with guidelines set out in the 2010/11 Code of Practice on Local Authority Accounting.

2. Accounting Policies

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting. Transactions are included on an accruals basis, other than transfer values which are included on a cash basis, on the basis that they represent a reasonable estimation of cost.

Normal contributions are recognised when they are deducted from payroll for employee contributions. Employer contributions are recognised on the same basis. Employer augmentations are recognised in accordance with the agreement under which they are paid, or in the absence of an agreement on a receipts basis.

Investments are valued at the bid price at the year end date with any surplus or deficit on valuation being debited/ credited to the Fund account.

Holding derivatives is permitted within the relevant fund manager mandate.

Futures contracts are valued at the exchange price for closing out the contract at the year end date and this represents the unrealised profit or loss of the contract.

Forward foreign exchange contracts are stated at fair value which is 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.

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and assets and liabilities in foreign currencies at rates ruling on the 31st March.

Investment income is taken into account where dividends are declared but not paid at the financial year end.

A proportion of relevant officers' salary costs, including related on costs, has been charged to the Fund.

Stock lending is only permitted by the Fund's passive equity manager State Street, on the basis that they have agreed to indemnify the fund against any loss arising from insufficient collateral being posted as part of the stock lending programme.

3. Contributions

	2010/11 £'000	2009/10 £'000
Employers		
Normal:		
Havering	13,057	13,239
Scheduled Bodies	2,072	1,939
Admitted Bodies	560	568
Deficit funding:		
Havering	5,734	5,305
Augmentation:		
Havering	311	650
Scheduled Bodies	63	57
Admitted Bodies	2	71
Employer Total	**21,799**	**21,829**
Members		
Normal:		
Havering	5,506	5,395
Scheduled bodies	723	690
Admitted bodies	160	167
Additional contributions:		
Havering	127	149
Scheduled bodies	21	19
Admitted bodies	1	2
Members Total	**6,538**	**6,422**
	28,337	**28,251**

Note: Some employees made additional voluntary contributions (AVC's) of £99,053 (£83,256 09/10) excluded from the 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 2010/11 were £72,366 to the Prudential and £26,687 to Standard Life. These amounts are not included in the Pension Fund Account in accordance with regulation 5[2] c of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

4. Transfers In

	2010/11 £'000	2009/10 £'000
Individual transfers in from other schemes	4,311	849

5. Benefits

	2010/11 £'000	2009/10 £'000
Pensions		
Havering	20,766	20,426
Scheduled Bodies	327	269
Admitted Bodies	197	106
Pension Total	**21,290**	**20,801**
Commutation & Lump Sum Retirements		
Havering	3,426	4,732
Scheduled Bodies	360	219
Admitted Bodies	128	426
Commutation Total	**3,914**	**5,377**
Lump sum death benefits		
Havering	161	748
Scheduled Bodies	165	0
Admitted Bodies	172	0
Death Benefits Total	**498**	**748**
	25,702	**26,926**

6. Payments To and On Account of Leavers

	2010/11 £'000	2009/10 £'000
Refunds to members leaving service	1	5
Individual transfers to other schemes	1,257	3,483
	1,258	**3,488**

7. Administrative expenses

	2010/11 £'000	2009/10 £'000
Administration & Processing	499	568
Actuarial Fees	63	14
Audit Fees	35	35
Other Fees	6	6
Other Expenses	10	13
	613	**636**

8. Investment Management Expenses

	2010/11 £'000	2009/10 £'000
Administration, management and custody	1,224	1,224
Performance measurement services	11	11
Other Advisory Fees	47	68
	1,282	**1,303**

9. Investment Income

	2010/11 £'000	2009/10 £'000
Income from Fixed Interest Securities	4,702	4,873
Dividends from equities	4,419	5,157
Income from pooled vehicles	617	915
Cash & Deposits	128	53
Other	117	13
Other Income		
Foreign Exchange Profits/(Losses)	213	263
Total Income	**10,196**	**11,274**

10. Investments

	Value at 31 March 2010 £'000	Restated Value at 31 March 2010 £'000	Purchases at cost and derivative payments £'000	Sales Proceeds and derivative receipts £'000	Change in Market Value £'000	Cash & Other Movements £'000	Value at 31 March 2011 £'000
Equities	204,403	204,403	93,987	(91,218)	(913)	(110,121)	96,138
Derivatives	(78)	(78)	0	0	(80)	(6)	(164)
Fixed interest Securities (*)	78,815	78,836	109,460	(114,592)	2,430	0	76,134
Index-linked Securities	28,271	28,250	211,670	(204,968)	2,303	0	37,255
Pooled Investment Vehicles	31,891	31,891	2,454	(11,045)	10,563	131,902	165,765
Cash instruments	450	450	7,942	(8,392)	0	0	0
Cash deposits (fund managers)	4,280	4,280	0	0	(11)	(1,614)	2,655
	348,032	**348,032**	**425,513**	**(430,215)**	**14,292**	**20,161**	**377,783**
Cash deposits (banks)	6,300	6,300				(6,300)	0
Short term investments	4,763	4,763				3,732	8,495
Other Investment Balances	1,267	1,267			(118)	1,094	2,243
	360,362	**360,362**	**425,513**	**(430,215)**	**14,174**	**18,687**	**388,521**

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 £564,898 (2009/10 £459,270). 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. Investments

	2010/11 £'000	Restated 2009/10 £'000
Equities		
UK Quoted	90,970	127,865
Overseas quoted	5,168	76,538
	96,138	**204,403**
Fixed Interest Securities		
UK Public	10,963	20,512
UK Private	58,527	56,569
Overseas Public (*)	6,644	1,332
Overseas Private (*)	0	423
	76,134	**78,836**
Index-Linked Securities		
UK Public	33,690	26,581
UK Private	564	761
Overseas Public (*)	3,001	908
Overseas Private (*)	0	0
	37,255	**28,250**
Derivative Contracts		
Futures	0	6
Forward FX Contracts	(164)	(84)
	(164)	**(78)**
Pooled Investment Vehicles		
UK Managed Funds		
UK Quoted	146,141	2,209
UK Unquoted	19	46
Overseas	0	8,877
Property	1,084	3,197
UK Unit Trust		
UK Property	18,521	17,562
	165,765	**31,891**
Cash Instruments		
UK	0	450
	0	**450**
Cash Deposits		
Managers	2,655	4,239
Futures Cash commitment	0	41
	2,655	**4,280**
Cash Deposits		
Banks	0	6,300
	0	**6,300**
Short Term Investments		
L.B. of Havering	8,495	4,763
	8,495	**4,763**

11. Investments (continued)

	2010/11 £'000	2009/10 £'000
Other Investment balances		
Outstanding Sales	1,439	1,017
Investment income	1,504	1,658
Outstanding dividend and recoverable withholding tax	568	899
Outstanding Trades	(1,266)	(2,307)
Investment Income	(2)	0
	2,243	**1,267**
Total Investments	**388,521**	**360,362**

(*) Reclassification of asset from a Fixed Interest security to Index linked Security as shown below:

	Restated 09/10 £000's	Original 09/10 £000's	Movement £000's
Fixed Interest Securities			
Overseas Public	1,332	1,568	(236)
Overseas Private	423	166	257
	1,755	1,734	21
Index Linked Securities			
Overseas Public	908	672	236
Overseas Private	0	257	(257)
	908	929	(21)

12. Current Assets

	2010/11 £'000	2009/10 £'000
Pension Grants	17	16
Contributions due from Employers	312	345
Contributions due from members	84	85
interest	0	14
Current Assets	**413**	**460**

13. Current Liabilities

	2010/11 £'000	2009/10 £'000
Unpaid Benefits	(87)	(17)
Accrued Expenses	(214)	(334)
Current Liabilities	**(301)**	**(351)**

14. Related Party Transactions

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. In 2010/11, £0.499m was paid to the Council for administration (£0.568m in 2009/10) and £19.102m (£19.194m in 2009/10) was paid by the Council to the Pension Fund in respect of employer's contributions. 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.

15. Actuarial Valuation

The Fund is subject to actuarial valuation every three years. The actuary is required to specify the employers' rates of contributions to the Fund to ensure that present and future commitments can be met.
The rate of employer's contributions paid by the Council in 2010/11 was 22% of pensionable pay as determined by the actuarial valuation of the Fund as at the 31st March 2007.

The most recent valuation of the Fund was carried out at the 31st March 2010.

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.

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:

Assumptions	**Rate**
Discount Rate for Period	**6.3%**
Pay increases *	**4.8%**
Price inflation/Pension increases	**3.3%**
Valuation of assets	**Market Value**

* 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

The value of the Fund's assets was actuarially assessed as £360.9m, as part of the 2010 valuation, which was sufficient to meet 61.3% of its accrued liabilities of £588.6m. In order to meet 100% of future benefit liabilities, as required by Pension Fund regulations, it has been necessary to set the employers' contribution for the Council in line with the actuary's recommended employer's contribution rates as follows:

	Future Service %	**Past Service %**	**Total % of 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 14	15.6	6.4	22.0

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

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 has been 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 netting out 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.

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.

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 on pages 24 to 81.

Group Comprehensive Income and Expenditure Statement 2010/2011

	Note	31 March 2011 £000s Gross Expenditure	31 March 2011 £000s Gross Income	31 March 2011 £000s Net	31 March 2010 £000s Gross Expenditure	31 March 2010 £000s Gross Income	31 March 2010 £000s Net
Gross expenditure, gross income and net expenditure of continuing operations							
Central Services to the Public		10,665	(3,086)	7,579	28,162	(22,243)	5,919
Cultural, Environmental, Regulatory and Planning Services		57,685	(12,648)	45,037	45,854	(13,330)	32,524
Children's and Education Services		284,807	(224,094)	60,713	257,667	(208,431)	49,236
Highways, Roads and Transport Services		24,062	(5,027)	19,035	20,512	(4,584)	15,928
Other Housing Services		107,487	(105.090)	2,397	86,453	(84,058)	2,395
Local Authority Housing (HRA)		189,878	(47,493)	142,385	63,389	(75,593)	(13,808)
Adult Social Care Services		83,810	(21,117)	62,693	76,184	(19,854)	56,330
Corporate and Democratic Core		7,826	(207)	7,619	18,674	(403)	18,271
Non Distributed Costs		2,271	(69,795)	(67,524)	3,330	(2,187)	1,143
Cost Of Services		**768,491**	**(488,557)**	**279,934**	**600,225**	**(430,683)**	**167,938**
Other Operating Expenditure		-	-	12,071	-	-	11,360
Financing and Investment Income and Expenditure		-	-	14,065	-	-	17,558
Taxation and Non-Specific Grant Income		-	-	(216,695)	-	-	(193,240)
Group (Surplus) or Deficit on Provision of Services		-	-	**89,375**	-	-	**4,256**
Surplus or deficit on revaluation of property, plant and equipment assets		-	-	(36,025)	-	-	(5,824)
Surplus or deficit on revaluation of available for sale financial assets		-	-	0	-	-	0
Actuarial gains / losses on pension assets / liabilities		-	-	(86,118)	-	-	88,210
Other Comprehensive Income and Expenditure		-	-	**(122,143)**	-	-	**82,386**
Group Comprehensive Income and Expenditure		-	-	**(32,768)**	-	-	**87,606**

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

2009/10 £'000		2010/11 £'000
4,738	(Surplus) / deficit on the provision of services in the authority's single entity Comprehensive Income and Expenditure Statement for the Year	91,205
(482)	Add: (Surplus) or deficit arising from Subsidiaries	(1,839)
4,256	**Group Account (Surplus) or Deficit in the year**	**89,366**

Group Statement of Movements in Reserves 2010/11

	General Fund Balance	General Balances	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Authority Share of other Group reserves	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2009	**18,312**	**944**	**34,044**	**371**	**19,941**	**134**	**73,746**	**612,929**	**686,675**	**(3,535)**	**683,140**
Movement in reserves during 2009/10											
Surplus or (deficit) on provision of services	**(21,041)**	**0**	**0**	**16,303**	**0**	**0**	**(4,738)**	**0**	**(4,738)**	**482**	**(4,256)**
Other Comprehensive Expenditure and Income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(82,386)**	**(82,386)**	**(760)**	**(83,146)**
Total Comprehensive Expenditure and Income	**(21,041)**	**0**	**0**	**16,303**	**0**	**0**	**(4,738)**	**(82,386)**	**(87,124)**	**(278)**	**(87,402)**
Adjustments between accounting basis & funding basis under regulations	21,881	0	0	(14,050)	3,763	(46)	**11,548**	**(11,548)**	**0**	**0**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	840	0	0	2,253	3,763	(46)	**6,810**	**(93,934)**	**(87,124)**	**(278)**	**(87,402)**
Transfers to/from Earmarked Reserves	**1,819**	**(46)**	**4,724**	**(898)**	**(21,432)**	**0**	**(15,833)**	**15,833**	**0**	**0**	**0**
Increase/Decrease (movement) in Year	**2,659**	**(46)**	**4,724**	**1,355**	**(17,669)**	**(46)**	**(9,023)**	**(78,101)**	**(87,124)**	**(278)**	**(87,402)**
Balance at 31 March 2010 carried forward	**20,971**	**898**	**38,768**	**1,726**	**2,272**	**88**	**64,723**	**534,828**	**599,551**	**(3,813)**	**595,738**
Surplus or (deficit) on provision of services	**49,636**	**0**	**0**	**(140,841)**	**0**	**0**	**(91,205)**	**0**	**(91,205)**	**1,830**	**(89,375)**
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	**0**	**122,143**	**122,143**	**2,719**	**124,862**
Total Comprehensive Expenditure and Income	**49,636**	**0**	**0**	**(140,841)**	**0**	**0**	**(91,205)**	**122,143**	**30,938**	**4,549**	**35,487**
Adjustments between accounting basis & funding basis under regulations	(48,398)	0	0	144,431	8,886	51	**104,970**	**(104,970)**	**0**	**0**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**1,238**	**0**	**0**	**3,590**	**8.886**	**51**	**13,765**	**17,173**	**30,938**	**4,549**	**35,487**
Transfers to/from Earmarked Reserves	1,093	31	(1,003)	(1,123)	(9,178)	0	**(10,180)**	**10,180**	**0**	**0**	**0**
Increase/Decrease in Year	**2,331**	**31**	**(1,003)**	**2,467**	**(292)**	**51**	**3,585**	**27,353**	**30,938**	**4,549**	**35,487**
Balance at 31 March 2011 carried forward	**23,302**	**929**	**37,765**	**4,193**	**1,980**	**139**	**68,308**	**562,181**	**630,489**	**736**	**631,255**

Group Balance Sheet as at 31 March 2011

	31 March 2011 £000s	31 March 2010 £000s	1 April 2009 £000s
Property, Plant & Equipment	878,099	981,740	952,343
Investment Property	29,145	30,141	28,359
Intangible Assets	4,742	2,019	800
Long Term Debtors	1,763	2,123	2,382
Long Term Assets	**913,749**	**1,016,023**	**983,884**
Short Term Investments	73,185	48,284	98,729
Inventories	361	290	242
Short Term Debtors	44,256	38,775	30,876
Cash and Cash Equivalents	31,566	46,514	17,073
Current Assets	**149,368**	**133,863**	**146,920**
Bank Overdraft	(8,341)	(4,463)	0
Short Term Borrowing	(15,185)	(1,621)	(1,829)
Short Term Creditors	(64,480)	(55,734)	(61,485)
Liabilities in disposal groups	0	0	0
Current tax liability (groups)	0	0	0
Current Liabilities	**(88,006)**	**(61,818)**	**(63,314)**
Provisions	(5,745)	(5,101)	(5,261)
Long Term Borrowing	(46,403)	(46,545)	(46,610)
Other Long Term Liabilities	(281,219)	(426,541)	(322,640)
Capital Grants Receipts in Advance	(10,753)	(14,143)	(9,839)
Long Term Liabilities	**(344,120)**	**(492,330)**	**(384,350)**
Net Assets	**630,991**	**595,738**	**683,140**
Usable reserves	69,044	65,501	74,043
Unusable Reserves	561,947	530,237	609,097
Total Reserves	**630,991**	**595,738**	**683,140**

Group Cash Flow Statement as at 31st March 2011

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 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.

2009/10 £000s		**2010/11 £000s**
3,936	Net (surplus) or deficit on the provision of services	89,366
(37,219)	Adjust net surplus or deficit on the provision of services for non-cash movements	(154,792)
22,492	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	42,414
(10,791)	Net cash flows from Operating Activities	(23,012)
8	Taxation	0
(15,046)	Investing Activities	55,261
851	Financing Activities	(13,423)
(24,978)	Net (increase) or decrease in cash and cash equivalents	18,826
(17,073)	Cash and cash equivalents at the beginning of the reporting period	(42,051)
(42,051)	**Cash and cash equivalents at the end of the reporting period**	**(23,225)**

Accounting Policies

Homes in Havering is a private company limited by guarantee under the Companies Act 1985. 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 & Equipment

Expenditure on the acquisition, creation or enhancement of Property Plant & 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 minimis limits for the following categories: land acquisition, vehicles & plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled and intangible assets & deferred charges.

These de minimis 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 £94,000 as at 31 March 2011. 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.

2. Prior Period Adjustments

The Group Accounts incorporate the prior period adjustments included in the single entity accounts of the London Borough of Havering. The detailed adjustments are set out in note 1 of the notes to the core financial statements.

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

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

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

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

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

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

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

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

Collection Fund A Statutory Account which receives Council Tax, Non-Domestic Rates and Government Grants to cover the costs of services provided by Havering and its precepting authorities.

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

Balance Sheet A statement of all the assets, liabilities and other balances of the Authority 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 Authority is responsible and complies with accounting practices as required under International Financial Reporting Standards (IFRS).

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 cashflows 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 authority that is represented by:

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

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

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

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

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

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

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

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

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

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

Minimum Revenue Provision (MRP) The Council is required to make an annual provision from revenue to contribute towards the reduction in it's overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the authority 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 Authority 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 Authority 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 Authority (e.g. Greater London Authority) on another Authority (e.g. Havering) to finance its net expenditure.

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

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

Prudential Code. Since April 2004 local authorities have been subject to a self-regulatory "prudential system" of capital controls. This gives authorities freedom to determine how much capital investment they can afford to fund through borrowing. The objectives of the code are to ensure that authorities' capital spending plans are affordable, prudent and sustainable, with 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 authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services.

Supported Borrowing Borrowing supported by central government grant towards the financing costs, mainly through HRA subsidy or Revenue Support Grant.

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ANNUAL GOVERNANCE STATEMENT

This statement, from the Leader and Chief Executive, provides assurance to all stakeholders that within the London Borough of Havering processes and systems have been established, which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to all citizens of the Borough.

Scope of responsibility

The London Borough of Havering is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The London Borough of Havering also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Havering is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The London Borough of Havering has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE* Framework *Delivering Good Governance in Local Government*. The code sets out details of how the public and staff can expect the Council to be managed. Accountability, effectiveness, integrity, and openness are among the principles the code is based upon. The code also details how the Council conducts its business and how it relates to the community. This includes service delivery arrangements; structures and procedures; risk management and standards of conduct. The code is available on the Council's website and is within the Constitution of the Council. Other information on governance can also be found on the Council's website by following the link to council and then democracy / corporate governance. A copy of the code can be requested in other formats and languages or in paper copy from the Council's Communications Department.

This statement explains how London Borough of Havering has complied with the code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority

* Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives

to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Havering's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at London Borough of Havering for the year ended 31 March 2011 and up to the date of approval of this statement.

The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements are described in more detail below.

Vision and purpose

There is a 20 year vision for the London Borough of Havering. The 'Living Ambition' aims for the Borough to have the highest quality of life in London.

The Council's aspiration for Havering is that it should be a borough that thrives on its links to the heart of the Capital, without losing the natural environment, historic identity and local way of life that makes Havering unique.

The 'Living Ambition' agenda is being delivered by striving towards five goals which have been integrated into the Council's business planning processes:

- Goal for Environment: to ensure a clean, safe and green borough;
- Goal for Learning: to achieve excellence in education and learning;
- Goal for Towns and communities: to provide opportunities for all through economic, social and cultural activity;
- Goal for Individuals: to value and enhance the lives of every individual; and a
- Goal for Value: to deliver high customer satisfaction and a stable council tax.

The vision has not changed; however since it was launched in 2008 there have been significant changes in the resources available in local government and the relationship between public services and the local communities. These changes are far from complete and pose new Governance challenges for the Council. The Council's Goals, policies and procedures, as a result, will continue to be subject to review to ensure that roles and responsibilities and the Council's expectations in terms of governance continue to be robust and clearly communicated both internally and externally.

Underpinning the Vision are six Values, to which all officers are expected to work, in order to build a more effective organisation and deliver the fundamental purpose of the organisation – to serve local people and make Havering a place where its residents are proud to live. The Council's Values are a key driver in the development of the new competency based appraisal framework which will be rolled out as part of the Council's Transformation Agenda. The Values are:

- One Council
- Learning from experience
- Integrity
- You matter
- Can do
- Fair to all.

Performance Management

The performance management framework has several functions:

- Focussing priority setting around needs along with the priorities of the Council and the public;
- Ensuring relevant, timely and accurate information is available to measure and monitor performance and on which to base decisions;
- Ensuring high quality public services which provide high levels of value for money.

Performance management is carried out at numerous levels of the organisation, from scrutiny by Members of the Quarterly Performance Report, to Directorate challenge, down to individual performance management as part of the PDPA process.

The Overview & Scrutiny Committees also consider the performance reports – along with those that they have independently commissioned – and carry out their own reviews.

The Council's Annual Report, which reports on performance against the objectives of the organisation, is published on the website and is also produced for distribution as hard copy on request.

The Council's strategy and guidelines on Performance Indicator data quality lay down clear guidelines to the effect that all performance indicators must be reported to the same robust standard; any performance data that is to be considered for publishing can be subject to either internal or external audit.

The Council's financial management approach has broadly been led through its Medium Term Financial Strategy, which has customarily been produced in the summer, ahead of the detailed budget process, setting out the approach to financial planning for the subsequent three financial years. In response to the Coalition Government's Emergency Budget, Cabinet agreed its medium term approach in July, with further minor refinements in February, following the announcement of the local government financial settlement. These proposals were subject to review by Overview & Scrutiny Committees. It is now planned to hold a series of Star Chamber sessions to review further savings proposals within agreed savings targets for each Service area. These along with the results of market research into public opinion, the outcome of the resident's survey, studies of the needs in the Borough and the requirements of the Council's priorities go to define the objectives in Service Plans.

There are a number of strategies linked directly with the MTFS; this includes the Capital Strategy, the Corporate Asset Management Plan, the Risk Management Strategy, the ICT Strategy and the Workforce Planning Strategy.

Codes of Conduct

The Council has Employee and Member Codes of Conduct supported by the requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade or who hold specific decision making and procurement positions. Officers are required to decline gifts and hospitality to ensure that they are not inappropriately influenced and Members are required to register any accepted as part of their declaration of interest. The Codes and related policies and procedures are communicated via induction sessions and are available via the intranet. Periodically awareness campaigns occur to remind individuals of their responsibilities. The relevant Corporate Management Team member is tasked with ensuring that appropriate arrangements are in place and the systems are reviewed at least every three years by internal audit.

Financial Rules and Regulations

The Council has Financial and Contract Procedure Rules and Financial and Procurement Frameworks along with other policy and procedural documents in place to guide officers in their every day duties and ensure appropriate processes and controls are adhered to. Schemes of delegation are also in place to detail appropriate levels of responsibility. Compliance with the various financial rules and regulations is monitored by Management and considered during audits of systems and processes

Effective Audit Committee

The Audit Committee operates in accordance with the relevant CIPFA guidance. Its effectiveness is reviewed annually and an annual report is produced for the Committee. The Committee's terms of reference, outlined in the Constitution, contain responsibilities relating to internal control, external audit, and internal audit. During 2010/11 six members sat on the Audit Committee representing the Conservative, Residents and Independent Rainham Groups of the Borough. The Audit Committee meets five times per year. The Committee has an annual work plan and training programme and reports on its performance to Council annually.

Compliance with laws, regulations and internal policies

The Constitution sets out the legal framework for decision making and the publishing of those decisions. There is a scrutiny system in place to ensure that the work of the Council complies with all appropriate policies, laws and regulations. Overview and Scrutiny has the power to call in and challenge all decisions of Cabinet and individual Cabinet Members and key decisions of staff. Legal, Finance and Human Resources staff clear every Cabinet, Council and Committee report and every Cabinet Member decision, for compliance with laws, policies and regulations. The Statutory Officers also provide advice to Members at all appropriate times. Statutory appointments have been made for Adults and Children and a Cabinet Member for Children has been appointed.

Internal policies and procedures exist to guide officers and ensure compliance with legislation and proper practice. Policies and procedures are reviewed at least annually.

Counter Fraud and Confidential Reporting

The Council has a corporate strategy for the prevention and detection of fraud and corruption. The effectiveness of the arrangements in place is reviewed annually and results reported to the Audit Committee. Ad hoc promotion of the strategy takes place throughout the year as part of the fraud strategy action plan. Integral to these arrangements is the Confidential Reporting (also known as Whistle blowing) policy which is communicated to staff via induction, the intranet and ad hoc awareness initiatives. The effectiveness of arrangements are reviewed annually and reported to Audit Committee. The results of fraud investigations are publicised to further promote the arrangements in place, as appropriate.

The Council also participates in the National Fraud Initiative (NFI), a computerised data matching exercise, led by the Audit Commission, designed to detect fraud perpetrated on public bodies. Havering has been praised on their efforts with this exercise.

Complaints

A Corporate Complaints procedure exists to ensure that all standard complaints are effectively recorded and dealt with in the same way. The procedure is supported by the relevant technologies to ensure efficiency and requires officers nominated as 'Complaint Owners' to respond within set timescales. The process includes an escalation procedure where target timescales are not achieved.

Training and Development

The Council has a commitment that every member of staff has a review and annual appraisal to discuss performance, targets and personal development. It also has a commitment to provide a minimum of three days training. The Council provides a range of development opportunities for managers and staff to ensure they can deliver services effectively.

Training is provided to support the implementation of new systems, a variety of methods are applied to suit different individuals. In 2010/11 significant training was provided as part of the implementation of the Oracle system that supports the Internal Shared Service Centre.

The Council has attained the Member Development Charter. A development programme to keep them up to date with changes and support their individual training needs is provided. Training is supplemented by information through briefings and bulletins. Their training includes are tailored to their role.

Communication and Engagement

The Council strives to identify and develop new effective mechanisms to communicate and consult with the community. The wide number of forums take place to consult with all members of the community, particularly targeting 'hard-to-reach' groups. This year the council was awarded 'Achieving' status in the Equality /framework for Local Government as external accreditation of our good equality and diversity practices as an employer and service provider.

The Council maintains a website to provide information and a point of contact to the residents of the Borough. The publication 'Living' goes out to all households on a quarterly basis, promoting the work of the council and local people in making Havering a good place to live.

An extensive consultation process is carried out as part of the development of the MTFS and detailed annual budget. Views are sought through various media and the budget itself is subject to scrutiny through Cabinet and Overview & Scrutiny, Committees.

This year the council also carried out its largest ever household survey, 'Your Council Your Say', which attracted 11,500 responses, and asked residents their top 5 priorities and top 5 areas for improvement. The results will inform the council's budget setting process and re-fresh of the Corporate Strategy 2011-14.

Partnerships

The Havering Strategic Partnership is the main overarching strategic partnership for Havering, consisting of a number of public and voluntary sector partners. The HSP works to ensure the delivery of the Sustainable Community Strategy and its 'Living Ambition'.

In addition to the HSP, there are a number of partnership boards in place such as the Community Safety Partnership, shadow health and wellbeing board and the Children's Trust. There are also a number of other forums in existence in Havering including the Culture Forum, the older people's forum and many others.

A partnership toolkit was developed by the Council in 2009 to log and rank the partnerships to which resources are applied. The toolkit aims to promote a consistent approach to partnership working across the organisation and provide guidance and support to officers regarding the Council's requirements regarding Governance issues.

Transformation

A number of Transformation programmes are running within the organisation. The overall programme is monitored by the Corporate Management Team with the support of the Corporate Transformation Team. A Strategic Board exists for each programme. The Governance arrangements have been clearly defined for programmes and this is monitored for compliance. Soft audits are undertaken to verify benefits of the programme and outcomes.

Review of effectiveness

The London Borough of Havering has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the Governance Group within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Outlined below are the arrangements in place to review the effectiveness of the governance framework and the sources of information and assurance on which this statement is based:

Constitution

The Monitoring Officer keeps the Constitution under continual review having delegated powers to make amendments arising from written reports, organisational changes, and legal requirements and to correct errors. Other amendments are considered by Governance Committee and Council. The entire Constitution was reviewed, and changes adopted in 2010/11.

Governance Group and Corporate Management Team

The Council's officer governance group is charged with reviewing the governance arrangements and monitoring any actions designed to improve the framework. Close links exist between this group and the Corporate Management Team (CMT), consisting of the Chief Executive, the Assistant Chief Executive, who has responsibility for Legal & Democratic Services, and the Council's three Corporate Directors overseeing Finance & Commerce; Social Care & Learning and Culture & Community, who take an active interest in Governance issues.

Governance Committee

The Council's Governance Committee, attended by the Leader of the Council and other Group Leaders, is charged with overseeing the organisation's governance arrangements. The role of monitoring the on-going work of the Officer Governance Group and responsibility for approving the Annual Governance Statement, previously undertaken by Governance Committee, was delegated to the Audit Committee during 2010/11, as the role links closely with other responsibilities relating to the system of internal control.

Audit Committees

The Audit Committee are responsible for monitoring the work of Internal Audit regarding internal control. This monitoring is integral in the process to compile a robust Governance Statement. Significant Governance issues are escalated to the Governance Committee by the Chair of Audit Committee as required.

Standards Committee

The Standards Committee is made up of nine councillors, other than the Leader and limited to only one Cabinet member, and three independent members i.e. individuals who have not been councillors or employees of the Council in the last five years or are a close relatives or friends of anyone who has. This Committee has a role in promoting and maintaining high standards of conduct by all members of the authority.

Overview and Scrutiny

The overview and scrutiny function reviews decisions made by Members. The focus of their role is to provide a challenge and to support the development of policies. At their meetings they have the opportunity to consider performance information; using monthly Members packs and other relevant performance data.

In 2010/11 specific activities, for example the Dementia Strategy, were identified by overview and scrutiny and officers were asked to present performance and strategic information to task groups for discussion and challenge.

Internal Audit

Internal Audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In doing so Internal Audit supports the Group Director Finance and Commerce in his statutory role as Section 151 officer. Annually a Head of Internal Audit Opinion and annual report provide assurance to officers and Members regarding the system of internal control; this assurance has also been considered in the production of this statement.

Risk Management

The responsibility for the system of internal control sits with management therefore each Head of Service is required to complete their own assessment and declaration with regards to the arrangements in place within their respective areas. These declarations have been considered when compiling this statement. The Council has embedded risk management processes and relevant polices and the strategy are reviewed and approved annually by Audit Committee. Service Risk Registers are maintained as part of business planning process and reviewed as part of the audit planning process. The Council has both a strategic and Operational Risk Management Group who identify and communicate issues for inclusion in the Corporate Risk Register, which is owned by the Corporate Management Team and reviewed bi-annually.

External Inspectors

The Council is subject to review and appraisal by a number of external bodies; results of such reviews are considered within the performance management framework. The work of the Council's External Auditor, currently PriceWaterhouseCoopers (PwC), is reported to the Audit Committee. The Council's accounts are audited annually by the external auditor and an unqualified opinion was given for 2009/10 following similar opinions in previous years. The results of all external reviews have also been considered in the process of compiling this statement.
We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Management Team and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

The issues identified in the 2009/10 Annual Governance Statement have been monitored by management throughout the year with review periodically to challenge actions and progress by both Corporate Management Team and the Audit Committee. Of the four issues highlighted in the 2009/10 Annual Governance Statement, two, relating to Homes in Havering and Disaster Recovery, had been fully addressed at the end of March 2011, the remaining two were issues with wide reaching implications and although significant progress has been made in each area it is felt that the issues remain open. The remaining two issues are therefore detailed below along with the further planned actions to ensure that focus on these areas is maintained throughout 2011/12.

Significant Issue and action already taken	**Planned action**	**CMT Lead**
1. Data Quality & Management Information ➢ Review of Performance Indicators reported to CMT and Members; ➢ ICT Transformation programme work stream includes rationalisation of systems ➢ Implementation of Oracle system as part of Internal Shared Service Programme. ➢ Audit work to provide assurance.	Training on data quality for all officers compiling new PIs. Transformation programmes continue.	Group Director Finance & Commerce Group Director Culture & Community
2. Information Governance ➢ Officer Governance Group monitored work of Information Governance Group during 2010/11. ➢ Action plan in place. ➢ Awareness campaign and training. ➢ Project on document classification in progress. ➢ Audit work completed 2010/11.	Groups will continue to progress action plan and monitor outcomes. Widen network of officers promoting this by linking with Risk Management Group. Audit work planned for 2011/12.	Group Director Finance & Commerce.

In addition to those issues carried forward from 2009/10 the procedures to review and monitor Governance Arrangements to date in 2010/11 have highlighted two further issues:

Significant Issue and action already taken	**Planned action**	**CMT Lead**
3. Project Management ➢ Policies and Procedures are in place. ➢ Audit work completed. ➢ Lessons learned exercises undertaken.	Risk Management awareness training for Officers. CMT to consider risk management paper which will determine how strengthened culture for managing risk can be achieved.	Group Director Finance & Commerce
4. Contracts and Supply Chain Resilience ➢ Policies and Procedures are in place. ➢ Training is available to Officers. ➢ Contracts register is held. ➢ Review of contracts following objection to accounts.	See comments for 3. Audit work planned 2011/12.	Group Director Finance & Commerce.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Leader of the Council ....

Chief Executive ....

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Item 6

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Report to those charged with governance (ISA 260 (UK&I))

2010/11 Audit

Government and Public Sector

London Borough of Havering

September 2011

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

September 2011

Dear Sirs

We are pleased to enclose our report to the Audit Committee in respect of our audit of London Borough of Havering ("the Authority") for the year ended 31 March 2011, the primary purpose of which is to communicate the significant findings arising from our audit.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in March 2011. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 26 September 2011.

Attending the Audit Committee from PwC on 22 September 2011 will be Ciaran McLaughlin and Chris Hughes.

Yours faithfully

PricewaterhouseCoopers LLP

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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.

Executive summary

The purpose of this report

Under the Auditing Practices Board's International Auditing Standard (UK and Ireland) 260 (ISA (UK&I) 260) - "Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of London Borough of Havering ('the Authority'). As agreed with you, we consider that "those charged with governance" at the Authority are the Audit Committee.

This letter contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

Our audit work during the year was performed in accordance with the plan that we presented to you on 1 March 2011. An audit of financial statements 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 2 to this letter.

We have set out below what we consider to be the most significant matters that we have discussed with you in the course of our work.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Authority throughout our work. Despite the significant additional challenges brought by the conversion to IFRS, the Authority has delivered good working papers and worked with us to enable us to deliver an efficient audit. In particular, the Authority ensured that a dedicated resource was available during the entire course of the audit to assist us with collating audit evidence. This has enabled us to complete the audit within the agreed timescale and to our proposed fee. The Authority has also addressed the matters raised in last year's ISA260 report in respect of accounting for Property, Plant and Equipment.

Significant matters

We have set out below what we consider to be the most significant matters that we have discussed with management during the course of our work. These matters are:

- The conversion to International Financial Reporting Standards ("IFRS").
- The valuation of the Authority's properties.

Further details are given in the section on Significant Audit and Accounting matters below. There are no other significant matters arising from our audit. We will discuss the matters contained within this letter with the Audit Committee on 22 September 2011.

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

Audit approach

Our audit scope and approach has been as set out within our Audit Plan that was presented in March 2011. Set out below are the details of the significant audit risks as identified in our Audit Plan, together with comments on the results of our work.

Risk and areas of focus	Audit Findings
Management override of controls	
The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud. Under International Standard on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls. Our audit is designed to provide reasonable assurance that the 2010/11 Accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates, such as provisions and accruals as significant risks.	We tested balances and transactions within the accounts for completeness and performed additional audit procedures on journal entries. Our testing has not identified any significant issues to bring to your attention.
Revenue and expenditure recognition	
We are required by International Standards on Auditing (ISAs) to specifically consider the risk of material misstatement in relation to revenue recognition. We have also considered the risk of material misstatement in relation to expenditure recognition. There is a risk that the Authority could adopt accounting policies or treat income and expenditure transactions in such as way as to lead to material misstatement in the reported income and expenditure position. Due to their nature, we do not consider the receipt of council tax, national non domestic rates, dedicated schools grant, housing rent or revenue support grant to be a significant risk and these income streams will therefore be excluded from this category. However other sources of material income such as social care, parking and leisure services are considered to represent a significant risk.	We performed cut-off tests to ensure that the income has been recorded in the correct period and tested that revenues are correctly calculated and accounted for. We tested expenditure invoices to ensure that it is correctly classified in the financial statements as either revenue or capital expenditure. We have carried out the required certification work in respect of the Housing and Council Tax Benefit Subsidy. Our testing has not identified any significant issues to bring to your attention.

Risk and areas of focus	Audit Findings
2010/11 – The first year of transition to IFRS	
The transition to IFRS involves both new and considerably revised financial statements and an increase in the depth of disclosures required in the notes to the accounts. There is a risk of material errors in the restatements and reclassifications required in preparing the accounts in their new format and of material omissions of information required to be disclosed by the new Code of Practice on Local Authority Accounting. In particular, we focused on leases, component accounting and accruals for employee benefits.	We have worked closely with the Authority over the last 18 months to ensure that any accounting issues were discussed and resolved with management promptly. We have reviewed the draft accounts and discussed disclosure matters arising with management. Following discussions both during the year and as a result of this review, some improvements to the format of the notes have been made in the 2010/11 accounts. We comment on Page 11 below on the approach the Authority has taken to component accounting.
Value for Money opinion – Increased pressure on budgets	
Local government bodies are expected to make significant efficiency savings over the next three years as a result of the Comprehensive Spending Review 2010 and the local government financial settlement. There is a risk that savings plans may not be robust or based on sustainable solutions which could result in short term actions to ensure that spending targets are met. In addition, it will be important for authorities to be able to demonstrate that they are allocating resources to areas of priority within their tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. There is a risk that the Authority will not be able to demonstrate its achievements in this area	We have reviewed the Authority's budget monitoring processes for the purposes of our audit and, based on the scope of that work, we have not identified any areas of concern. As part of our use of resources work as well as our work on financial standing, we have considered the Authority's savings plans and considered the arrangements in place to make these plans robust. We have also considered the accounting implications of any savings plans and in particular, we have considered the impact of the efficiency challenge on the recognition of both income and expenditure. We have not identified any significant issues to bring to your attention in this regard.

Other risks – Accounting for Fixed Assets	
The accounting for property, plant and equipment (PPE) is complex and our cumulative knowledge and experience of the Authority has demonstrated that aspects of accounting for PPE can result in the financial statements being misstated. We consider the following issues, in particular, to represent a riskof material misstatement, while the other elements of accounting for PPE are considered to be normal risks: • Valuations may have not been performed on a systematic basis meaning that some assets may not have been included within the scope of revaluations or may not have been valued on an appropriate basis. • Expenditure on existing assets may not be accounted for correctly in accordance with the requirements of the Code, leading to misstatement of PPE. • The valuer may not be given sufficient information to assess whether assets are under construction and this could lead to incorrect accounting treatment being adopted. • Appropriate consideration is needed to identify whether „surplus assets‟ should be treated as „available for sale‟ and accounted for in accordance with the Code.	We have undertaken sufficient work to obtain comfort over the Authority's valuations of PPE – this work is summarized on page 12 of this report. We have conducted substantive tests of detail on subsequent expenditure on PPE, assets under construction and assets held for sale. Our testing has not identified any significant issues to bring to your attention.

Significant audit and accounting matters

ISA (UK&I) 260 requires us to communicate to you relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action.

Accounts

At the time of drafting this report, we have completed our audit, subject to the following outstanding matters:

- review of the final draft of the accounts;
- approval of the financial statements and letters of representation;
- confirmation of any outstanding legal matters from the Monitoring Officer; and
- completion procedures including our review of subsequent events.

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval by those charged with governance we expect to issue an unqualified audit opinion.

Uncorrected misstatements

ISA 260 requires us to consider with those charged with governance any misstatements in the draft accounts which management have not corrected, other than those that are 'clearly trivial' (which we have agreed with you are those below £250,000).

We confirm that there are no identified uncorrected misstatements which would have a material effect on the financial statements.

Audit adjustments

ISA 260 requires us to report on any audit adjustments, whether or not corrected by the Authority, that have, or could have, a material effect on the financial statements.

We identified one error from our audit of the financial statements, above the £250,000 threshold, that has not been adjusted for by management. This is summarised in Appendix 1 of this report, which we consider you should be aware of in fulfilling your governance responsibilities.

The adjustment is technical in nature and has no impact on the General Fund Balance. It is an isolated error that arose in the course of the IFRS adjustments posted to the accounts and does not represent a fundamental issue with the Authority's accounting processes for property, plant and equipment.

Observations on the design or implementation of internal control systems

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as auditors is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Authority only to the extent necessary for us to complete our audit. Our work does not constitute a full test of the controls and is not designed to identify all deficiencies or issues that may exist. It should be noted that the responsibility for controls assurance rests with those charged with governance.

In the audit plan we planned to adopt a top-down, controls-based approach to the audit. This involved understanding and evaluating the controls used by management to ascertain how much assurance we can draw from them. We have only validated controls where we required specific assurance over the operation of controls – our audit work has largely involved detailed analytical review procedures and additional substantive tests.

Qualitative aspects of the Authority's accounting practices and financial reporting

IFRS Compliance

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the "Code") requires that the Authority's accounts be produced in accordance with IFRS. 2010/11 is the first year in which the Authority has been required to produce IFRS compliant accounts with compliant comparatives.

This has been a significant challenge for the Authority and we are pleased that the Authority provided good working papers to support the adjustments required by the conversion to IFRS.

Component depreciation of property, plant and equipment

We discussed the approach the Authority has taken to apply component depreciation of Property, Plant and Equipment ("PPE"), as required by the rules in IAS16. Application of those rules will lead to higher charges for depreciation in the accounts, as assets are split into components with lower useful economic lives than is normally the case. We note that depreciation (including component depreciation) has no impact on the General Fund Balance.

The CIPFA IFRS Code allows Authorities to apply component depreciation prospectively, that is only to assets that have been revalued or subject to capital expenditure in 2010/11.

Housing Revenue Account ("HRA") Council Dwellings have been revalued in the year but the Authority has not applied component depreciation to HRA assets. Using the assumption that all of the housing stock were fully componentised the maximum depreciation understatement would have been £1.6m in 2010/11.

Other items of PPE that have been revalued or subject to capital expenditure in the year similarly have not been depreciated on a component basis. We have estimated that this results in an understatement of depreciation of a maximum of £2.0m in 2010/11.

While we are satisfied that these issues do not have a material effect on the accounts in 2010/11, we recommend that component depreciation is applied in 2011/12, as the risk of a material misstatement will increase in subsequent years as more assets fall within the scope of component depreciation.

Disclosure of IFRS requirements in the accounts

As part of our year end work, we reviewed the narrative disclosures in the accounts for compliance with the IFRS Code. While we communicated several matters to the Authority regarding the presentation of disclosure notes in the accounts (which, at the time of drafting this report, we understand the Authority will address in the final version of the accounts), no significant departures were noted which require communication to those charged with governance.

Accounting issues

Valuation of property, plant and equipment

The Authority's accounting policy, consistent with the requirements set out in Code of Practice on Local Authority Accounting, is for property, plant and equipment to be included in the financial statements at current fair value. The Authority achieves this by arranging for periodic, professional valuations at least every five years (every year for the Housing Revenue Account) and in intervening years has regard to the movement in property prices and any other factors that may indicate a significant difference between current values in the financial statements and current values indicating the need for additional steps to ensure that values in the financial statements are not materially misstated.

For this year, management has:

- Obtained formal valuations from Wilks, Head & Eve (WHE) and its own internal valuers, of property completed and brought into use this year;
- Considered factors relating to the use and useful lives of properties and concluded that there are factors leading to a need for impairment reviews and revaluations as a result of changes to the use, or planned use, of properties within the Authority's business;
- Obtained formal revaluations for the properties identified, in particular where there has been significant capital spend on projects and/or disposals on projects during the year; and
- Obtained a beacon analysis to value components when applying componentised depreciation.

In response to the requirements of International Standards on Auditing, which have been clarified this year to the extent that our work on management estimates, including valuations has had to increase compared to previous years, we have reviewed the methodology used by management and engaged our internal valuation team to:

- Assess whether valuation methods and definitions used by WHE and the Authority in valuation are consistent with code requirements;
- Review the assumptions applied by WHE and the Authority against those used by other Local Government valuers;
- Review reasonableness of numerical assumptions included in the reports; and
- Assess WHE ability to perform valuation / identify any concerns with WHE.

We discussed several matters with the Authority to enable us to conclude our work in this area, including the appropriateness of the methodology for valuing Investment Properties. We have also obtained representation from WHE stating their independence and confirming appropriate qualifications. As part of our audit we have also checked that the valuations have been incorporated correctly into the Fixed Asset Register and Statement of Accounts. Our testing has not identified any significant issues to bring to your attention.

Judgments and accounting estimates

Other than those matters described in Notes 3 and 4 of the accounts, no significant judgments or accounting estimates were required in the preparation of the financial statements.

Management representations

The draft of the representation letter that we are requesting management to sign and those charged with governance to approve is attached in Appendix 3.

Financial standing

No issues in relation to financial standing arose from the 2010/11 audit.

Audit independence

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Authority and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

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 financial statements.

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

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources (the "Use of Resources conclusion").

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion is based on 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.

Unlike in previous years, we have not been required to reach a scored judgement in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

At the time of drafting this report, we have completed our work on the Use of Resources conclusion, subject to the following outstanding matters:

- Our internal quality review procedures; and
- completion procedures including our review of subsequent events.

Subject to the above, we expect to issue an unqualified Use of Resources conclusion.

Risk of fraud

We discussed with the Audit Committee their understanding of the risk of fraud and corruption and any instances thereof when presenting our Audit Plan.

In presenting this report to the Audit Committee we seek members' confirmation that there have been no changes to their 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.

Accounting developments

There are a number of minor updates to the CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12.

The main accounting change relates to the adoption of the requirements of FRS 30 Heritage Assets in the CIPFA Code. This requires heritage assets to be measured at valuation in normal circumstances, and permits authorities to use the measurement and disclosure principles of FRS 30 for Community Assets.

The Authority has provided interim disclosures in Note 2 of the Accounts, as required by the Code.

Pension Fund audit and accounting matters

Pension Fund Accounts

At the time of drafting this report, we have completed our audit, subject to the following outstanding matters:

- review of the final draft of the Pension Fund accounts;
- approval of the financial statements and letters of representation;
- confirmation of any outstanding legal matters from the Monitoring Officer; and
- completion procedures including our review of subsequent events.

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval by those charged with governance we expect to issue an unqualified audit opinion.

Qualitative aspects of the Authority's accounting practices and financial reporting – Pension Fund

The audit of the Pension Fund accounts passed efficiently and we have no significant matters to report to those charged with governance.

We noted some minor issues during the audit, including monitoring the receipt of contributions from other bodies admitted to the fund, availability of documentation. We will prepare a letter summarising our findings for the next meeting of the Pension Committee.

Fees update

Fees update for 2010/11

We reported our fee proposals as part of the Audit Plan for 2010/11.

Our fees charged were therefore:

	2010/11 Outturn	2010/11 Fee proposal
Accounts and VFM Conclusion	370,110	370,110
Pension Fund Audit	35,000	35,000
Elector's Questions	19,000 **	0
Total Fee	**424,000 ***	**405,000**

*We note that the Audit Commission has provided a fee rebate direct to the Council in respect of the 2010/11 audit.

** Work is still continuing to address the objection to the 2009/10 accounts. We will provide a final figure for management when our work is complete.

Appendices

Appendix 1: Summary of unadjusted misstatements

We have identified one error during our audit of the financial statements that has not been adjusted by management:

No	Description of misstatement		Income statement		Balance sheet	
			Dr £m	**Cr £m**	**Dr £m**	**Cr £m**
1	Dr 2009/10 Property Plant and Equipment				3.0	
	Cr 2009/10 Comprehensive Income and Expenditure Account			3.0		
						3.0
	Dr 2009/10 Unusable Reserves (Capital Adjustment Account)					
	Cr 2009/10 General Fund Balance		3.0			
	Correction of reversal of £1.5m of Foundation Schools depreciation that should have been stripped out of the accounts					
Total unadjusted misstatements			**3.0**	**3.0**	**3.0**	**3.0**

Appendix 2: Audit reports issued in 2010/11

Audit plan	**March 2011**
Report on 2010/11 financial statements to those charged with governance (ISA 260)	September 2011
Report to management on the Statement of Accounts audit	September 2011
Annual Audit Letter	November 2011
Grants Report to Management in relation to 2010/11 grants	January 2012

Appendix 3: Letter of representation

[London Borough of Havering letterhead]

PricewaterhouseCoopers
7 More London Riverside
London
SE1 2RT

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of London Borough of Havering (the "authority") for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice.

My responsibilities as Chief Financial Officer for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the authority. I also acknowledge 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 London Borough of Havering 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:

Financial Statements

- 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; in particular the financial statements give a true and fair view in accordance therewith.

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

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

- All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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 financial statements such as records, documentation and other matters, including minutes of the Council 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.

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 financial statements may be materially misstated as a result of fraud.

- I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the authority and involves:

  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.

- I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the authority's financial statements communicated by employees, former employees, analysts, regulators or others.

- I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

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

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 financial statements.

The 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 payment schedule/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.

Related party transactions

I confirm that we have disclosed to you the identity of the authority'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.

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 the authority has made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the authority have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, 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 financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

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.

Using the work of experts

I agree with the findings of Wilks, Head & Eve, experts in evaluating the valuation of Property, Plant and Equipment, and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Impairments

The assumptions used to estimate the realisable value of the investments held with the Heritable Bank and Landsbanki in my view would lead to the best estimate of the future cashflows that will arise under them.

Litigation

I am not aware of any pending or threatened litigation, proceedings, hearing or claims negotiations which may result in significant loss to authority except as follows/other than the matters listed in the memorandum supplied to you by the Monitoring Officer.

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2011, have been taken into account or referred to in the financial statements.

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 2011 have been properly valued and that valuation incorporated into the financial statements.

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 financial statements have been disclosed to you.

Pension fund registered status

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

Subsequent events

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

As minuted by the Audit Committee at its meeting on 22 September 2011

....

Chief Financial Officer
For and on behalf of London Borough of Havering

Date ....

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Audit Committee 22nd September 2011

Response to Auditors: Report To Those Charged With Governance International Standard of Auditing (ISA) 260

There have been significant challenges faced by the Authority in 2010/11 brought about by the conversion to IFRS. The Authority has worked closely with PwC during the implementation of the detailed project plan for IFRS implementation and in supporting the audit of the draft accounts. We are pleased to note the positive nature of the "ISA260 Report to those charged with Governance" and that there are no significant matters of concern.

Set out below is a response to the ISA 260 which PwC consider to be the most significant matters during the course of the 2010/11 audit:

<u>The Conversation to International Financial Reporting Standards (IFRS)</u>

We have worked closely with PwC during the development and implementation of the IFRS project plan and are pleased that this has contributed to a relatively smooth transition to IFRS based accounting. We note that one unadjusted error has been identified during the course of the audit which related to our IFRS transition work. As a consequence, the Council's Property Plant and Equipment are understated by £3m, or less than 1% of the net book value of P, P & E; as part of our work in 2011/12. However, this has no impact on the revenue out-turn on the level of useable reserves.

<u>The Valuation of the Authority's Properties: Component Depreciation</u>

The Council's depreciation policy has been re-written in 2010/11 in response to the changes required for IFRS implementation. We have worked closely with internal and external valuers and have welcomed the opportunity to discuss the revised policy with PwC throughout the IFRS implementation project.

In common with most other authorities, we have adopted a de-minimus threshold below which assets are not componentised. We understand that our external valuers, Wilkes Head and Eve have adopted this valuation approach with other clients.

In 2011/12 a further tranche of assets will be revalued. As such, some assets may require componentisation; others will fall below the de-minimus threshold. We acknowledge that this approach will need to be kept under review to ensure that the accounting disclosures are not materially affected. We intend to discuss the policy with our Valuers and will discuss any proposed changes in policy with PwC at the earliest opportunity.

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