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# AUDIT COMMITTEE
# SUPPLEMENTARY AGENDA

**5 September 2019**

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

**6 ANNUAL STATEMENT OF ACCOUNTS 2018/19 AND EXTERNAL AUDIT REPORT TO THOSE CHARGED WITH GOVERNANCE (ISO 260)** (Pages 1 - 262)

**Andrew Beesley**
**Head of Democratic Services**

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Havering
LONDON BOROUGH

# AUDIT COMMITTEE

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|---|---|
| **Subject Heading:** | Annual Statement of Accounts 2018/19 & External Audit report to those charged with Governance |
| **SLT Lead:** | Jane West |
| **Report Author and contact details:** | Contact: Radwan Ahmed<br>Designation: Head of Finance –Financial Control & Corporate Business Systems<br>Telephone: 0203 373 0934<br>E-mail address:<br>Radwan.Ahmed@oneSource.co.uk |
| **Policy context:** | Audit Committee responsible for approving accounts. |
| **Financial summary:** | There are no direct financial implications to the report. |

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

| | |
|---|---|
| Communities making Havering | [] |
| Places making Havering | [] |
| Opportunities making Havering | [X] |
| Connections making Havering | [] |

## SUMMARY

The Council's Statement of Accounts is required to be published after the conclusion of the external audit of accounts; no later than 31st July 2019. However, the audit was not concluded on time due to delay with the completion of the audit work. The Council therefore published a notice on 31st July 2019 to confirm the accounts status. At this stage our auditors, Ernst and Young, expect to issue an unqualified opinion on the Statement of Accounts shortly.

## RECOMMENDATIONS

The Committee is asked to:

a) Consider the contents of this report and the Statement of Accounts (Appendix A) , alongside the “External Audit Report to those charged with Governance” (Appendix B) and any verbal updates by the External Auditor under that agenda item, following their examination of the Council’s accounts.

b) Note that the audited accounts must be published at the earliest opportunity following the audit.

c) Note the amendments to the accounts arising from the audit of the accounts set out at section 1 of the Report.

d) Approve the Statement of Accounts for the financial year ended 31st March 2019, having regard for the auditor’s Report.

e) Agree that the Chair of the Committee, in consultation with the Chief Operating Officer (Statutory Chief Finance Officer) be delegated to approve any subsequent amendments to the Statement of Accounts that may be necessary as a result of audit completion procedures.

f) To approve the Letter of Representation (Appendix C).

## REPORT DETAIL

### 1. Statement of Accounts 2018/19

The Accounts and Audit Regulations 2015 require that the authority must prepare and publish its approved draft and audited accounts by 31st May and 31st July respectively (previously this was 30th June and 30th September). Although, this is the second year of the new statutory deadline, this change has had a significant impact on both Havering and our auditors to ensure the accounts are completed within the required timescales.

The Council produced the accounts by 31st May, and our auditors, Ernst and Young, commenced their audit work straightaway. However, their work continued beyond 31st July due to delay with the completion of the audit work. They have now almost completed this work and expect to issue an unqualified opinion. A formal report on their findings will be circulated prior to Audit Committee.

The final draft Statement of Accounts and Annual Audit report are attached to this report to the Audit Committee, which reflect a number of changes to the draft accounts published in June. These changes have been agreed with the auditors as a result of their work. The changes relate to four key areas:

**Property, Plant & Equipment**

Some of the changes are due to errors in valuation of the assets held by the Council, but a number of key changes are due to reclassification of the assets held. It is important to note that these changes had no impact on the Council's usable reserves position. Below is a summary of the changes:

- Nason Waters - the Council's valuation did not include the valuation of the new extension. Revised valuation showed an increase in the value of this asset by £1,050k, with the effect processed through the Revaluation Reserve.

- Old Rainham Library – The Council's carrying value for this site was substantially different from indicative sales value for this site. This has resulted in a reduction in the asset value by £3,826k, with a corresponding reduction in the revaluation reserve.

- Moor Lane – the Council's valuation was based on incorrect floor plan data. Revised valuation showed an increase in the value of this asset by £263k, with the effect processed through the Comprehensive Income and Expenditure Statement.

- Queens Theatre – initially the Council valued it on the Existing Use Value (EUV) basis, using its 25 year lease term with the Trust, at £297k. This differed significantly from the previous Depreciated Replacement Cost (DRC) basis of £9,128k prior to the lease being agreed with the Theatre. However, EY have concluded that the asset should continue to be valued at a DRC basis. The Council has agreed to revert back to valuing the asset on a DRC basis, increasing the asset value by £8,830k with the corresponding increase partly through revaluation reserve and Comprehensive Income and Expenditure Statement.

- Mead Junior School expansion - capital expenditure of £1,373k on expansions was incorrectly assigned to Hall Mead (an Academy school) rather than Mead Junior (a Community school). As a result REFCUS expenditure was inflated and additions to PPE Other Land & Buildings was understated. This change is contained within the Property Plant and Equipment note 14 on page 61 of the accounts.
- Whybridge Infant School – the Council had derecognised the total school site occupied by Whybridge Primary School in 2017/18. However, the Infant site had not transferred, and therefore the Council has adjusted its carrying value to reflect control of this portion of the building. This has been determined to be £2,951k as at the balance sheet date. This change is contained between the Comprehensive Income and Expenditure Statement, Revaluation Reserve and the Capital Adjustment Account.

- 12 Estates programme decant costs – the Council has treated costs incurred as part of decanting, within the parent asset which is held under Council Dwellings. The Council has agreed to reclassify these costs as

Assets Under Construction, totalling £5,500k, comprising spend of £2,900k incurred in 2018/19 and £2,600k in 2017/18. There is no change on the Council's usable reserve, or indeed the combined carrying value of this suite of assets.

- Napier and New Plymouth House – the Council has earmarked the two tower blocks on this site for demolition and classified them as Asset Under Constructions (AUC) at cost value. However, EY have concluded that the asset should be impaired to reflect its limited use. Therefore, the Council has agreed to impair the value of the buildings by £3,441k to reflect this intention.

- Sunrise Lodge, Serena Court and Solar Court – as above the Council has earmarked these sites for demolition, however, as the assets were not included in the operational housing stock list they were omitted from the council dwellings stock list by error. The Council has agreed to recognise the land value of £2,800k, resulting in an increase in the value of this asset with a corresponding increase in the Revaluation Reserve.

- Briar Road – The Council incorrectly treated expenditure on this block of assets as operational, whilst they had not been so as at the balance sheet date. Therefore, the Council has agreed to reclassify this asset (£7,404k) from Council Dwellings to Assets under Construction. This change is contained within the Property Plant and Equipment note 14 on page 61 of the accounts.

**Pension Fund Liability**

- A technical accounting adjustment (IAS19 accounting) due to actuarial revaluation of pension liability as a result of McCloud judgement, which increased the pension liability valuation by £8,207k. This had a consequential impact and changes across the account, but no impact on the Council's usable reserve.

**Council Tax bad debt provision**

- The Council identified this human error, where the increase in bad debt provision of £465k was treated as a decrease, resulting in an understatement of the provision charge by £930k. This is all contained within the Collection Fund account and the Council's notional share of £758k is processed through the Collection Fund adjustment account, with no impact on the Council's usable reserve.

**Presentational**

- A presentational adjustment within the Financial Instrument disclosure (note 18) to include accrued interest within short term investment table.

- Also a number of other small presentational adjustments have been made across the account.

The closing team have taken full consideration of all the above changes, and made arrangements to ensure every error is reviewed in detail and steps are in place to improve the process to reduce such errors in future. Additionally, for areas that are subject to different accounting treatments, the Council will liaise with auditors at the earliest opportunity to ensure we have a clear early external audit direction.

Following approval of the recommendations by this Committee, the accounts and Letters of Representation must be signed by the Chair of the Committee and the Chief Financial Officer.

## 2. Accounting Policies

The Audit Committee meeting of 30th January 2019 noted the accounting policies to be applied to the financial year 2018/19, and these are reflected in the draft Statement of Accounts. The accounting arrangement around the group has been applied to consolidate Mercury Land Holdings within Havering's accounts, as in 2017/18. The joint venture arrangements has been disclosed within the accounts, however, the balances have been negligible to warrant full incorporation.

## IMPLICATIONS AND RISKS

**Financial implications and risks:**

There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Council's financial position.

**Legal implications and risks:**

The Audit Committee is the decision making body in relation to the approval of the Annual Statement of Accounts which is one of the miscellaneous functions not to be the responsibility of the Executive.

There are no apparent legal implications in adopting the recommendations set out in this Report.

**Human Resources implications and risks:**
N/A

**Equalities implications and risks:**
N/A

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Havering
LONDON BOROUGH


# Statement of Accounts 2018/19

# CONTENTS

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

Dear residents,

Havering as ever has had an eventful year and we need to celebrate the many successes. Launching the biggest housing regeneration project in the borough with the national developer Wates Residential will see 12 council estates regenerated to provide housing and increased investment in education, training and skills. It has already generated a positive impact in the borough by opening apprentice opportunities and using local pupils to road-test an app to design future homes.

We have again managed to operate within existing budgets, a prudent approach in keeping with Havering's reputation of managing challenging times well. The Council has had to find ways to manage the demographic pressures of an ageing population and reducing government funding through developing innovative shared service arrangements and income generation opportunities.

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

Havering has recognised the importance of becoming financially self-sustainable. The central government cuts to core funding, ever-changing grant arrangements and decisions not reflecting local need has made us realise the need to control our own destiny. London-wide leadership on agreeing to share business rates locally is just an example of the Council taking back control.

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

As a local authority, Havering has to balance its spending plans. Highways, environment and culture priorities have to be balanced off against rising social care and homelessness spend. The Council also no longer receives general revenue grant from the government. This challenging context requires the council to forge new ways of delivering great value for money in order to keep the council tax paid by residents as low as possible. For 2019/20 the Council delivered one of the lowest council tax increases in London.

Andrew Blake-Herbert,

Chief Executive, London Borough of Havering

# 2018/19: An Overview

## Introduction

Jane West,
Chief Operating Officer,
London Borough of
Havering

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

The Corporate plan explains how we plan to make a difference to the lives of people who live, work and learn in Havering. The plan informs the allocation of resources through our revenue budget and capital investments and creates the basis for the planning of services across the Council. Even now, the budget-setting process for Havering has started for 2020/21.

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

COMMUNITIES — A helping hand

Helping young and old fulfil their potential through high-achieving schools and by supporting people to live safe, healthy and independent lives.

PLACE — Great place to live

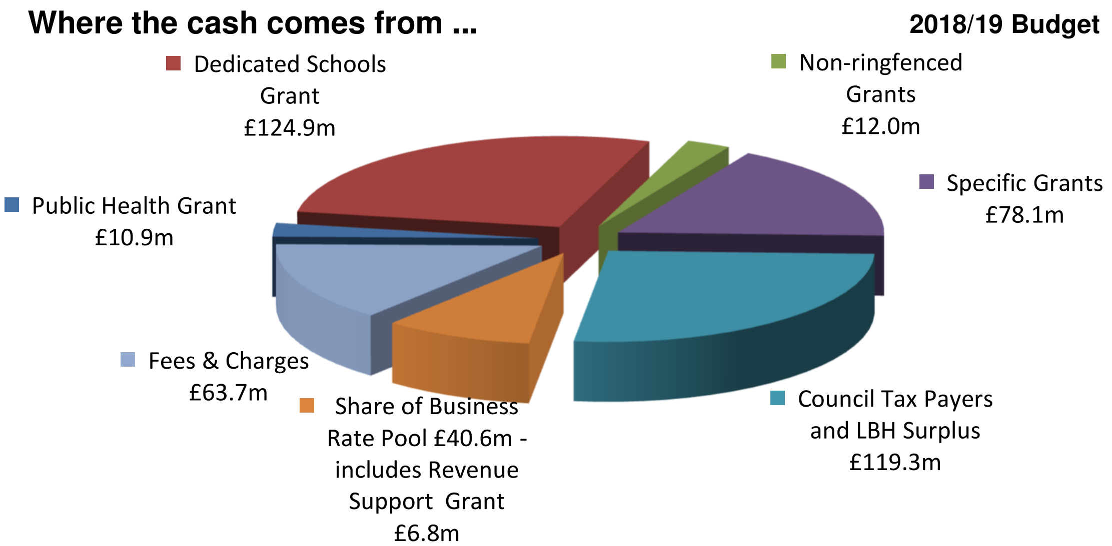
Making sure that our neighbourhoods are a great place to live by investing in them and keeping them clean, green and safe with access to quality parks and leisure facilities.

OPPORTUNITIES — Making life better

Helping people get on in life by creating jobs and skills opportunities and building genuinely affordable homes.

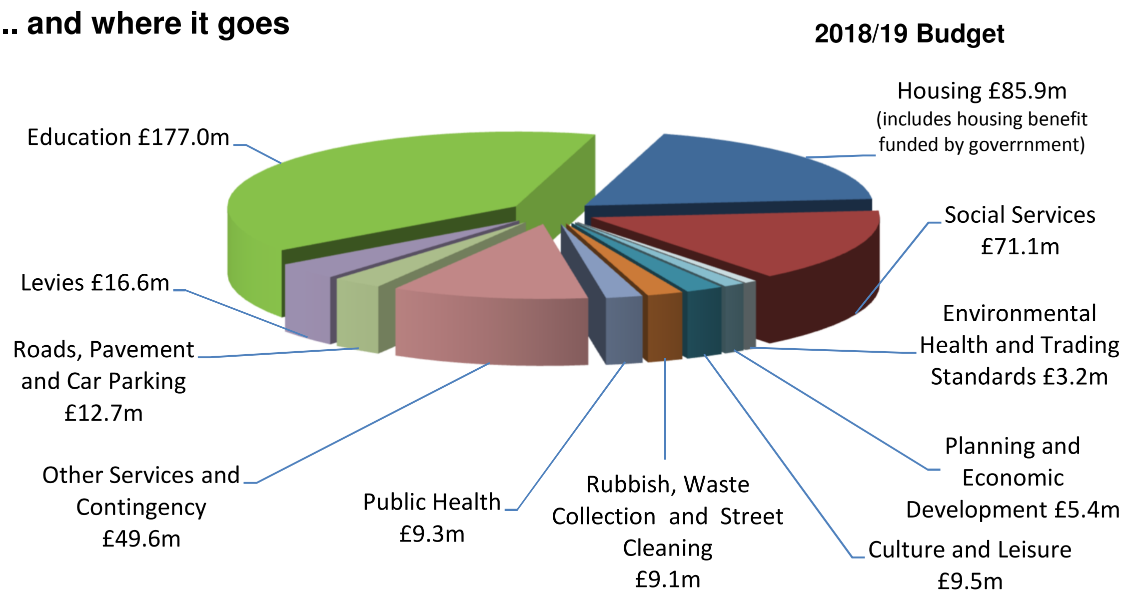
CONNECTIONS — Making life easier

Making it easier for people to get around and online by investing in road, transport links, faster internet and free Wi-Fi in town centres.




## Cash In and Cash Out

Understanding the financial picture, requires an understanding of where we receive our income and how we spend it. A historic source of funding that came without restrictions (Revenue Support Grant) at £6.8m is now a very small portion of our funding and will soon disappear. Approximately half of the monies, such as Dedicated Schools Grant (£124.9m) are tied to a specific purpose, in this instance education with the vast majority being passported to schools directly. These grants must only be spent on specific activity. The services for which there are no specific grants, such as highways and a lot of social care spends, is funded by the council tax, non-ringfenced grants, fees and charges and business rates income. General Fund income totals over £400m but demand is continually rising, particularly in adult social care and children's services. Living longer is obviously a good thing but social care and health spend is rising inexorably and this is why Havering is always searching for new ways to generate resources to pay for services that residents demand. The chart below shows where Havering's funding is allocated based on the 2018/19 budget.



## Pooling of Business Rates

Central Government intends to fundamentally reform the system for funding local government with the purpose of all local authorities moving to self-sufficiency, and this has been piloted through the introduction of business rates pooling arrangements. In 2018/19, all councils in London agreed to a 100% pilot pooling arrangement with the GLA as the lead body, and shared benefits of business rates growth locally.

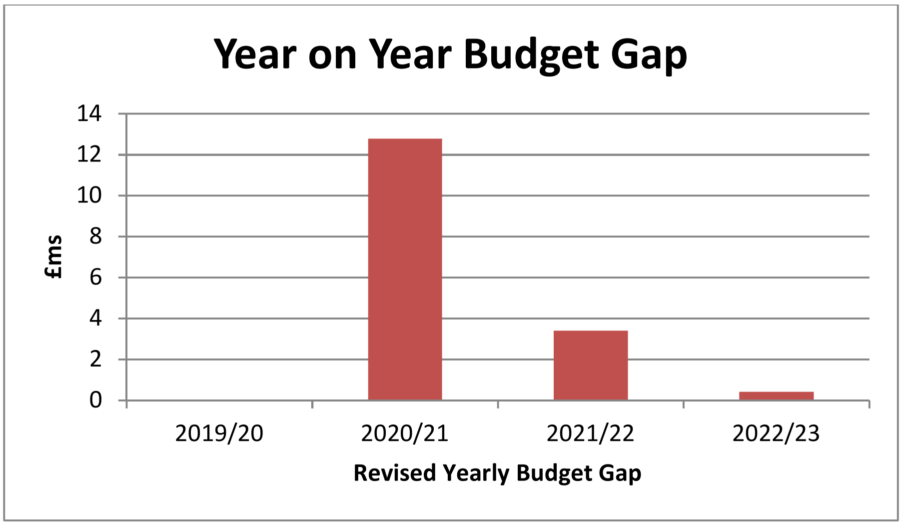
It means, if such schemes are successful, the Council will benefit by investing in the local economy and retaining local growth, allowing reinvestment in key services and infrastructure improvements. For 2019/20 a retention scheme of 75% has been agreed with the central government (MHCLG), again with the GLA as lead for London councils.

All local authorities have experienced exceptional reduction in Government funding over the last nine years. In 2018/19, Havering Council's Revenue Support Grant (RSG) funding reduced by approximately £5.5m when compared to 2017/18 allocation. For 2019/20 the Council no longer receives an RSG allocation. The process of identifying savings is on-going and given the continual restraint in public sector funding this will continue for the foreseeable future.

## Medium Term Financial Strategy

The Council prides itself on its record of creating balanced budgets, delivering challenging savings programmes and carefully managing its finances within each financial year. It is this track record which has helped to build the foundations for setting robust 2018/19 budget and 2019/20. This effort will be intensified during 2019/20 to secure financial balance over the period of the MTFS from 2020/21 through to 2023/24.

To maintain this track record of creating balanced budgets, the Council cannot shy away from tough decisions. Between 2014/15 and 2018/19, Havering has made savings of more than £75.222m across a range of services in order to meet service pressures and balance the budget.




Additionally, further savings and income plans of **£23.797m** (over the period 2019/20 to 2022/23) were approved as part of the 2019/20 MTFS by Council in February 2019. The MTFS approved by Council in February 2019 reported a balanced budget for 2019/20 and a forecast Budget Gap (difference between funding available and the Council's expenditure) of **£16.597m** by 2022/23**.**

The Local Government Financial Settlement (LGFS) outlined the Settlement Funding Assessment (SFA) and Core Spending Power (CSP) allocations for local authorities for 2019/20 however future years allocation will be dependent on the outcomes of the Fair Funding Review and the government's Spending Review 2019.

Unfortunately, the failure of the funding formula to acknowledge the significant financial pressures associated with rapid population growth particularly in relation to its impact on social care services for children and adults results in significant financial pressures for the Council to manage the delivery of services in the forthcoming years. This is exacerbated by the effects of the introduction of the 'core spending power' calculation, which removes government funding from those authorities which are considered able to raise proportionately more council tax, without regard for the need to spend to meet escalating demand for services.

As a consequence, Havering continues to receive lower than the average level of funding for London despite having the highest proportion of older people within its population, which is a key driver of adult social care expenditure. In Havering 32% of elderly people live alone and we will resolutely argue for central government to support adult social care appropriately. Similarly, between 2011 and 2016, Havering experienced the largest increase in the number of children of all the London Boroughs, with 4,580 additional children in the borough during this period. This means that, after many years of stable rolls, Havering is now experiencing in some areas a level of demand for school places which outstrips capacity. This is why our capital programme has a strong focus on building schools but this needs to be financed.

In light of the substantial savings made in recent years (£75.222m over the period 2014/15 to 2018/19), the challenge in preparing the budget for 2019/20 has been to identify proposals which minimise the impact of budget reductions upon delivering the Council's priority services.

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

Earmarked reserves, as detailed in Note 10 of the accounts, have been established to meet planned projects or unforeseen budgetary pressures and are considered adequate at this time. The sums earmarked for these purposes were agreed as part of the annual approval of accounts process and the use and application of those reserves are reviewed quarterly as part of the budget monitoring process.

As the statutory Section 151 officer and holding the fiduciary duties for the financial well-being of the authority, I have directed that the General Fund Balance is increased by £0.521m, to £12.287m. I believe this balance is appropriate to ensure that there are sufficient resources to manage the level of risk that the Council is willing to tolerate and to ensure there are always funds to make emergency payments.

## Earmarked Reserves Position

| | Balance as at 31 3 2017 | Movement In-Yr | Balance as at 31 3 2018 | Movement In-Yr | Balance as at 31 3 2019 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **General Fund Earmarked Reserves** | 53,247 | 6,277 | 59,524 | (2,022) | 57,502 |
| **Schools Balances** | 9,911 | (961) | 8,950 | (363) | 8,587 |
| **Total Earmarked Reserves** | **63,158** | **5,316** | **68,474** | **(2,385)** | **66,089** |

In line with the Council's financial strategy, a considerable degree of professional judgement has gone into determining the level of reserves required to be held by the Council and how the fund in reserves is utilised. Amongst the earmarked reserves are specific ones put aside to manage known major contractual and legal liabilities in the medium term. As one can see the amount in the reserves is broadly consistent between the years but there are dips and this reflects decisions to invest followed by pay-back periods when the resources are returned to fund further improvement projects. Against such a challenging financial background, it will therefore be crucial that reserves, both general and earmarked, continue to be managed in the medium term in a way that gives due regard to the need to set a legally balanced budget.

## Havering's Balance Sheet

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

| | 31/03/2017 | 31/03/2018 | 31/03/2019 |
|---|---|---|---|
| | £'000s | £'000s | £'000s |
| Long-term assets | 1,096,624 | 1,326,280 | 1,289,361 |
| Current assets | 224,188 | 260,818 | 218,779 |
| Current liabilities | (76,511) | (108,989) | (79,898) |
| Long-term liabilities | (717,477) | (698,164) | (773,064) |
| Net Assets | **526,824** | **779,945** | **655,178** |
| funded by: | | | |
| Usable reserves | 208,756 | 218,993 | 219,246 |
| Unusable reserves | 318,068 | 560,952 | 435,932 |
| Total Reserves | **526,824** | **779,945** | **655,178** |
| Borrowing | 214,571 | 241,776 | 211,512 |
| Debt to Equity Ratio | 40.7% | 31.0% | 32.3% |

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

## Communities

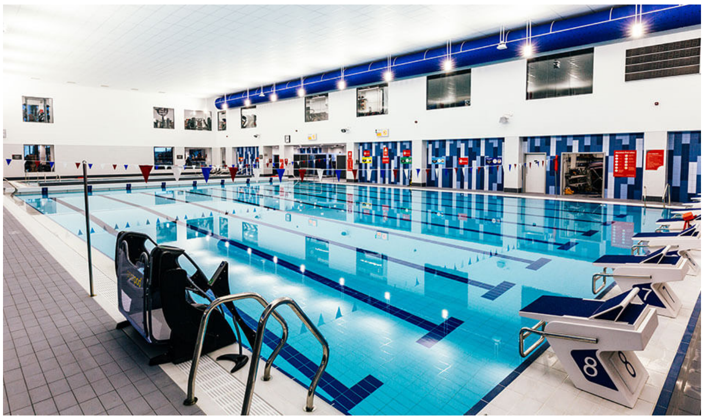
The capital programme is delivering new builds and rebuilds of schools:

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

Children's Services has demonstrated substantial improvement since their last Ofsted inspection in 2016 through its innovation programme, coproduction with young peoples and vision to deliver the best outcomes for children and families.

## Places

We secured a record number of green flags for 14 parks in the borough. Langtons Garden is the latest to be awarded a Green Flag by environmental charity Keep Britain Tidy, with the other 13 retaining their Green Flag status.



Work has begun in the creation of a new sports centre in Hornchurch to replace the existing Harrow Lodge site. This follows the creation of the Sapphire Ice and Leisure complex last year as well as substantial refurbishment of the Council's Central Park Leisure Centre. The New Centre in Hornchurch will boast a 25m eight lane swimming pool, a 20m wide learning and diving pool with movable floor to change the depth, a 100+ station health and fitness suite, exercise studios and top-class changing facilities.

Havering once again marked its support by celebrating national armed forces day. Among those who marched were current serving troops, veterans and cadets as well as the service families.

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

## Opportunities

The Council is committed to building more affordable homes and increasing social housing in the borough. £150m has been set aside as part of the Council's regeneration plans. This includes:

- 12 Estates: Havering Council and joint venture partner Wates Residential have begun work on a project to build around 3,000 high quality homes for local people across 12 of Havering Council's estates. As part of the project, the Council is investing in education, training and skills in support of their commitment to deliver a borough-wide legacy.

- Rainham and Beam Park: Joint venture project with Notting Hill Genesis will deliver over 1,000 homes, transform the A1306 into a new green space and improve transport links in the south of the borough.

- Bridge Close: Along with the Council's joint venture partners First Base and Savills, the Council will regenerate an industrial area in Romford with affordable homes, a new school and health centre. The project also includes a new pedestrian bridge with direct access to Romford station and the regeneration of a stretch of the River Rom.

## Connections

The Council as part of the Local London partnership has secured £800k through the London Authority Strategic Investment Pot, to be used to improve digital connectivity in the Rainham area. The new fibre connection will provide world class infrastructure and stimulate additional investment by the private sector.

Business and organisations in Romford Town centre have voted in favour of taking more control over their future by setting up a business improvement district. The BID commenced in 2018 for a five year term which will generate £3m to be spent in the BID area.

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

## Revenue Outturn

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

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

The original net budget as agreed by Full Council in February 2018 was £154.310m, made up of £153.235m controllable and £1.075m non-controllable budget (internal recharges, capital financing charges & adjustments required under statute). At year-end, after adjusting for an agreed reclassification of budgets from controllable to non-controllable, the revised net controllable budget was £153.360m.

The final net revised budget in the table below of £161.897m includes levies, contingency and non-ringfenced grants and the service budget of £135.456m. The final outturn for service directorates and oneSource was £136.381m, resulting in an overspend of £0.925m (0.68%) against the approved 2018/19 revised service budget. This overspend has been offset by underspends in the corporate budgets. The £0.925m overspend within services is analysed in the table below.

| Directorate | Revised Budget £m | Final Outturn £m | Overspend / (Underspend) £m | Variance % |
|---|---|---|---|---|
| Public Health | (0.01) | (0.01) | 0.00 | 0.00 |
| Children's Services | 42.84 | 44.46 | 1.62 | 3.78 |
| Adult Services | 60.19 | 60.19 | 0.00 | 0.00 |
| Neighbourhoods (& Housing) | 17.90 | 18.20 | 0.29 | 1.64 |
| Regeneration Programme Delivery | 1.24 | 1.23 | (0.01) | (0.81) |
| oneSource Non-Shared | (0.36) | (1.20) | (0.84) | 229.21 |
| Chief Operating Officer | 10.29 | 10.23 | (0.07) | (0.63) |
| SLT | 0.42 | 0.34 | (0.08) | (18.85) |
| oneSource shared | 2.93 | 2.93 | 0.00 | 0.00 |
| **Service Total** | **135.46** | **136.38** | **0.93** | **0.68** |
| | | | | |
| Corporate Budgets | 26.44 | 25.52 | (0.93) | (3.50) |
| **Net Controllable Budget** | **161.90** | **161.90** | **0.00** | **0.00** |

*This table has rounding differences*

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

### Children's Services

The reported outturn for Children's Directorate is a £1.62m overspend. The main areas of pressure are staffing budgets in social care, and placement costs primarily for children with disabilities, along with increasing pressures in Primary and Special Home to School Transport, Post 16 Transport, Leaving Care and Over 18 Asylum Seekers.

There is an underlying pressure on the directorate's budgets from previous years, particularly in the Special Education Needs & Disability, again due to demand being greater than the historic budgets.

The primary reasons for the variance are a combination of increased unit costs and higher demand due to the increased number of children in the borough. Numerous actions are proposed and being developed for 2019/20, including a continuation of a finance deep dive and numerous transformation projects aimed at both identifying the extent of the budget pressure and developing strategies to address the funding gap.

Resources will be reallocated across the Directorate during 2019/20 as part of a zero based budgeting exercise, with ongoing work to mitigate the underlying service pressure through reducing unit costs and improving prevention over the next financial year.

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

Demand for Looked After Children and care leaving services has also been impacted by legislative changes, for example the Children and Families Act 2014, which gave children in care the option to stay with their foster families up to the age of 21. Part of the growth in the borough's looked after children population has been due to an increase in the number of unaccompanied asylum seeking children (UASCs). During 2014/15 the borough became part of the London-wide dispersal scheme and immediately saw an increase in numbers, from 13 in 2014/15 to an average of 19 in 2015/16. Since then, the total number of UASCs in Havering has continued to rise, and accounts for 11% of the looked after children population. There is a considerable amount of churn within the total number due to UASCs usually being aged 16 or 17. This means that, whilst each UASC is generally only looked after by the authority for a maximum of two years, they remain a cost to the Council beyond their 18th birthday, as care leavers.

Schools Accounting: Academies are state maintained independent schools set up, usually, with help from outside sponsors and Government contributions. The schools are run outside of the local authority's funding control and are not included in the Authority's accounts; although still operate within all the national requirements for curriculum and standards. As at 31 March 2019, there were 44 maintained schools (48 at 31 March 2018) on the balance sheet, and 97 academies within the Borough (35 at 31 March 2018).

## Adult Services

Adult Services has been delivered on budget, however, there are a number of underlying pressures in this service area. There are demand pressures within the Adults with Learning Disabilities activity from a combination of increased demand from clients being discharged into the community as a consequence of the NHSE Transforming Care Programme and also new referrals to the service as children with disabilities transition into adulthood. Although demand projections for Older People are stable, there is an underlying increase in individual service users' costs following reviews and requests for increases in support due to changes in needs. This is driving up overall expenditure especially within home care compared to prior years. The service is also experiencing increases across nursing placements expenditure, reflecting the increasing complexity of client needs.

These pressures are being mitigated by the use of one-off balances held within the Business Risk Reserves. The balances remaining in the Business Risk Reserve are likely to be used in 2019/20 however finance is working with the service to determine the potential service position for future years.

## Neighbourhoods (& Housing)

The Council overspent in this service by £0.29m. This was made of £0.47m overspend on Housing related services but managed a favourable variance of £0.18m in other Neighbourhood services. The overspend was minimised by working across the directorate to mitigate overspends within Planning and Registrations with a managed underspend in Environment.

The underlying pressure in homelessness continues to exist. However, it was mitigated in 2018/19 by utilising all of both the New Burdens and Flexible Homelessness Grants totalling £1.8m. Looking ahead to 2019/20 the directorate will need to start the year with robust plans to contain spend in light of further savings challenges.

Housing Services are working on strategies to meet action plan targets to contain Housing general fund expenditure within the budgets for 2019/20.

Housing Revenue Account: The Statement of Accounts also includes the Housing Revenue Account (HRA), a ring-fenced account to which expenditure incurred and income received in relation to the Authority's housing stock is charged. The balance on the HRA reserve is now £4.907m. The full details of the Housing Revenue Account and the movements on that account are set out in a separate section of the Accounts.

## Regeneration Programme Delivery

The regeneration programmes have been delivered within budget, with positive performance from the business development activities.

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

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

## Capital Outturn

Capital expenditure forms a large part of the Council's spending on the provision of services. The Council's capital programme is designed to maintain and enhance its assets and support the future growth and development of the borough. As can be seen from the table below, asset management (which includes schools), regeneration, housing and spend on the environment (which includes highways) make up large proportions of the budget.

In 2018, capital schemes totalling £176.36m (£108.43m GF and £67.93m HRA) for 2018/19 have been approved. Actual capital spend at the end of the financial year 2018/19 was £71.59m, with further £104.77m remaining to be spent in 2019/20.

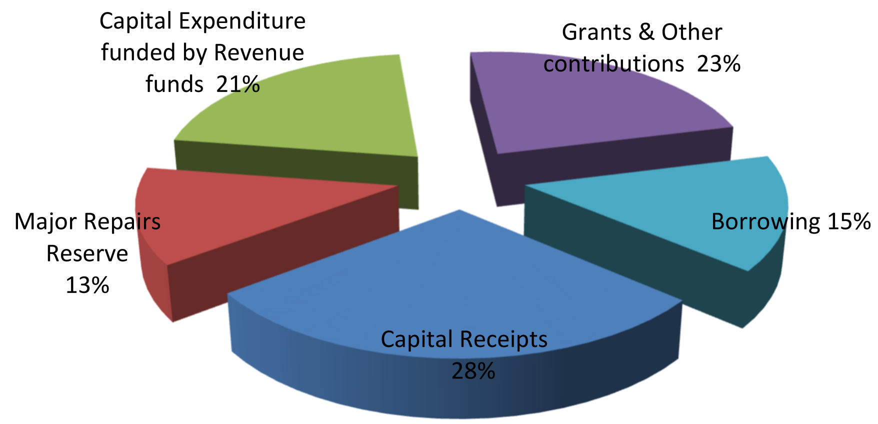
| Capital Programme 2018/19 | Expenditure In-Yr | | | Financing | | | | |
|---|---|---|---|---|---|---|---|---|
| **Services** | **Budget £m** | **Capital Outturn £m** | **Variance £m** | **Capital Receipts £m** | **Revenue and reserves** | **Infrastructure Tariff and S106 £m** | **Grants & Other Contributions £m** | **Borrowing £m** |
| Customer & Communications Service | 9.306 | 2.227 | (7.079) | 0.093 | 0 | 0.033 | 0 | 2.101 |
| Bereavement Services | 0.365 | 0.337 | (0.029) | 0.252 | 0.085 | 0 | 0 | 0 |
| Learning & Achievement Service | 1.872 | 1.887 | 0.015 | 0.03 | 1.298 | 0 | 0.559 | 0 |
| Environment | 11.259 | 6.222 | (5.037) | 2.543 | 0 | 0.47 | 2.251 | 0.959 |
| Regeneration | 34.998 | 9.05 | (25.948) | 0.051 | 0.034 | 0.01 | 1.319 | 7.635 |
| Housing Services | 69.467 | 34.303 | (35.163) | 14.44 | 21.87 | 0 | (2.006) | 0 |
| Children's Services | 1.918 | 0.028 | (1.89) | 0.028 | 0 | 0 | 0 | 0 |
| Adults Services | 2.040 | 0.813 | (1.226) | 0.3 | 0 | 0 | 0.513 | 0 |
| Asset Management | 37.392 | 15.782 | (21.609) | 1.918 | 0.709 | 1.388 | 11.715 | 0.053 |
| ICT Services | 2.251 | 0.727 | (1.524) | 0.727 | 0 | 0 | 0 | 0 |
| Legal & Governance | 0.090 | 0.155 | 0.065 | 0.155 | 0 | 0 | 0 | 0 |
| Planning Control & Enforcement | 0.564 | 0.039 | (0.526) | (0.006) | 0 | 0 | 0.045 | 0 |
| Policy & Performance Management | 0.035 | 0.01 | (0.025) | 0.01 | 0 | 0 | 0 | 0 |
| Contingency/Efficiency Pot | 4.803 | 0.007 | (4.796) | 0.007 | 0 | 0 | 0 | 0 |
| Total | **176.36** | **71.59** | **(104.77)** | **20.55** | **23.97** | **1.90** | **14.40** | **10.75** |

## Sources of Funding

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

The Council's Capital funding in 2018/19 is illustrated below.

## How the Capital Programme is Funded 2018/19




## Treasury Management

The Council held approximately £220m in cash and investments on average during the course of the financial year. This represents the value of the Council's revenue reserves, net current assets, unapplied grants and unapplied capital reserves. Other than reserves, this is money that is committed and is being held pending such expenditure. Given the Council's gross expenditure is approximately £625m, this represents around four months of expenditure. The level of return achieved on these cash deposits is low by historic standards, which is one more reason to pursue direct investment in regeneration projects that can produce a better return.

The primary objective of the Authority's investment strategy is to minimise risk. The credit ratings of the banks and market information are monitored regularly by officers who are involved in the investment process while deposits are restricted to a limited number of institutions meeting the Authority's lending criteria. Total cash, cash equivalents and investments held by the Authority at 31 March 2019 amounted to £202m (£238m at 31 March 2018). The average yield from the Authority's cash investments for 2018/19 was 0.92% (0.66 % for 2017/18). This reflects the conservative nature of the Authority's investment strategy and historically low interest rates. The impact of Brexit continues with uncertainty around its impact on borrowing and investment rates as well as general inflation. The Council will however continue to take steps within its Treasury Management Strategy to mitigate associated risks.

Historically, the Council managed the cash flow of its capital expenditure programme largely via the use of capital receipts. However, as can be seen by the capital programme below with its £556m budget, the capital ambition of the Council will exceed the potential capital receipts available. The Council plans to use prudential borrowing within the Treasury Management Strategy for prioritised schemes. Over the next couple of years, the Treasury return will dwindle and the cash and cash equivalents will be reduced to working capital. Naturally, is anticipated that the long-term return on capital would be superior to the rates that the Council could achieve on its current rates.

## Capital Programme

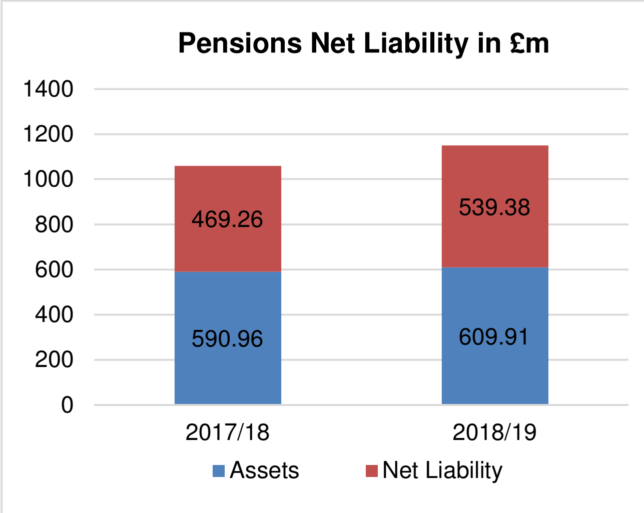
The Council's approved capital Programme is £555.7m but this does not take account budget being carried forward from 2018/19 which has previously been agreed by Members. All schemes are constantly reviewed to ensure they represent value for money.

| Summary of Capital Programme | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m | 2023/24 £m | 2024/25 £m | Total £m |
|---|---|---|---|---|---|---|---|
| Adults Services | 0 | 2.8 | 0 | 0 | 0 | 0 | **2.8** |
| Cemeteries and Crematoriums | 0.998 | 1.5 | 0 | 0 | 0 | 0 | **2.498** |
| Childrens Services | 1.95 | 0 | 0 | 0 | 0 | 0 | **1.95** |
| Corporate Assets | 0.527 | 0.077 | 0 | 0 | 0 | 0 | **0.604** |
| Environment | 2.188 | 0 | 0 | 0 | 0 | 0 | **2.188** |
| Highways | 12.351 | 12 | 2 | 2 | 0 | 0 | **28.351** |
| Housing (GF) | 1.68 | 0 | 0 | 0 | 0 | 0 | **1.68** |
| IT Infrastructure | 7.3 | 0.62 | 0.62 | 0.62 | 0 | 0 | **9.16** |
| Leisure | 11.93 | 5.668 | 0.854 | 0.485 | 0 | 0 | **18.937** |
| Libraries | 0.112 | 0.028 | 0 | 0 | 0 | 0 | **0.14** |
| Parks & Open Spaces | 0.134 | 0 | 0 | 0 | 0 | 0 | **0.134** |
| Economic Regeneration | 8.239 | 11.584 | 7.188 | 4.114 | 1.229 | 0 | **32.354** |
| Schools Expansions Programme | 19.486 | 28.207 | 2 | 0 | 0 | 0 | **49.693** |
| Schools Maintenance | 3.757 | 0.261 | 0 | 0 | 0 | 0 | **4.018** |
| Capital Contingency | 2 | 0 | 0 | 0 | 0 | 0 | **2** |
| Regeneration Programme | 146.735 | 102.243 | 72.709 | 56.031 | 10.934 | 10.505 | **399.157** |
| **Total Capital Expenditure** | **219.387** | **164.988** | **85.371** | **63.25** | **12.163** | **10.505** | **555.664** |
| **Funding** | | | | | | | |
| Capital Receipts | 63.69 | 50.947 | 30 | 36.535 | 7.783 | 0 | **188.955** |
| Revenue and Reserve Contributions | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Grants | 31.551 | 31.725 | 2 | 0.02 | 0 | 0 | **65.296** |
| Section 106/ CIL | 1.339 | 0 | 0 | 0 | 0 | 0 | **1.339** |
| Borrowing | 122.807 | 82.316 | 53.371 | 26.695 | 4.38 | 10.505 | **300.074** |
| **Total Funding** | **219.387** | **164.988** | **85.371** | **63.25** | **12.163** | **10.505** | **555.664** |

Long-term borrowing stood at £210.6m as at 31 March 2019 (£211.6m as at 31 March 2018). Short term borrowing was £1m as at 31st March 2019 versus £31m, the prior year. This £30m movement largely matches the reduced amount of cash on hand. Further details are shown in Financial Instruments note to the accounts (Note 18). Nonetheless, knowing that the borrowing will increase in the future years, the Council will make use of the long lead in time to carefully consider the most efficient and prudent way to borrow.

## Pension Fund

The Council participates in the Local Government Pension Scheme (LGPS) for the majority of its staff. The net estimated pension liability for Havering using "ISA19" is £539.4m as at 31st March 2019 compared with £469.3m as at 31st March 2018. Estimation of liability is based on a number of judgements relating to the discount rate used, salary increases, changes in retirement age, longevity, interest rates, inflation and expected returns on assets. Also, it has taken into account the impact of the recent McCloud ruling and GMP equalisation.




The Pension Fund's net assets rose by £18.95m in 2018/19, from £590.96m to £609.91m, while the liability rose from £1,060.2m to £1,149.3m. This mainly reflects subdued market conditions in 2018/19 and the impact of the recent McCloud ruling and GMP equalisation.

The net liability is the additional amount that the Council will have to set aside or generate through investment returns to fund the pension entitlements that have been built up to date by members of the Pension Fund. The most important thing to note is that the actuaries reviewed our position as at March 31st 2016 and came to the conclusion that the Council had a viable long-term solution to reducing the Pension Fund deficit to zero. The next Triennial Review will take place in 2019. Nonetheless, it is important to note that interest rates remain at historically low levels and represent a significant influence of the valuation of pension fund liabilities. Further information on the basis of the IAS19 disclosure is included at Note 42.

**Jane West**

**Chief Operating Officer,**

**London Borough of Havering**

**Date: 5 September 2019**

**Explanation of Accounting statements**

Whilst these accounts are presented as simply as possible, the use of some technical terminology cannot be avoided. To aid a better understanding of the terminology used a glossary of the terms is set out on pages 145 to 148 at the end of the document.

The key financial statements set out within this document include:

- **Movement in Reserves Statement (MiRS) –** This statement shows the movement in the year on the different reserves held by the Authority, analysed into usable reserves and unusable reserves. It analyses the increase and decrease in the net worth of the Authority as a result of the surplus/deficit in year and from movements in the fair value of the assets. It also analyses the movement between reserves, in accordance with statutory regulations;

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

- **Balance Sheet –** This records the Authority's year-end financial position. It shows the balances and the reserves at the Authority's disposal, its long term debt, net current assets and liabilities, and summarises information on the long-term assets held;

- **Cash Flow Statement –** This summarises the inflows and outflows of cash arising from transactions with third parties for both capital and revenue;

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

- **Notes to the Financial Statements –** The notes provide more detail about the items contained in the key financial statements, the Authority's Accounting Policies and other information to aid the understanding of the financial statements;

- **Housing Revenue Account (HRA) –** This records the Authority's statutory obligations to account separately for the cost of the landlord role in respect of the provision of the Authority Housing;

- **Collection Fund –** The Authority is responsible for collecting council tax and non-domestic rates, and to keep a separate account to detail the amounts owing to and from the Council, the GLA and the MHCLG.

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

# Statement of Responsibilities for the Statement of Accounts

**The Authority's Responsibilities**

The Authority is required to:

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

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

- Approve the statement of accounts.

**The Section 151 Officer's Responsibilities**

The Section 151 Officer is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

- Selected suitable accounting policies and then applied them consistently.

- Made judgements and estimates that were reasonable and prudent.

- Complied with the Code.

The Section 151 Officer has also:

- Kept proper accounting records which were up to date.

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

I certify that the statement of accounts presents a true and fair view of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

**CHAIRMAN, AUDIT COMMITTEE**
**5th September 2019**

**Jane West**
**Chief Operating Officer**
**5th September 2019**

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

**Opinion**

We have audited the financial statements of **London Borough of Havering** for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

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

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Havering and Group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

**Basis for opinion**

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

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

**Conclusions relating to going concern**

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

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

**Other information**

The other information comprises the information included in the Narrative Report set out on pages 1 to 15, other than the financial statements and our auditor's report thereon. The Chief Operating Officer is responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, London Borough of Havering put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

**Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects.

**Responsibility of the Chief Operating Officer**

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 17, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the London Borough of Havering had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Havering put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

**Delay in certification of completion of the audit**

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

**Use of our report**

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

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
5 September 2019

The maintenance and integrity of the London Borough of Havering Council's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAVERING PENSION FUND**

**Opinion**

We have audited the **pension fund financial statements** for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

**Basis for opinion**

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

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

**Conclusions relating to going concern**

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

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

**Other information**

The other information comprises the information included in the Narrative Report set out on pages 1 to 15, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

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

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

We have nothing to report in this regard.

**Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects.

**Responsibility of the Chief Operating Officer**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on pages [x], the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

**Use of our report**

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

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
5 September 2019

The maintenance and integrity of the Havering Pension Fund web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Group Movement in Reserves Statement 2018/19

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

| | General Fund Balance | Earmarked General Fund Reserves | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied Account | Total Usable Reserves | Unusable Reserves | Authority's Share of Reserves of Subsidiaries | Total inc Group Reserves |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance at 31 March 2017** | **11,766** | **63,157** | **2,830** | **62,171** | **33,533** | **35,299** | **208,756** | **318,069** | **(430)** | **526,395** |
| **Movement in reserves during 2017/18** | | | | | | | | | | |
| (Deficit)/surplus on provision of services | 10,106 | | 65,163 | | | | 75,269 | | (169) | 75,100 |
| Other comprehensive expenditure and income | | | | | | | | 177,851 | | 177,851 |
| **Total comprehensive expenditure and income** | **10,106** | **-** | **65,163** | **-** | **-** | **-** | **75,269** | **177,851** | **(169)** | **252,951** |
| Adjustments between accounting basis and funding basis under regulations | (5,740) | | (58,886) | (6,198) | (2,870) | 8,662 | (65,032) | 65,032 | | - |
| **Net (decrease)/increase before transfers to earmarked reserves** | **4,366** | **-** | **6,277** | **(6,198)** | **(2,870)** | **8,662** | **10,237** | **242,883** | **(169)** | **252,951** |
| Transfers to/(from) Earmarked Reserves | (4,366) | 8,861 | (4,495) | | | | **-** | **-** | | - |
| **Decrease/increase in Year** | **-** | **8,861** | **1,782** | **(6,198)** | **(2,870)** | **8,662** | **10,237** | **242,883** | **(169)** | **252,951** |
| **Balance at 31 March 2018** | **11,766** | **72,018** | **4,612** | **55,973** | **30,663** | **43,961** | **218,993** | **560,952** | **(599)** | **779,346** |
| **Movement in reserves during 2018/19** | | | | | | | | | | |
| (Deficit)/surplus on provision of services | (72,949) | | 24,559 | | | | (48,390) | | (377) | (48,767) |
| Other comprehensive expenditure and income | | | | | | | - | (76,377) | | (76,377) |
| **Total comprehensive expenditure and income** | **(72,949)** | **-** | **24,559** | **-** | **-** | **-** | **(48,390)** | **(76,377)** | **(377)** | **(125,144)** |
| Adjustments between accounting basis and funding basis under regulations | 72,007 | | (25,709) | (1,092) | 252 | 3,185 | 48,643 | (48,643) | | - |
| **Net (decrease)/increase before transfers to earmarked reserves** | **(942)** | **-** | **(1,150)** | **(1,092)** | **252** | **3,185** | **253** | **(125,020)** | **(377)** | **(125,144)** |
| Transfers to/(from) Earmarked Reserves | 1,463 | (2,908) | 1,445 | | | | - | | | - |
| **Decrease/increase in Year** | **521** | **(2,908)** | **295** | **(1,092)** | **252** | **3,185** | **253** | **(125,020)** | **(377)** | **(125,144)** |
| **Balance at 31 March 2019** | **12,287** | **69,110** | **4,907** | **54,881** | **30,915** | **47,146** | **219,246** | **435,932** | **(976)** | **654,202** |

# Authority Movement in Reserves Statement 2018/19

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



| | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Housing Revenue Account £000 | Capital Receipts Reserve £000 | Major Repairs Reserve £000 | Capital Grants Unapplied Account £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2017** | **11,766** | **63,157** | **2,830** | **62,171** | **33,533** | **35,299** | **208,756** | **318,069** | **526,825** |
| **Movement in reserves during 2017/18** | | | | | | | | | |
| Deficit/surplus on provision of services | 10,106 | | 65,163 | | | | 75,269 | | 75,269 |
| Other comprehensive expenditure and income | | | | | | | - | 177,851 | 177,851 |
| **Total comprehensive expenditure and income** | **10,106** | **-** | **65,163** | **-** | **-** | **-** | **75,269** | **177,851** | **253,120** |
| Adjustments between accounting basis and funding basis under regulations (Note 9) | (5,740) | - | (58,886) | (6,198) | (2,870) | 8,662 | (65,032) | 65,032 | - |
| **Net decrease/increase before transfers to earmarked reserves** | **4,366** | **-** | **6,277** | **(6,198)** | **(2,870)** | **8,662** | 10,237 | **242,883** | **253,120** |
| Transfers to/from Earmarked Reserves (Note 10) | (4,366) | 8,861 | (4,495) | | | | - | | - |
| **Decrease/increase in Year** | **-** | **8,861** | **1,782** | **(6,198)** | **(2,870)** | **8,662** | **10,237** | **242,883** | **253,120** |
| **Balance at 31 March 2018** | **11,766** | **72,018** | **4,612** | **55,973** | **30,663** | **43,961** | **218,993** | **560,952** | **779,945** |
| **Movement in reserves during 2018/19** | | | | | | | | | |
| (Deficit)/surplus on provision of services | (72,949) | | 24,559 | | | | (48,390) | | (48,390) |
| Other comprehensive expenditure and income | | | | | | | - | (76,377) | (76,377) |
| **Total comprehensive expenditure and income** | **(72,949)** | **-** | **24,559** | **-** | **-** | **-** | **(48,390)** | **(76,377)** | **(124,767)** |
| Adjustments between accounting basis and funding basis under regulations (Note 9) | 72,007 | | (25,709) | (1,092) | 252 | 3,185 | 48,643 | (48,643) | - |
| **Net (decrease)/increase before transfers to earmarked reserves** | **(942)** | **-** | **(1,150)** | **(1,092)** | **252** | **3,185** | **253** | **(125,020)** | **(124,767)** |
| Transfers to/from Earmarked Reserves (Note 10) | 1,463 | (2,908) | 1,445 | | | | - | | - |
| **(Decrease)/increase in Year** | **521** | **(2,908)** | **295** | **(1,092)** | **252** | **3,185** | **253** | **(125,020)** | **(124,767)** |
| **Balance at 31 March 2019** | **12,287** | **69,110** | **4,907** | **54,881** | **30,915** | **47,146** | **219,246** | **435,932** | **655,178** |

# Group Comprehensive Income and Expenditure Statement 2018/19

The Group Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

| 1 April 2017 – 31 March 2018 | | | | 1 April 2018 – 31 March 2019 | | |
|---|---|---|---|---|---|---|
| £000 | £000 | £000 | | £000 | £000 | £000 |
| Gross Expenditure | Gross Income | Net | | Gross Expenditure | Gross Income | Net |
| * Restated | * Restated | * Restated | **Gross expenditure, gross income and net expenditure of continuing operations** | | | |
| 27,575 | (2,865) | 24,710 | Corporate Budgets | 32,545 | (3,323) | 29,222 |
| 67,878 | (99,107) | (31,229) | Neighbourhoods | 90,986 | (95,101) | (4,115) |
| 3,945 | (1,598) | 2,347 | Regeneration Programme Delivery | 3,439 | (1,102) | 2,337 |
| 76,456 | (17,251) | 59,205 | Adult Services | 76,672 | (18,352) | 58,320 |
| 156,982 | (140,911) | 16,071 | Children’s Services | 202,943 | (141,770) | 61,173 |
| 10,989 | (11,337) | (348) | Public Health | 10,776 | (10,937) | (161) |
| 100,764 | (95,283) | 5,481 | oneSource Non-Shared | 99,342 | (90,444) | 8,898 |
| 9,360 | (2,968) | 6,392 | oneSource Shared | 20,524 | (3,389) | 17,135 |
| **453,949** | **(371,320)** | **82,629** | **Cost of services** | **537,227** | **(364,418)** | **172,809** |
| | | 40,057 | Other operating expenditure | | | 68,817 |
| | | 14,772 | Financing and investment income and expenditure | | | 8,378 |
| | | (212,558) | Taxation and non-specific grant income | | | (201,237) |
| | | **(75,100)** | **(Surplus)/Deficit on provision of services** | | | **48,767** |
| | | (145,749) | (Surplus)/Deficit on revaluation of property, plant and equipment assets | | | 21,539 |
| | | (32,102) | Actuarial losses/(gains) on pension assets / liabilities | | | 54,838 |
| | | **(177,851)** | **Other comprehensive income and expenditure** | | | **76,377** |
| | | **(252,951)** | **Total comprehensive income and expenditure** | | | **125,144** |

* The Comprehensive Income and Expenditure statement has been restated to be aligned to the authority's internal financial reporting structure.

Page 35

# Authority Comprehensive Income and Expenditure Statement 2018/19

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

| 1 April 2017 – 31 March 2018 | | | | | 1 April 2018 – 31 March 2019 | | |
|---|---|---|---|---|---|---|---|
| £000 Gross Expenditure | £000 Gross Income | £000 Net | | Notes | £000 Gross Expenditure | £000 Gross Income | £000 Net |
| * Restated | * Restated | * Restated | **Gross expenditure, gross income and net expenditure of continuing operations** | | | | |
| 27,627 | (2,870) | 24,757 | Corporate Budgets | | 32,545 | (3,323) | 29,222 |
| 67,689 | (99,450) | (31,761) | Neighbourhoods | | 90,609 | (94,231) | (3,622) |
| 3,945 | (1,598) | 2,347 | Regeneration Programme Delivery | | 3,439 | (1,102) | 2,337 |
| 76,456 | (17,251) | 59,205 | Adult Services | | 76,672 | (18,352) | 58,320 |
| 156,982 | (140,911) | 16,071 | Children's Services | | 202,943 | (141,770) | 61,173 |
| 10,989 | (11,337) | (348) | Public Health | | 10,776 | (10,937) | (161) |
| 100,764 | (95,283) | 5,481 | oneSource Non-Shared | | 99,342 | (90,444) | 8,898 |
| 9,360 | (2,989) | 6,371 | oneSource Shared | | 20,524 | (3,389) | 17,135 |
| **453,812** | **(371,689)** | **82,123** | **Cost of services** | | **536,850** | **(363,548)** | **173,302** |
| | | 40,057 | Other operating expenditure | 11 | | | 68,817 |
| | | 15,109 | Financing and investment income and expenditure | 12 | | | 7,508 |
| | | (212,558) | Taxation and non-specific grant income | 13 | | | (201,237) |
| | | **(75,269)** | **(Surplus)/Deficit on provision of services** | | | | **48,390** |
| | | (145,749) | (Surplus)/Deficit on revaluation of property, plant and equipment assets | 25a | | | 21,539 |
| | | (32,102) | Actuarial losses/(gains) on pension assets / liabilities | 25e | | | 54,838 |
| | | **(177,851)** | **Other comprehensive income and expenditure** | | | | **76,377** |
| | | **(253,120)** | **Total comprehensive income and expenditure** | | | | **124,767** |

* The Comprehensive Income and Expenditure statement has been restated to be aligned to the authority's internal financial reporting structure.

# Balance Sheet as at 31 March 2019

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

| 31 March 2018 Authority £000 | 31 March 2018 Group £000 | | Notes | 31 March 2019 Authority £000 | 31 March 2019 Group £000 |
|---|---|---|---|---|---|
| 1,224,274 | 1,224,304 | **Property, plant and equipment** | 14 | 1,167,576 | 1,167,597 |
| 133 | 133 | **Heritage assets** | 15 | 133 | 133 |
| 44,680 | 62,631 | **Investment property** | 16b | 50,990 | 76,352 |
| 2,073 | 2,073 | **Intangible assets** | 17 | 1,568 | 1,568 |
| 33,000 | 33,000 | **Long term investments** | 18 | 38,000 | 38,000 |
| 8,735 | - | **Long term investments in subsidiaries and joint ventures** | 16c | 12,024 | 3,289 |
| 13,385 | 379 | **Long term debtors** | 19 | 19,070 | 2,428 |
| **1,326,280** | **1,322,520** | **Long-term assets** | | **1,289,361** | **1,289,367** |
| 151,479 | 151,479 | **Short-term investments** | 18 | 134,099 | 134,099 |
| 321 | 421 | **Inventories** | | 385 | 385 |
| 48,692 | 47,313 | **Short-term debtors** | 19 | 55,805 | 55,477 |
| 53,420 | 58,285 | **Cash and cash equivalents** | 20 | 26,664 | 26,930 |
| 6,906 | 6,906 | **Assets held for sale** | 21 | 1,826 | 1,826 |
| **260,818** | **264,404** | **Current assets** | | **218,779** | **218,717** |
| (30,746) | (31,171) | **Short-term borrowing** | 18 | (928) | (928) |
| (78,243) | (78,243) | **Short-term creditors** | 22 | (78,970) | (80,021) |
| **(108,989)** | **(109,414)** | **Current liabilities** | | **(79,898)** | **(80,949)** |
| - | - | **Long-term creditors** | | | |
| (5,349) | (5,349) | **Provisions** | 23 | (9,705) | (9,705) |
| (211,030) | (211,030) | **Long-term borrowing** | 18 | (210,584) | (210,453) |
| (469,258) | (469,258) | **Other long-term liabilities** | 42 | (539,382) | (539,382) |
| (12,527) | (12,527) | **Capital grants receipts in advance** | 35b | (13,393) | (13,393) |
| **(698,164)** | **(698,164)** | **Long-term liabilities** | | **(773,064)** | **(772,933)** |
| **779,945** | **779,346** | **Net assets** | | **655,178** | **654,202** |
| 218,993 | 218,393 | **Usable reserves** | 24 | 219,246 | 218,270 |
| 560,952 | 560,953 | **Unusable reserves** | 25 | 435,932 | 435,932 |
| **779,945** | **779,346** | **Total Reserves** | | **655,178** | **654,202** |

I certify that the statement of accounts gives a true and fair view of the financial position of the authority at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

**Jane West**

**Chief Operating Officer**
**London Borough of Havering**
**Date: 5 September 2019**

# Cash Flow Statement as at 31 March 2019

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

| 2017/18 Authority £000 | 2017/18 Group £000 | | Note | 2018/19 Authority £000 | 2018/19 Group £000 |
|---|---|---|---|---|---|
| 75,269 | 75,100 | Net surplus on the provision of services | | (48,390) | (48,767) |
| 5,338 | 10,815 | Adjust net surplus or deficit on the provision of services for non-cash movements | 26 | 104,132 | 107,365 |
| (48,893) | (49,579) | Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 26 | (40,025) | (40,025) |
| **31,714** | **36,336** | **Net cash flows from Operating Activities** | | **15,717** | **18,573** |
| (52,233) | (52,885) | Investing activities | 27 | (12,208) | (19,663) |
| 27,204 | 27,205 | Financing activities | 28 | (30,265) | (30,265) |
| **6,685** | **10,656** | **Net increase /(decrease) in cash and cash equivalents** | | **(26,756)** | **(31,355)** |
| 46,735 | 47,229 | Cash and cash equivalents at the beginning of the reporting period | 20 | 53,420 | 58,285 |
| | 400 | Adjustment to cash balance from group consolidation | | | |
| **53,420** | **58,285** | **Cash and cash equivalents at the end of the reporting period** | **20** | **26,664** | **26,930** |

# Notes to the Core Financial Statements

## 1. Accounting Policies

**Going Concern**

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

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

**i. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The Authority is required to prepare an annual Statement of Accounts by 31 May 2019, which the Accounts and Audit (England) Regulations 2015 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19*, 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;

- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made. Outstanding creditors are written out of the accounts if they have not been billed for by the supplier after a period of one year, however a sample of outstanding balances will be sampled and adjusted for if required;

- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected; and
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. The de minimis for 2018/19 remains at £50,000.

**iii. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in one month or less from the date of acquisition or notice accounts of no more than 3 months and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

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

**v. Charges to Revenue for Non-Current Assets**

Services are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible non-current assets attributable to the service.

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

### vi. Council Tax and Non-Domestic Rates

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

#### Accounting for Council Tax and NDR

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

The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals. Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

### vii. Employee Benefits

#### Benefits Payable During Employment

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

#### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the relevant service line or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

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

**Post-Employment Benefits**

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

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

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

*The Local Government Pension Scheme*

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

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

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

- Service cost comprising:

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

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

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

*Discretionary Benefits*

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

**viii. Events After the Reporting Period**

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

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

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

**ix. Financial Instruments**

**Financial Liabilities**

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

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

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

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

**Financial Assets**

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

**Financial Assets Measured at Amortised Cost**

Financial assets measured at amortised cost 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for Statements the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

**Expected Credit Loss Model**

The authority recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

**Financial Assets Measured at Fair Value through Profit of Loss (FVPL)**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset. Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive

### x. Foreign Currency Translation

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

### xi. Government Grants and Contributions

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

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

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

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund and Housing Revenue Account balances in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

**Non Ring-fenced Grants**

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

**Business Improvement Districts**

The Authority is the billing authority for the London Riverside Business Improvement District (BID) managed by Ferry Lane Action Group, which provides a cleaner, safer, more secure business environment and promotes the interests of the business community within the BID. The Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) on the balance sheet. The Authority has similar arrangements for the Romford Town Centre BID, which went live during 2018/19.

**xii. Heritage Assets**

The Authority's Heritage Assets are split into two categories

- Civic Regalia; and
- Heritage Buildings.

**Civic Regalia**

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

**Heritage Buildings**

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

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

**xiii. Intangible Assets**

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

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

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

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

**xiv. Inventories**

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

**xv. Investment Property**

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

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

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

**xvi. Interests in Companies and Other Entities**

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

The Group's financial statement incorporate the financial statements of the London borough of Havering and its subsidiaries prepared as at the year end date. As part of the consolidation process Havering has aligned the accounting policies of the subsidiaries with those of the council and made consolidation adjustments where necessary; Consolidated the financial statements of the subsidiaries with those of the council on a line by line basis; Eliminated in full balances, transactions, income and expenses between the council and the partnerships.

**xvii. Interest in Joint Committee**

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

**xviii. Leases**

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

**The Authority as Lessee**

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

**The Authority as Lessor**

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

**xix. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received

**xx. Property, Plant and Equipment**

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

**Recognition**

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

**Measurement**

Assets are initially measured at cost, comprising:

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

Finance costs are excluded in valuations for all assets.

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

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

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

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

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

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

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

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

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

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

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

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

**Development Costs**

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

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

**Impairment**

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

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

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

**Depreciation**

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

Depreciation is calculated on the following bases:

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

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

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

- new capital expenditure as it arises; and

- existing assets as they become subject to revaluation.

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

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

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

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

**Disposals and Non-current Assets Held for Sale**

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

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Where an Asset is fully depreciated and therefore has a zero net book value, it is deemed as being abandoned or scrapped and treated as such (This will not have an effect on the Comprehensive Income and Expenditure Statement as the gross book value and the accumulated depreciation are equal). Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

**Annual Minimum Revenue Provision Statement**

Where the Council finances capital expenditure by borrowing, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum provision since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's (DCLG) Guidance on Minimum Revenue Provision issued in 2012.

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

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

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

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

**xxi. Provisions, Contingent Liabilities and Contingent Assets**

**Provisions**

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

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

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

**Contingent Liabilities**

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

**Contingent Assets**

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

**xxii. Reserves**

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

**xxiii Revenue Expenditure Funded from Capital under Statute**

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

**xxiv. Schools**

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

**xxv. VAT**

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

**xxvi Fair Value Measurement**

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

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

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

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

The Authority is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The following key accounting policy changes has been identified:

(a) Amendments to IFRS 9 Financial instruments

Amendment relates to prepayment features with negative compensation, to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Authority has no loans of this nature.

(b) Amendments to IFRS 16 – Leases

The new standard requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

(c) Amendments to IAS 40 Investment Property - Transfers of Investment Property

This provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Authority as it already complies.

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

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

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

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

The items in the Authority's Balance Sheet at 31 March 2019 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.<br><br>Assets have been valued by the Authority's external valuers on the basis of a five year rolling valuation programme. In the current economic climate, the Balance Sheet valuation of £1,142m may be subject to fluctuations. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.<br>It is estimated that the annual depreciation charge for buildings would increase by £9.824m for every year that useful lives had to be reduced.<br><br>If the asset valuation of all property plant and equipment were to fall by 1% a reduction in value of £11.42m would arise. This would normally be reversed to the Revaluation Reserve.<br>Where revaluation losses exceed unrealised gains, the net loss would be charged to the Consolidated Income and Expenditure Statement and subsequently written off to the Capital Adjustment Account. |
| Fair value measurements | When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for *similar* assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and | The authority uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets.<br>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets).<br>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial asset |

| | | |
|---|---|---|
| | liabilities.<br>Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's chief valuation officer and external valuer).<br>Information about the valuation techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in notes 14 and 16 below. | |
| Provisions | The Authority has made a provision of £2.85m 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 £0.28m to the provision required. |
| Pensions liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. | The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in a decrease in the pension liability of £107m.<br>However, the assumptions interact in complex ways. During 2018/19, the Authority's actuary advised that changes in actuarial assumptions gave rise to a loss of £59.4m (compared to a gain of £18.4m in 2017/18) to the Consolidated Income and Expenditure Statement. |
| Arrears | At 31 March 2019, the Authority had a gross debtor's balance of £85.5m. A review of significant balances suggested that an impairment of doubtful debts of 35% (£29.7m) was appropriate. However, in the current economic climate it may not be certain that such an allowance would be sufficient. | If collection rates were to deteriorate, a 25% increase in the amount of the impairment of doubtful debts would require an additional £14.5m to be set aside as an allowance. |
| NNDR Appeals | At 31 March 2019, the Authority made a provision for £6.9m in respect of appeals which are still outstanding, based on the previous success rate on appeals. A large proportion is reflected because the Council had 64% of NNDR balances in 2018/19 (compared to 30% in 2017/18) | In the event that the outcome of appeals increase by 25% than the anticipated percentages this would result in additional cost of £1.7m. |

## 4. Material Items of Income and Expense

A net revaluation gain of £6.3m has been credited to the Consolidated Income and Expenditure Account (CI&ES) in 2018/19. Revaluation gains are normally credited to the Revaluation Reserve except where, as in this case, the revaluation gain reverses a previous loss charged to the CI&ES. By way of comparison, the revaluation gain credited to the CI&ES in 2017/18 was £75.3m. Further information is provided at note 39.

A net disposals loss of £51.0m has been debited to the CI&ES in 2018/19. This is a result of a loss from the transfer from the balance sheet of schools and other buildings to Academies (57.6m) and gains from the sale of other GF and HRA assets (6.6m). This is compared to corresponding loss of £35.1m in 2017/18, again due to schools transfer to Academies.

In 2016/17, the Authority included Mercury Land Holding, a wholly owned subsidiary within the accounts. Mercury Land Holding have subsequently set up a separate subsidiary called Mercury Land Holdings Design and Build and this has been consolidated within the Mercury Land Holdings company accounts which are consolidated into the Authority, group account on page 105. During the year Mercury Land holding refinanced the loan with the London Borough of Havering and this increased to £16.689m from £13.061m in 2017/18.

## 5. Authorisation of the Statement of Accounts

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

## 6. Events after the Balance Sheet Date

Events taking place after the above date are not reflected in the financial statements or notes. There are no post balance sheet events to report.

Page 59

# 7. Expenditure and Funding Analysis 2018/19

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

| 1st April 2017 - 31st March 2018 | | | | | 1st April 2018 - 31st March 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| Net Expenditure Chargeable to the General Fund and HRA Balances £000 | Adjustments between Funding and Accounting Bases £000 | Other Adjustments £000 | Net Expenditure in the CI&ES £000 | Service | Net Expenditure Chargeable to the General Fund and HRA Balances £000 | Adjustments between Funding and Accounting Bases £000 | Other Adjustments £000 | Net Expenditure in the CI&ES £000 |
| 40,250 | (10,771) | (5,321) | **24,158** | Corporate Budgets | 35,315 | 45,741 | (51,834) | **29,222** |
| 15,944 | (38,172) | (10,001) | **(32,229)** | Neighbourhoods | 17,903 | (17,018) | (4,507) | **(3,622)** |
| 1,980 | 922 | 366 | **3,269** | Regeneration Programme Delivery | 1,230 | 909 | 198 | **2,337** |
| 59,070 | 787 | (652) | **59,205** | Adult Services | 60,194 | 880 | (2,754) | **58,320** |
| 44,492 | (29,259) | 982 | **16,216** | Children's Service | 44,461 | 19,796 | (3,084) | **61,173** |
| 23 | 21 | (392) | **(348)** | Public Health | (1) | 43 | (203) | **(161)** |
| (790) | 4,398 | 1,921 | **5,530** | OneSource Non-Shared | (1,199) | (2,270) | 12,367 | **8,898** |
| 3,057 | 2,268 | 998 | **6,323** | oneSource Shared | 2,932 | 1,087 | 13,116 | **17,135** |
| **164,026** | **(69,805)** | **(12,098)** | **82,123** | **Net Cost of Services** | **160,835** | **49,168** | **(36,701)** | **173,302** |
| **(165,808)** | **5,178** | 3,239 | (157,392) | Other Income and Expenditure | **(161,652)** | **(2,869)** | 39,609 | (124,912) |
| **(1,782)** | **(64,627)** | ****(8,860)** | **(75,269)** | **(Surplus) or Deficit** | **(817)** | **46,299** | **2,908** | **48,390** |
| | | | | | | | | |
| **14,596** | | | | Opening General Fund and HRA Balance | **16,378** | | | |
| 1,782 | | | | Less/Plus Surplus or Deficit on General Fund and HRA Balance in Year* | 817 | | | |
| **16,378** | | | | **Closing General Fund and HRA Balance at 31 March** | **17,195** | | | |

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

# 7a. Note to the Expenditure and Funding Analysis

### Adjustments between Funding and Accounting Basis 2018/19

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes (Note 1) £000 | Net change for the Pensions Adjustments (Note 2) £000 | Other Differences (Note 3) £000 | Total Adjustments £000 |
|---|---|---|---|---|
| Corporate Budgets | 42,373 | 4,274 | (906) | 45,741 |
| Neighbourhoods | (19,444) | 2,409 | 17 | (17,018) |
| Regeneration Programme Delivery | 848 | 54 | 7 | 909 |
| Adult Services | 233 | 640 | 7 | 880 |
| Children's Services | 13,815 | 6,095 | (114) | 19,796 |
| Public Health | - | 43 | - | 43 |
| oneSource Non-Shared | (2,914) | 632 | 12 | (2,270) |
| oneSource Shared | - | 1,101 | (14) | 1,087 |
| **Net Cost of Services** | **34,911** | **15,248** | **(991)** | **49,168** |
| Other income and expenditure from the Expenditure and Funding Analysis | (2,951) | 38 | 44 | (2,869) |
| **Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services** | **31,960** | **15,286** | **(947)** | **46,299** |

### Adjustments between Funding and Accounting Basis 2017/18

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes (Note 1) £000 | Net change for the Pensions Adjustments (Note 2) £000 | Other Differences (Note 3) £000 | Total Adjustments £000 |
|---|---|---|---|---|
| Corporate Budgets | (13,450) | 3,121 | 158 | (10,171) |
| Neighbourhoods | (39,803) | 2,125 | (26) | (37,704) |
| Adult Services | 209 | 575 | 4 | 788 |
| Children's Services | (34,675) | 5,847 | (577) | (29,405) |
| Public Health | - | 44 | (23) | 21 |
| oneSource Non-Shared | 3,856 | 493 | (2) | 4,347 |
| oneSource Shared | 1,140 | 1,185 | (6) | 2,319 |
| **Net Cost of Services** | **(82,723)** | **13,390** | **(472)** | **(69,805)** |
| Other income and expenditure from the Expenditure and Funding Analysis | 5,178 | - | - | 5,178 |
| **Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services** | **(77,545)** | **13,390** | **(472)** | **(64,627)** |

**Note 1 Adjustments for Capital Purposes**

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

**Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

**Financing and investment income and expenditure –** the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from the income and expenditure as these are not chargeable under generally accepted accounting practices.

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

**Note 2 Net Change for the Pensions Adjustments**

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

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

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

**Note 3 Other Differences**

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

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

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

## 7b. Segmental Income

Income received on a segmental basis is analysed below:

| 2017/18 £000 | Income from Services | 2018/19 £000 |
|---|---|---|
| 2,870 | Corporate Budgets | 3,323 |
| 99,450 | Neighbourhoods | 94,231 |
| 1,598 | Regeneration Programme Delivery | 1,102 |
| 17,251 | Adult Services | 18,352 |
| 140,911 | Children's Services | 141,770 |
| 11,337 | Public Health | 10,937 |
| 95,283 | oneSource Non -Shared | 90,444 |
| 2,989 | oneSource Shared | 3,389 |
| **371,689** | **Total income analysed on a segmental basis Net Cost of Services** | **363,548** |

# 8. Expenditure and Income Analysed by Nature

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

| 2017/18 £000 | Expenditure/Income | 2018/19 £000 |
|---:|---|---:|
| | **Expenditure** | |
| 196,598 | Employee benefits expenses | 197,695 |
| 306,347 | Other services expenses | 314,031 |
| (50,533) | Depreciation, amortisation, impairment | 25,359 |
| 25,302 | Interest payments | 20,027 |
| 15,667 | Precepts and levies | 16,609 |
| 1,274 | Payments to Housing Capital Receipts Pool | 1,126 |
| 23,116 | (Gain) loss on the disposal of assets | 51,082 |
| **517,771** | **Total expenditure** | **625,929** |
| | **Income** | |
| (124,156) | Fees, charges and other service income | (122,540) |
| (5,342) | Interest and investment income | (9,485) |
| (138,748) | Income from council tax, non-domestic rates, | (164,080) |
| (324,794) | Government grants and contributions | (281,434) |
| **(593,040)** | **Total income** | **(577,539)** |
| **(75,269)** | **Surplus or Deficit on the Provision of Services** | **48,390** |

# 9. Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

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

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

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

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

| 2018/19 | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|---|---|---|---|---|---|---|
| | Usable Reserves | | | | | |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Adjustments to the Revenue Resources:** | | | | | | |
| Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | | | | |
| Pensions costs (transferred from the Pensions Reserve) | (14,571) | (715) | | | | 15,286 |
| Financial instruments (transferred to the Financial Instruments Adjustments Account) | 152 | | | | | (152) |
| Available for sale financial instruments (transferred to the Available for Sale Financial Instruments Account) | | | | | | 0 |
| Council tax and NNDR (transfers to or from Collection Fund) | (44) | | | | | 44 |
| Holiday pay (transferred to the Accumulated Absences Reserve) | 120 | 7 | | | | (127) |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account | (65,509) | (13,177) | | | (17,580) | 96,266 |
| **Total Adjustments to Revenue Resources** | **(79,852)** | **(13,885)** | **-** | **-** | **(17,580)** | **111,317** |
| | | | | | | |
| **Adjustments between Revenue and Capital Resources:** | | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 3,069 | 17,748 | (20,817) | | | - |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | | (236) | 236 | | | - |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | (1,126) | | 1,126 | | | - |
| Posting of HRA resources from revenue to the Major Repairs Reserve | | 9,235 | | (9,235) | | - |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | 1,875 | | | | | (1,875) |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 2,126 | 12,886 | | | | (15,012) |
| **Total Adjustments between Revenue and Capital Resources** | **5,944** | **39,633** | **(19,455)** | **(9,235)** | **-** | **(16,887)** |
| | | | | | | |
| **Adjustments to Capital Resources:** | | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | | | 20,547 | | | (20,547) |
| Use of the Major Repairs Reserve to finance capital expenditure | | | | 8,983 | | (8,983) |
| Application of capital grants to finance capital expenditure | 1,901 | | | | 14,395 | (16,296) |
| Cash payments in relation to deferred capital receipts | | (39) | | | | 39 |
| **Total Adjustments to Capital Resources** | **1,901** | **(39)** | **20,547** | **8,983** | **14,395** | **(45,787)** |
| **Total Adjustments** | **(72,007)** | **25,709** | **1,092** | **(252)** | **(3,185)** | **48,643** |

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

## 10. Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance as earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

| | Balance as at 31 3 2017 | Transfers from/to Revenue | Transfers between reserves | Balance as at 31 3 2018 | Transfers from/to Revenue | Transfers between reserves | Balance as at 31 3 2019 |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **General Fund Earmarked Reserves** | | | | | | | |
| Corporate Transformation reserve | **17,474** | (2,837) | (10,206) | **4,431** | (4,173) | 6,406 | **6,664** |
| Business Risk reserve | **11,627** | 10,420 | 4,806 | **26,853** | 1,192 | (11,123) | **16,922** |
| Business Rates Reserve | **-** | - | - | **-** | 2,463 | 1,537 | **4,000** |
| Regeneration | **-** | - | - | **-** | - | 1,500 | **1,500** |
| ICT Refresh | **-** | - | - | **-** | - | 1,000 | **1,000** |
| oneSource reserve | **1,058** | (424) | - | **634** | 234 | - | **868** |
| Insurance reserve | **6,445** | (56) | - | **6,389** | 800 | - | **7,189** |
| Reserves for future capital schemes | **12,765** | (1,337) | 200 | **11,628** | (722) | - | **10,906** |
| Legal reserve | **95** | (103) | 230 | **222** | (44) | - | **178** |
| Crematorium and Cemetery reserves | **668** | 108 | (50) | **726** | 135 | - | **861** |
| Social Care reserve | **27** | (5) | - | **22** | - | - | **22** |
| Troubled Families reserve | **1,344** | (169) | - | **1,175** | (467) | 13 | **721** |
| Public Health reserve | **763** | 415 | - | **1,178** | 37 | - | **1,215** |
| Whole life costing Transport Fleet reserve | **562** | - | - | **562** | (47) | - | **515** |
| Emergency Assistance Scheme | **-** | (80) | 821 | **741** | (50) | - | **691** |
| SLM Funding 2017/18-2022/23 | **-** | (213) | 2,111 | **1,898** | (618) | - | **1,280** |
| Other reserves | **419** | 558 | 2,088 | **3,065** | (762) | 667 | **2,970** |
| HRA Major works | **-** | 3,545 | - | **3,545** | (524) | - | **3,021** |
| **Total General Fund Earmarked Reserves** | 53,247 | **9,822** | **-** | 63,069 | **(2,546)** | **-** | 60,523 |
| | | | | | | | |
| **Schools Balances** | | | | | | | |
| General Balances | **3,051** | (671) | - | **2,380** | (821) | - | **1,559** |
| Schools Balances | **4,442** | (438) | - | **4,004** | 559 | - | **4,563** |
| Centrally held schools balances (Note 34) | **2,417** | 148 | - | **2,565** | (100) | - | **2,465** |
| **Total Schools Balances** | 9,910 | **(961)** | **-** | 8,949 | **(362)** | **-** | 8,587 |
| | | | | | | | |
| **Total Earmarked Reserves** | 63,157 | **8,861** | **-** | 72,018 | **(2,908)** | **-** | 69,110 |

## General Fund Earmarked Reserves

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

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

**Business Rates Reserve** – This reserve has been created to manage the risks and uncertainties around Londonwide business rate pooling; although, it is widely expected to be beneficial to the borough due to continued growth in central London but the risk of non-collection and successful business rate appeals can have fundamental impact on the Council's budget.

**Regeneration Reserve** – This is earmarked for the Council's masterplan regeneration projects across the borough, including the Romford masterplan.

**ICT Refresh** – This has been earmarked for the Council's Transitional Shift in operating Models.

**OneSource Reserve** – This is earmarked to contribute to future projects and service improvement across all oneSource services.

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

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

**Legal Reserve** – This reserve provides funding for legal cases.

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

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

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

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

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

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

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

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

## Schools Balances

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

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

**Centrally Held Schools Balances** – The Authority's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). Details of the deployment of DSG receivable for 2018/19 are shown at Note 34.

## 11. Other Operating Expenditure

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 15,667 | Levies | 16,609 |
| 1,274 | Payments to the Government Housing Capital Receipts Pool | 1,126 |
| 23,116 | (Gain) / Loss on the disposal of non-current assets | 51,082 |
| **40,057** | **Total** | **68,817** |

## 12. Financing And Investment Income And Expenditure

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 7,721 | Interest payable and similar charges | 7,802 |
| 12,193 | Pensions Net interest on the net defined benefit liability (asset) | 12,224 |
| (2,297) | Interest receivable and similar income | (3,184) |
| (3,090) | Income and expenditure in relation to investment properties | (3,034) |
| 537 | Changes in the fair value of investment properties | (6,300) |
| 45 | Other investment income | - |
| **15,109** | **Total** | **7,508** |

## 13.Taxation And Non-Specific Grant Income

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| (114,826) | Council tax income | (119,750) |
| (23,923) | National non-domestic rates income | (44,329) |
| (42,404) | Non ring-fenced government grants | (17,675) |
| (31,405) | Capital grants and contributions | (19,483) |
| **(212,558)** | **Total** | **(201,237)** |

# 14. Property, Plant and Equipment

**Movements in Balances 2018/19**

| | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture and Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|
| **Gross Book Value** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **At 31 March 2018** | **569,103** | **543,528** | **17,346** | **170,976** | **4,142** | **742** | **5,335** | **1,311,172** |
| Additions | 18,608 | 5,371 | 2,454 | 6,650 | 77 | - | 23,034 | **56,194** |
| Revaluation increases/(decreases) to : | | | | | | | | |
| Revaluation Reserve | (23,974) | (6,778) | - | - | 318 | 121 | | **(30,313)** |
| Revaluation gains to the CI&ES | 4,913 | (6,915) | - | - | 2 | (248) | | **(2,248)** |
| Derecognition - Disposals | (10,879) | (61,739) | (3,919) | - | - | - | | **(76,537)** |
| Derecognition - other | - | - | - | - | - | - | | **-** |
| Reclassifications & Transfers | (2,705) | (432) | - | - | 70 | - | 3,067 | **-** |
| **At 31 March 2019** | **555,066** | **473,035** | **15,881** | **177,626** | **4,609** | **615** | **31,436** | **1,258,268** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| **At 31 March 2018** | **-** | **1,748** | **9,816** | **74,798** | **482** | **54** | **-** | **86,898** |
| Depreciation Charge | 8,577 | 6,467 | 2,004 | 6,358 | 85 | 15 | **-** | **23,506** |
| Depr. written out upon Revaluation: | | | | | | | | |
| Revaluation Reserve | (6,565) | (5,228) | - | | - | (67) | **-** | **(11,860)** |
| CI &ES | (2,025) | (1,265) | - | | - | - | **-** | **(3,290)** |
| De-recognition - disposals | - | (642) | (3,919) | | - | - | **-** | **(4,561)** |
| Reclassifications | 13 | 43 | - | | (57) | - | **-** | **(1)** |
| **At 31 March 2019** | **-** | **1,123** | **7,901** | **81,156** | **510** | **2** | **-** | **90,692** |
| **Net book value at 31 March 2019** | **555,066** | **471,912** | **7,980** | **96,470** | **4,099** | **613** | **31,436** | **1,167,576** |
| **Net book value at 31 March 2018** | **569,103** | **541,780** | **7,530** | **96,178** | **3,660** | **688** | **5,335** | **1,224,274** |

# 14. Property, Plant and Equipment

**Movements in Balances 2017/18**

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

## Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in 2019/20.

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| | **Fund** | |
| 375 | Arts, culture, sport and leisure | 14,505 |
| 1,884 | Roads, footways and bridges | 3,223 |
| 35,518 | Education capital schemes | 15,803 |
| 1,598 | Town centre and environmental | 10,201 |
| 1,300 | Office accommodation, equipment, ICT and | 4,081 |
| 7,538 | Other smaller General Fund schemes | 2,893 |
| **48,213** | **Total General Fund commitments** | **50,706** |
| 22,639 | Housing | 40,313 |
| **70,852** | **Total commitments** | **91,019** |

## Revaluations

The following statement shows the progress of the Authority's rolling programme for the revaluation of fixed assets. The valuations are reviewed in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Assets Valuation Standards Committee of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies. Valuations are carried out by our external valuers, Wilks Head and Eve, and by the Authority's Property Strategy Manager on the basis of a five year rolling programme; the most recent of which was carried out on 31 March 2019.

| | Council Dwellings £000 | Other Land and Buildings £000 | Vehicles, Plant, Furniture and Equipment £000 | Infrastructure Assets £000 | Community Assets £000 | Surplus Assets £000 | Assets Under Construction £000 | Total Property, Plant and Equipment £000 |
|---|---|---|---|---|---|---|---|---|
| Carried at historical cost | - | - | 7,980 | 96,470 | 4,099 | - | 31,436 | **139,985** |
| Valued at fair value as at: | | | | | | | | |
| 31 March 2019 | 555,066 | 441,869 | - | - | - | 539 | **-** | **997,474** |
| 31 March 2018 | - | 9,876 | - | - | - | 74 | **-** | **9,950** |
| 31 March 2017 | - | 8,348 | - | - | - | - | **-** | **8,348** |
| 31 March 2016 | - | 11,819 | - | - | | - | **-** | **11,819** |
| 31 March 2015 | - | | - | - | - | - | **-** | **-** |
| **Total cost or valuation** | **555,066** | **471,912** | **7,980** | **96,470** | **4,099** | **613** | **31,436** | **1,167,576** |

## 15. Heritage Assets

Carrying value of heritage assets held by the Authority

| Cost or Valuation | Civic Regalia £'000 | Heritage Buildings £'000 | Total Assets £'000 |
|---|---|---|---|
| **31 March 2015** | **80** | **25** | **105** |
| Depreciation | - | - | - |
| **31 March 2016** | **80** | **25** | **105** |
| Depreciation | - | (1) | (1) |
| **31 March 2017** | **80** | **24** | **104** |
| Depreciation | - | (1) | (1) |
| Revaluation | 30 | - | 30 |
| **31 March 2018** | **110** | **23** | **133** |
| Depreciation | - | - | - |
| Revaluation | - | - | - |
| **31 March 2019** | **110** | **23** | **133** |

## 16. Investment Properties

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 3,437 | Rental income from investment property | 3,321 |
| (346) | Direct operating expenses arising from investment property | (288) |
| **3,091** | **Net gain** | **3,034** |

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

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **39,404** | **Opening Balance** | **44,680** |
| (537) | Revaluation gains from fair value adjustment | 6,300 |
| 5,813 | Additions | 10 |
| - | Assets reclassified | - |
| - | Disposal of investment properties | - |
| **44,680** | **Balance at the end of the year** | **50,990** |

The valuation of the Authority's investment property portfolio in 2018/19 was undertaken by Wilks Head & Eve who provide specialist valuations advice and who have extensive experience in the property sector.

c) Investments within the group balances
Mercury Land Holding hold £25.362m in investment properties that on an open market value for existing use basis.

## Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy as at 31 March 2019 and 2018 are as follows:

| Recurring fair value measurements using: | Quoted prices in active markets for identical assets (Level 1) £000 | Other significant observable inputs (Level 2) £000 | Significant unobservable inputs (Level 3) £000 | Fair value as at 31 March 2019 £000 |
|---|---|---|---|---|
| Office units | - | 4,254 | - | 4,254 |
| Commercial units | - | 46,736 | - | 46,736 |
| **Total** | **-** | **50,990** | **-** | **50,990** |

**2018 Comparative Figures**

| Recurring fair value measurements using: | Quoted prices in active markets for identical assets (Level 1) £000 | Other significant observable inputs (Level 2) £000 | Significant unobservable inputs (Level 3) £000 | Fair value as at 31 March 2018 £000 |
|---|---|---|---|---|
| Office units | - | 4,412 | - | 4,412 |
| Commercial units | - | 40,268 | - | 40,268 |
| **Total** | **-** | **44,680** | **-** | **44,680** |

**Transfers between Levels of the Fair Value Hierarchy**
There were no transfers between Levels during the year.

**Highest and Best Use of Investment Properties**
In estimating the fair value of the authority's investment properties, the highest and best use of the asset has been used.

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

**Valuation Process for Investment Properties**

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

d) Investment in Subsidiaries and Joint Ventures

| 2017/18 £000 | Investments in subsidiary companies: | 2018/19 £000 |
|---|---|---|
| 8,735 | Opening Balance | 8,735 |
| 120 | Additions | 3,289 |
| 8,735 | Closing Balance | 12,024 |

Subsidiary undertakings

The following were subsidiary undertakings of the company:

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

# 17. Intangible Assets

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.505m charged to revenue in 2018/19 was charged to Central Support Services and then absorbed as an overhead across all the service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

| 2017/18 £000 | Intangible fixed assets software and system development | 2018/19 £000 |
|---:|---|---:|
| 16,152 | Gross carrying amounts | 2,989 |
| (13,799) | Less accumulated amortisation | (916) |
| **2,353** | **Net carrying amount at start of year** | **2,073** |
| 299 | Additions – purchases | - |
| (30) | Disposals | - |
| (549) | Less amortisation for the period | (505) |
| **2,073** | **Net carrying amount at end of year** | **1,568** |
| | Comprising: | |
| 2,989 | Gross carrying amounts | 2,989 |
| (916) | Less accumulated amortisation | (1,421) |

# 18. Financial Instruments

### (a) Financial Instruments - Classification

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

**Financial Liabilities**

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

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

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

**Financial Assets**

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

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

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

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

- covered bonds issued by banks and building societies
- money market funds managed by BNP Paribas and Insight Liquidity Managers

### (b) Financial Instruments - Balances

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

| 31 March 2018 | | Financial Liabilities | 31 March 2019 | |
|---|---|---|---|---|
| Long-Term £000 | Short-Term £000 | | Long-Term £000 | Short-Term £000 |
| | | **Loans at amortised cost:** | | |
| | | PWLB | | |
| 203,234 | - | - Principal borrowed | 203,234 | |
| - | 393 | - Accrued interest | | 413 |
| | | Market Loan | | |
| 7,000 | - | - Principal borrowed | 7,000 | |
| - | 91 | - Accrued interest | | 92 |
| | | Other Loans | | |
| 796 | 30,251 | - Principal borrowed | 350 | 352 |
| | 11 | - Accrued interest | | 71 |
| **211,030** | **30,746** | **Total borrowing *** | **210,584** | **928** |
| | | **Liabilities at amortised cost:** | | |
| | | Trade payables | | |
| - | 35,591 | - Trade Creditors | | 41,806 |
| - | **35,591** | **Included in creditors** | - | **41,806** |
| **211,030** | **66,337** | **Total financial liabilities** | **210,584** | **42,734** |

* The total short-term borrowing includes £0.505m (2017/18: £0.484m) representing accrued interest on long-term borrowing.

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

| 31 March 2018 | | Financial Assets | 31 March 2019 | |
|---|---|---|---|---|
| **Long-Term** | **Short-Term** | | **Long-Term** | **Short-Term** |
| **£000** | **£000** | | **£000** | **£000** |
| | | Loans and receivables: | | |
| 30,000 | 150,850 | - Principal at amortised cost | 35,000 | 133,100 |
| - | 553 | - Accrued interest | | 707 |
| | | - Other Principal at amortised cost | 3,000 | 1,000 |
| | | - Accrued interest | | 117 |
| | | Available for sale investments | | |
| 3,000 | - | - Principal at amortised cost | - | |
| - | 76 | - Accrued interest | | - |
| **33,000** | **151,479** | **Total Investments *** | **38,000** | **134,924** |
| | | Loans and receivables: | | |
| - | 8,536 | - Cash (including bank accounts) | | 12,156 |
| - | 35,822 | - Cash equivalents at amortised cost | | 14,490 |
| - | 17 | - Accrued interest | | 18 |
| | | Available for sale investments | | |
| - | 9,045 | - Cash equivalents at fair value | | |
| | | - Accrued interest | | |
| **-** | **53,420** | **Total cash and cash equivalents** | **-** | **26,664** |
| | | Loans and receivables | | |
| 13,061 | 31,068 | - Trade receivables | 19,070 | 36,321 |
| **13,061** | **31,068** | **Included in debtors** | **19,070** | **36,321** |
| **46,061** | **235,967** | **Total financial assets** | **57,070** | **197,909** |

* The total short-term investments includes £0.248m representing accrued interest on long-term investments.

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

| 31 March 2018 | | Fixed Assets | 31 March 2019 | |
|---|---|---|---|---|
| **Long-Term** | **Short-Term** | | **Long-Term** | **Short-Term** |
| **£000** | **£000** | | **£000** | **£000** |
| | | Loans and receivables: | | |
| 30,000 | 150,850 | - Principal at amortised cost | 35,000 | 133,100 |
| - | 553 | - Accrued interest | | 707 |
| | | - Other Principal at amortised cost | 3,000 | 1,000 |
| | | - Accrued interest | | 117 |
| | | Available for sale investments | | |
| 3,000 | - | - Principal at amortised cost | | |
| - | 76 | - Accrued interest | | |
| **33,000** | **151,479** | **Total investments** | **38,000** | **134,924** |
| | | Loans and receivables: | | |
| - | 13,401 | - Cash (including bank accounts) | | 12,422 |
| - | 35,822 | - Cash equivalents at amortised cost | | 14,490 |
| - | 17 | - Accrued interest | | 18 |
| - | | Available for sale investments | | |
| - | 9,045 | - Cash equivalents at fair value | | |
| - | - | - Accrued interest | | |
| **-** | **58,285** | **Total cash and cash equivalents** | **-** | **26,930** |
| | | Loans and receivables | | |
| - | 30,289 | - Trade receivables | 2,428 | 34,904 |
| **-** | **30,289** | **Included in debtors** | **2,428** | **34,904** |
| **33,000** | **240,053** | **Total financial assets** | **40,428** | **196,758** |

### (c) Financial Instruments - Gains and Losses

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

| | Financial Liabilities | | Financial Assets | | | | 2018/19 |
|---|---|---|---|---|---|---|---|
| | Amortised Cost | Fair Value though CI&ES | Loans and Receivables | Available for Sale Assets | Fair Value though CI&ES | Unquoted Equity at Cost | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Interest expense | 7,802 | | | | | | 7,802 |
| **Interest payable and similar charges** | **7,802** | **-** | **-** | **-** | **-** | **-** | **7,802** |
| Interest income | | | (3,184) | | | | (3,184) |
| Increases in fair value | | | | | | | 0 |
| **Interest and investment income** | **-** | **-** | **(3,184)** | **-** | **-** | **-** | (3,184) |
| Changes in value of investment properties | | | | | (6,300) | | (6,300) |
| Income and expenditure relating to investment properties | | | | | (3,034) | | (3,034) |
| Pensions Net Interest | | 12,186 | | | | | 12,186 |
| **Impact in Other Comprehensive Income** | **-** | **12,186** | **-** | **-** | **(9,334)** | **-** | **2,852** |
| **Net gain (loss) for the year** | **7,802** | **12,186** | **(3,184)** | **-** | **(9,334)** | **-** | **7,470** |

Page 79

**Gains and losses in 2017/18 were as follows:**

| | Financial Liabilities | | Financial Assets | | | | 2017/18 |
|---|---|---|---|---|---|---|---|
| | Amortised Cost | Fair Value though CI&ES | Loans and Receivables | Available for Sale Assets | Fair Value though CI&ES | Unquoted Equity at Cost | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Interest expense | 7,721 | | | | | | 7,721 |
| **Interest payable and similar charges** | **7,721** | **-** | **-** | **-** | **-** | **-** | 7,721 |
| Interest income | | | (2,228) | (69) | | | (2,297) |
| Increases in fair value | | | | 56 | | | 56 |
| **Interest and investment income** | **-** | **-** | **(2,228)** | **(13)** | **-** | **-** | (2,241) |
| Changes in value of investment properties | | | | | 537 | | 537 |
| Income and expenditure relating to investment properties | | | | | (3,091) | | (3,091) |
| Pensions Net Interest | | 12,193 | | | | | 12,193 |
| **Impact in Other Comprehensive Income** | **-** | **12,193** | **-** | **-** | **(2,554)** | **-** | 9,639 |
| **Net gain (loss) for the year** | **7,721** | **12,193** | **(2,228)** | **(13)** | **(2,554)** | **-** | **15,119** |

### (d) Financial Instruments - Fair Values

Financial assets classified as available for use are carried in the Balance Sheet at fair value. For most assets, including bonds the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows as at 31 March 2019.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

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

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

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

| 31 March 2018 | | | Fair Value Level | 31 March 2019 | |
|---|---|---|---|---|---|
| Balance Sheet £000 | Fair Value £000 | | | Balance Sheet £000 | Fair Value £000 |
| | | Financial liabilities held at amortised cost: | | | |
| 203,234 | 250,995 | - Long-term loans from PWLB | 2 | 203,234 | 284,389 |
| 7,000 | 11,357 | - Long-term LOBO loans | 2 | 7,000 | 12,672 |
| 796 | 796 | - Other long-term loans | 2 | 350 | 350 |
| 30,251 | 30,251 | - Other Short-term loans | 2 | 352 | 352 |
| 495 | 495 | - Accrued interest | | 576 | 576 |
| **241,776** | **293,894** | **Total** | | **211,512** | **298,339** |
| 39,387 | 39,387 | Liabilities for which fair value is not disclosed | | 41,806 | 41,806 |
| **281,163** | **333,281** | **Total Financial Liabilities** | | **253,318** | **340,145** |

| 31 March 2018 Balance Sheet £000 | 31 March 2018 Fair Value £000 | | Fair Value Level | 31 March 2019 Balance Sheet £000 | 31 March 2019 Fair Value £000 |
|---|---|---|---|---|---|
| | | Recorded on balance sheet as: | | | |
| 35,591 | 35,591 | - Short-term creditors | | 41,806 | 41,806 |
| 30,746 | 30,746 | - Short-term borrowing | | 928 | 928 |
| - | - | - Long-term creditors | | - | - |
| 211,030 | 263,148 | - Long-term borrowing | | 210,584 | 297,824 |
| **277,367** | **329,485** | **Total Financial Liabilities** | | **253,318** | **340,558** |

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

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

| 31 March 2018 Balance Sheet £000 | 31 March 2018 Fair Value £000 | | Fair Value Level | 31 March 2019 Balance Sheet £000 | 31 March 2019 Fair Value £000 |
|---|---|---|---|---|---|
| | | Financial assets held at amortised cost: | | | |
| | | Loans & Receivables | | | |
| 30,000 | 30,513 | - Long-term loans to local authorities | 2 | 35,000 | 35,384 |
| 0 | 0 | - Long-term other loans | 2 | 19,070 | 18,546 |
| 101,850 | 102,441 | - Short-term loans to local authorities | 2 | 74,000 | 74,347 |
| 49,000 | 49,111 | - Short-term bank deposits | 2 | 59,100 | 59,212 |
| 3,000 | 3,000 | - Unrated Corporate Bonds | 2 | 3,000 | 3,294 |
| | | - Covered Bond | 1 | 1,000 | 1,000 |
| 630 | 630 | - Accrued interest | | 824 | 824 |
| | | Cash and Cash equivalents | | | |
| 44,358 | 44,358 | - Cash equivalents at amortised cost | 2 | 26,646 | 26,646 |
| 17 | 17 | - Accrued interest | 2 | 18 | 18 |
| | | Available for Sale investments | | | |
| 9,045 | 9,045 | - Covered Bond | 1 | | |
| | | - Accrued interest | | | |
| **237,900** | **239,115** | **Total** | | **218,658** | **219,271** |
| 44,690 | 44,690 | Assets for which fair value is not disclosed * | | 36,322 | 36,322 |
| **282,590** | **283,805** | **Total Financial Assets** | | **254,980** | **255,593** |
| | | Recorded on balance sheet as: | | | |
| 13,061 | 13,061 | - Long-term debtors | | 19,070 | 18,546 |
| 33,000 | 33,513 | - Long-term investments | | 38,000 | 38,678 |
| 31,068 | 31,068 | - Short-term debtors | | 37,146 | 37,146 |
| 151,480 | 152,182 | - Short-term investments | | 134,100 | 134,559 |
| 53,420 | 53,420 | - Cash and cash equivalents | | 26,664 | 26,664 |
| **282,029** | **283,244** | **Total Financial Assets** | | **254,980** | **255,593** |

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

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

**(e) Financial Instruments - Risks**

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

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

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

The main risks covered are:

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

**Credit Risk: Investments**

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

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

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £58.275m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise.

The credit quality of £1.0m of the Authority's investments is enhanced by collateral held in the form of covered bonds collateralised by UK residential mortgages Floating Rate Notes. The collateral significantly reduces the likelihood of the Authority suffering a credit loss on these investments.

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

| 31 March 2018 | | Credit Rating | 31 March 2019 | |
|---|---|---|---|---|
| Long-term £000 | Short-term £000 | | Long-term £000 | Short-term £000 |
| - | - | AAA | - | 14,490 |
| - | - | AA+ | - | 5,000 |
| - | - | AA | - | - |
| - | 49,000 | AA- | - | 4,100 |
| - | 10,000 | A+ | - | 20,000 |
| - | 5,000 | A | - | 21,000 |
| - | - | A- | - | - |
| 30,000 | 86,850 | Unrated local authorities | 35,000 | 84,000 |
| 3,000 | - | Unrated Corporate Bonds | 3,000 | - |
| **33,000** | **150,850** | **Total Investments** | **38,000** | **148,590** |

**Credit Risk: Receivables**

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

- revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. The de minimis for 2018/19 is £50,000.

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

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

| Credit risk exposure 31 March 2018 £000 | | Gross balance of debtors £000 | Average % default based on past experience % | Average % default based on current experience % | Credit risk exposure 31 March 2019 £000 |
|---|---|---|---|---|---|
| - | Capital | 2,443 | - | - | - |
| 5,603 | Housing | 9,657 | 56 | 68 | 6,609 |
| 943 | Social Services | 6,572 | 16 | 10 | 631 |
| 3,670 | Parking | 6,799 | 72 | 77 | 5,220 |
| - | Other local authorities | 1,298 | - | - | - |
| - | Health authorities | 1,671 | - | - | - |
| 1,875 | Other sundry debtors | 21,234 | 12 | 7 | 1,485 |
| **12,091** | **Total** | **49,674** | **29** | **28** | **13,945** |

**Liquidity Risk**

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

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

| 31 March 2018 £000 | Time to maturity (years) | 31 March 2019 £000 |
|---|---|---|
| 30,000 | Not over 1 | 350 |
| - | Over 1 but not over 2 | - |
| 1,110 | Over 2 but not over 5 | 1,110 |
| 38,057 | Over 5 but not over 10 | 56,540 |
| 101,107 | Over 10 but not over 20 | 82,624 |
| 30,252 | Over 20 but not over 30 | 30,000 |
| 32,960 | Over 30 but not over 40 | 32,960 |
| - | Over 40 | - |
| 7,000 | Uncertain date | 7,000 |
| **240,486** | **Total** | **210,584** |

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

**Market Risks: Interest Rate Risk**

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

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

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

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

| | 2018/19<br>£000 |
|---|---|
| Increase in interest payable on variable rate borrowings | - |
| Increase in interest receivable on variable rate investments | - |
| **Impact on comprehensive income and expenditure** | **-** |
| Decrease in fair value of loans and receivables * | (725) |
| Decrease in fair value of fixed rate borrowing liabilities | (36,041) |

* No impact on comprehensive income and expenditure. The Authority has no investments in call accounts with falling interest rates at 31 March 2019.

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

# 19. Debtors

## Short-Term Debtors

| 31 March 2018 £000 | | | | 31 March 2019 £000 | | |
|---|---|---|---|---|---|---|
| Gross | Impairment Allowance | Net | | Gross | Impairment Allowance | Net |
| | | | **Collection Fund Debtors** | | | |
| 13,909 | (6,880) * | 7,029 | Council tax payers | 14,426 | (7,259) * | 7,167 |
| 822 | (615) * | 207 | Business rate payers | 2,157 | (1,408) * | 749 |
| | | | **Other Debtors** | | | |
| 6,475 | - * | 6,475 | Government departments | 7,805 | - * | 7,805 |
| 4,760 | - | 4,760 | Capital | 2,443 | - | 2,443 |
| 10,045 | (5,603) | 4,442 | Housing | 9,657 | (6,609) | 3,048 |
| 10,917 | (7,002) * | 3,915 | Housing Benefit | 10,062 | (7,124) * | 2,938 |
| 5,852 | (943) | 4,909 | Social Services | 6,572 | (631) | 5,941 |
| 5,070 | (3,670) | 1,400 | Parking Enforcement | 6,799 | (5,220) | 1,579 |
| 147 | - | 147 | Other local authorities | 1,298 | - | 1,298 |
| 490 | - | 490 | Health authorities | 1,671 | - | 1,671 |
| 1,347 | - | 1,347 | Mercury Land Holdings | 1,417 | - | 1,417 |
| 15,446 | (1,875) | 13,571 | Other sundry debtors | 21,234 | (1,485) | 19,749 |
| **75,280** | **(26,588)** | **48,692** | **Total short-term debtors** | **85,541** | **(29,736)** | **55,805** |

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

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

## Debtors for Local Taxation

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed

| 31 March 2018 £000 | Age of Debtors | 31 March 2019 £000 |
|---|---|---|
| 3,465 | Less than 1 year | 4,344 |
| 2,470 | Between 1 and 2 years | 2,539 |
| 1,813 | Between 2 and 3 years | 2,106 |
| 6,982 | More than 3 years | 7,594 |
| **14,730** | **Balance at end of the year** | **16,583** |

## Long-Term Debtors

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| 13,062 | Mercury Land Holdings | 16,642 |
| - | Wates JV | 2,164 |
| 323 | Other | 264 |
| **13,385** | **Total cash and cash equivalents** | **19,070** |

## 20. Cash and Cash Equivalents

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 3,012 | Bank current accounts | 5,988 |
| 35,839 | Short-term deposits with banks – call accounts | 14,508 |
| 9,045 | Available for Sale Investments | - |
| 5,524 | Schools – under the LMS cheque book scheme | 6,168 |
| **53,420** | **Total cash and cash equivalents** | **26,664** |

## 21. Assets Held for Sale

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **3,833** | **Opening Balance** | **6,906** |
| 4,333 | Revaluation gains from fair value adjustments | (5,080) |
| (75) | Assets reclassified | - |
| (1,185) | Disposals | - |
| **6,906** | **Balance at end of the year** | **1,826** |

## 22. Short-Term Creditors

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| | **Collection Fund creditors** | |
| 6,322 | Council tax payers * | 6,469 |
| 1,463 | NNDR payers* | 4,047 |
| 3,885 | GLA* | 5,413 |
| 4,253 | Central Government (NNDR)* | 281 |
| | **Other Creditors** | |
| 4,988 | Central Government * | 3,109 |
| 4,107 | HMRC * | 4,218 |
| 17,635 | Pension Fund * | 13,627 |
| 3,658 | Capital creditors | 2,473 |
| 27,372 | Other sundry creditors | 33,663 |
| 4,560 | Income in advance | 5,670 |
| **78,243** | **Total** | **78,970** |

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

## 23. Provisions

| 2018/19 | Self Insurance £000 | Collection Fund £000 | Other Provisions £000 | Total £000 |
|---|---|---|---|---|
| **Balance at 1 March 2018** | **3,005** | **2,094** | **250** | **5,349** |
| Additional provisions made in year | | 6,144 | | **6,144** |
| Amounts used in year | | (1,383) | (250) | **(1,633)** |
| Transfer to revenue | (155) | | | **(155)** |
| **Balance at 31 March 2019** | **2,850** | **6,855** | **-** | **9,705** |

**Self-Insurance Provision**
The Authority's insurance cover is arranged with Zurich Municipal with substantial excesses for which a self-insurance provision is maintained. The self-insurance provision has been set up to meet the excesses on the Authority's public and employer's liability, property and motor vehicle insurance policies. It is not possible to determine the precise timing of the settlement of claims relating to this provision; a guesstimate would suggest £328k could be settled within the next financial year. The excess levels at 1 July 2018 were; public and employer's liability (£125,000), motor vehicles (£25,000) and property (£50,000).

**Collection Fund Provision**
As part of the changes in business rate retention, the Authority is required to create a provision in respect of outstanding appeals. These appeals are currently with the Valuation Office Agency for review and, as a result, it is not possible to determine the precise timing of the settlement of claims relating to this provision. Based on estimates on the likely settlement year, we could assume that £2,496k will be settled within the next financial year, but this is a very high-level guesstimate. Only the Authority's share of the appeals is recorded within the note, and this year's share is 64% compared to 30% in 2017/18.

**Other Provisions**
This has been fully used to fund the remaining balance of a fine of £500,000 imposed by Southwark Crown Court on the London borough of Havering in respect of HSE Breaches.

## 24. Usable Reserves

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| 11,766 | General Fund balance | 12,287 |
| 72,019 | Earmarked Reserves | 69,110 |
| 4,612 | Housing Revenue Account balance | 4,907 |
| 43,959 | Capital Grants Unapplied | 47,146 |
| 55,973 | Capital Receipts Reserve | 54,881 |
| 30,663 | Major Repairs Reserve | 30,915 |
| **218,992** | **Total usable reserves** | **219,246** |

# 25. Unusable Reserves

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| 470,842 | Revaluation Reserve | 408,741 |
| 2 | Financial Instruments Available for Sale Reserve | - |
| 563,831 | Capital Adjustment Account | 570,838 |
| (727) | Financial Instruments Adjustment Account | (572) |
| (469,258) | Pension Reserve | (539,382) |
| 244 | Deferred Capital Receipts Reserve | 205 |
| (17) | Collection Fund Adjustment Account | (61) |
| (3,965) | Accumulated Absences Account | (3,837) |
| **560,952** | **Total unusable reserves** | **435,932** |

**a) Revaluation Reserve**

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

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

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

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| **346,712** | **Balance at 1 April** | **470,842** |
| 145,749 | Net gain on revaluation of fixed assets | (21,539) |
| (6,398) | Excess of Fair Value Depreciation over Historical costs depreciation | (5,851) |
| (15,221) | Removal of Revaluation balance upon sale | (35,896) |
| - | Other Adjustments | 1,185 |
| **470,842** | **Balance at 31 March** | **408,741** |

**b) Financial Instruments Available for Sale Reserve**

This reserve is used for the accounting entries for a covered bond and Floating Rate Notes that were purchased in 2015/16 and 2016/17 respectively which were valued on the balance sheet at fair value with the difference in 2018/19 of £0 (£2,000 for 2017/18) being credited to the Comprehensive Income and Expenditure Statement. This sum is subsequently transferred through the movement in reserves statement and recorded in the Financial Instruments Available for Sale Reserve in accordance with statutory requirements.

### c) Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **462,256** | **Balance at 1 April** | **563,831** |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | |
| (24,196) | Net charges for depreciation of non-current assets | (23,506) |
| 75,814 | Net charges for impairment of non-current assets | (1,349) |
| - | Net charges for de-recognition of non-current assets | - |
| 307 | Mitigation of PPP Capitalised | - |
| (548) | Amortisation of intangible assets | (504) |
| (40,649) | 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 | (74,574) |
| | Adjusting amounts written out of the Revaluation Reserve | |
| 6,398 | Excess of Fair Value Depreciation over Historical costs depreciation | 5,851 |
| 15,221 | Removal of Revaluation balance upon sale | 35,893 |
| - | Other | 1,766 |
| **32,347** | **Net written out amount of the cost of non-current assets consumed in the year** | **(56,423)** |
| | Capital financing applied in the year: | |
| 22,457 | Use of the Capital Receipts Reserve to finance new capital expenditure | 20,547 |
| 12,035 | Use of the Major Repairs Reserve to finance new capital expenditure | 8,983 |
| 22,744 | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 16,296 |
| 1,656 | Statutory provision for the repayment of debt | 1,875 |
| 15,910 | Capital expenditure charged against the General Fund and HRA balances | 15,013 |
| **74,802** | **Capital financing applied in year** | **62,714** |
| **(5,037)** | **Revenue expenditure funded from capital under statute** | **(5,584)** |
| **(537)** | **Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement** | **6,300** |
| **563,831** | **Balance at 31 March** | **570,838** |

### d) Financial Instruments Adjustment Account

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| (823) | **Balance at 1 April** | (727) |
| 96 | Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | 155 |
| **(727)** | **Balance at 31 March** | **(572)** |

### e) Pensions Reserve

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **(487,970)** | **Balance at 1 April** | **(469,258)** |
| 32,102 | Actuarial gains or (losses) on pensions assets and liabilities | (54,838) |
| (41,523) | 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 | (45,217) |
| 28,133 | Employer's pensions contributions and direct payments to pensioners payable in the year | 29,931 |
| **(469,258)** | **Balance at 31 March** | **(539,382)** |

### f) Deferred Capital Receipts Reserve

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **289** | **Balance at 1 April** | **244** |
| (45) | Transfer to the Capital Receipts Reserve upon receipt of cash | (39) |
| **244** | **Balance at 31 March** | **205** |

### g) Collection Fund Adjustment Account

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

| 2017/18<br>£000 | | 2018/19<br>£000 |
|---|---|---|
| **2,087** | **Balance at 1 April** | **(17)** |
| (2,104) | Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements | (44) |
| **(17)** | **Balance at 31 March** | **(61)** |

### h) Accumulated Absences Account

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

| 2017/18<br>£000 | | 2018/19<br>£000 |
|---|---|---|
| **(4,541)** | **Balance at 1 April** | **(3,965)** |
| 4,541 | Settlement or cancellation of accrual made at the end of the preceding year | 3,965 |
| (3,965) | Amounts accrued at the end of the current year | (3,837) |
| 576 | 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 | 128 |
| **(3,965)** | **Balance at 31 March** | **(3,837)** |

## 26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

| 2017/18 Authority £000 | 2017/18 Group £000 | | 2018/19 Authority £000 | 2018/19 Group £000 |
|---|---|---|---|---|
| (51,618) | (51,610) | Depreciation, impairment and downward revaluation | 23,498 | 23,508 |
| 548 | 548 | Amortisation | 504 | 504 |
| 3,724 | 3,603 | Movement in creditors | 727 | 1,352 |
| (1,202) | (1,202) | Movement in long-term creditors | - | - |
| (111) | 203 | Movement in debtors | (4,927) | (7,872) |
| (4,789) | 150 | Movement in long-term debtors | (7,871) | (2,180) |
| (44) | (144) | Movement in inventories | (64) | 36 |
| 13,390 | 13,390 | Movement in pension liability | 15,286 | 15,286 |
| (784) | (784) | Decrease in provisions | 4,356 | 4,356 |
| 40,649 | 40,316 | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | 74,574 | 74,574 |
| 5,575 | 6,345 | Other non-cash items charged to the net surplus or deficit on the provision of services | (1,951) | (2,199) |
| **5,338** | **10,815** | **Net cash flows from operating activities** | **104,132** | **107,365** |

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

| 2017/18 Authority £000 | 2017/18 Group £000 | | 2018/19 Authority £000 | 2018/19 Group £000 |
|---|---|---|---|---|
| (31,405) | (32,091) | Capital grants credited to the Consolidated Income and Expenditure Statement | (19,483) | (19,483) |
| (17,488) | (17,488) | Proceeds from sale of fixed assets | (20,542) | (20,542) |
| **(48,893)** | **(49,579)** | **Adjustment for items included in the net surplus or deficit on the provisions of services that are investing and financing activities** | **(40,025)** | **(40,025)** |

## 27. Cash Flow Statement – Investing Activities

| 2017/18 Authority £000 | 2017/18 Group £000 | | 2018/19 Authority £000 | 2018/19 Group £000 |
|---|---|---|---|---|
| (84,223) | (84,223) | Purchase of property, plant and equipment, investment property and intangible assets | (61,788) | (61,788) |
| (227,099) | (226,978) | Purchase of short-term and long-term investments | (243,909) | (251,364) |
| 17,488 | 17,488 | Proceeds from the sale of property, plant and equipment, investment property and intangible | 20,542 | 253,001 |
| 35,502 | 35,502 | Capital grants received | 19,946 | 19,946 |
| 205,093 | 204,320 | Proceeds from short-term and long-term | 253,001 | 20,542 |
| 1,006 | 1,006 | Other receipts from investing activities | - | - |
| **(52,233)** | **(52,885)** | **Net cash flows from investing activities** | **(12,208)** | **(19,663)** |

## 28. Cash Flow Statement – Financing Activities

| 2017/18 Authority £000 | 2017/18 Group £000 | | 2018/19 Authority £000 | 2018/19 Group £000 |
|---|---|---|---|---|
| 132,946 | 132,946 | Cash receipts of short-term and long-term borrowing | 29,253 | 29,253 |
| (105,741) | (105,741) | Repayments of short-term and long-term borrowing | (59,518) | (59,518) |
| **27,205** | **27,205** | **Net cash flows from financing activities** | **(30,265)** | **(30,265)** |

## 29. Trading Operations

| 2017/18 (Surplus)/ Deficit £000 | | 2018/19 Income £000 | 2018/18 Expenditure £000 | 2018/19 (Surplus)/ Deficit £000 |
|---|---|---|---|---|
| | **a) Open Air Market** | | | |
| 180 | The Authority operates an open air market three days a week | (389) | 610 | 221 |
| | **b) Other Trading Accounts** | | | |
| (1,265) | Highways | (4,764) | 3,561 | (1,203) |
| 89 | Schools/Welfare Catering | (7,611) | 7,774 | 163 |

The Market trading results have been in line with 2017-18, continuing to be impacted by the negative market trading position, the reason for the increased deficit is due to one off maintenance costs incurred during the year.

Highways – Results remained at the same level as in 2017/18.

Catering - The Service has a £366,000 operating surplus before overheads in 2018-19, however once overheads are applied this becomes a deficit of £163,000. Income increased by £799,000 due to the addition of 2 schools from September 2018 and increased meal uptake within Primary Schools through "Veggie Run" promotions. Expenditure increased by £1,023,000 due to "Veggie Run" promotion costs and additional start up costs and investment into new contracts gained, resulting in a net decrease in trade operating surplus of £224,000. The trade operating surplus (before overheads) is attributable to continued improvements in Business processes. Overheads decreased by £150,000 to £529,000 due to the recalculation of internal recharges.

# 30. Pooled Budgets

**Mental Health**

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| | **Funding** | |
| 1,508 | Section 75 Joint Pooled Budget between London Borough of Havering and North East London Foundation Trust | 1,527 |
| 90 | Recharges (excluded from the Pooled Budget) | 100 |
| 1,173 | Non Pooled Budget codes | 1,324 |
| **2,771** | **Total funding** | **2,951** |
| **2,920** | **Final outturn** | **2,846** |

**Adult Services – Better Care Fund**

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

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

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

The pooled budget is accounted for under a joint arrangement.

**Expenditure in 2018/19 was as follows:**

| Section 75 Joint Pooled Budget between LBH and CCG | Budget 2018/19 £000 | Actual 2018/19 £000 | BCF Funding Outturn 18-19 £000 |
|---|---|---|---|
| **LBH Funding - Capital** | | | |
| Disability Facility Grant Allocation | 1,869 | 1,345 | (524) |
| **Net Pooled Capital** | **1,869** | **1,345** | **(524)** |
| **LBH Funding Revenue - CCG Commissioned Services** | | | |
| **Minimum CCG Contribution - Expenditure** | **10,396** | **10,396** | **-** |
| **Revenue - CCG/ LBH** | | | |
| **Minimum CCG Contribution - Expenditure** | **7,505** | **7,505** | **-** |
| CCG Minimum contribution representing ex256 monies | *4,864* | *4,864* | |
| CCG minimum contribution element for services commissioned on behalf of CCG - Reablement | *882* | *882* | |
| CCG minimum contribution element for services commissioned on behalf of CCG - Riverside | *175* | *175* | |
| CCG contribution to Care Act | *644* | *644* | |
| LBH Additional Contribution | *940* | *940* | |
| **Net Pooled Revenue** | **17,901** | **17,901** | **-** |
| **Total Pooled** | **19,770** | **19,246** | **(524)** |

Underspend on capital has been carried forward into the following financial year (2019/20).

**Comparative figures for 2017/18 are as follows:**

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

## 31. Members' Allowances

Payments in year were £929,598 including expenses (£989,954 in 2017/18). Additionally, payments to co-opted members totalled £1,468 (£1,981 in 2017/18).

## 32. Officers' Remuneration

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

| | | | 2018/19 | | | 2017/18 | | |
|---|---|---|---|---|---|---|---|---|
| Lower Band | | Upper Band | Schools | Other | **Total** | Schools | Other | **Total** |
| £50,000 | - | £55,000 | 24 | 45 | **69** | 42 | 45 | **87** |
| £55,000 | - | £60,000 | 16 | 24 | **40** | 18 | 12 | **30** |
| £60,000 | - | £65,000 | 16 | 18 | **34** | 13 | 19 | **32** |
| £65,000 | - | £70,000 | 10 | 17 | **27** | 14 | 14 | **28** |
| £70,000 | - | £75,000 | 9 | 11 | **20** | 14 | 4 | **18** |
| £75,000 | - | £80,000 | 9 | 7 | **16** | 5 | 8 | **13** |
| £80,000 | - | £85,000 | 3 | 4 | **7** | 3 | 3 | **6** |
| £85,000 | - | £90,000 | 2 | 2 | **4** | 2 | 5 | **7** |
| £90,000 | - | £95,000 | 2 | 3 | **5** | 2 | 3 | **5** |
| £95,000 | - | £100,000 | 1 | 1 | **2** | - | 3 | **3** |
| £100,000 | - | £105,000 | | 3 | **3** | 1 | 1 | **2** |
| £105,000 | - | £110,000 | | 1 | **1** | - | - | **-** |
| £110,000 | - | £115,000 | | 3 | **3** | - | 3 | **3** |
| £115,000 | - | £120,000 | | | **-** | - | - | **-** |
| £120,000 | - | £125,000 | | 1 | **1** | - | 2 | **2** |
| £125,000 | - | £130,000 | | 1 | **1** | - | - | **-** |
| £130,000 | - | £135,000 | | | **-** | - | 4 | **4** |
| £135,000 | - | £140,000 | | 2 | **2** | - | - | **-** |
| £140,000 | - | £145,000 | | | **-** | - | - | **-** |
| £145,000 | - | £150,000 | | | **-** | - | - | **-** |
| £150,000 | - | £155,000 | | 3 | **3** | - | 1 | **1** |
| | | | **92** | **146** | **238** | **114** | **127** | **241** |

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

## Senior Officers Remuneration

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

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

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

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

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

| Post Holder Information | Notes | Salary £ | Other payments £ | Total Remuneration excluding pension contributions 2018/19 £ | Employer's pension contribution £ | Total Remuneration including pension contributions 2018/19 £ |
|---|---|---|---|---|---|---|
| Chief Executive – Andrew Blake-Herbert | 1 | 175,277 | 9,563 | **184,840** | 38,561 | **223,401** |
| Chief Operating Officer | 1 | 151,984 | 1,000 | **152,984** | - | **152,984** |
| Previous Director of Neighbourhoods | 2 | 116,195 | 96,000 | **212,195** | 25,563 | **237,758** |
| Director of Children's Services | | 137,863 | - | **137,863** | 30,675 | **168,538** |
| Director Adult Services | | 139,434 | - | **139,434** | 30,675 | **170,109** |
| Director of Public Health | | 111,689 | - | **111,689** | 16,061 | **127,750** |
| Deputy Director of Legal & Governance (Monitoring Officer) | 3 | 132,113 | - | **132,113** | - | **132,113** |
| **Total** | | **964,555** | **106,563** | **1,071,118** | **141,535** | **1,212,653** |

Note 1 As part of his Electoral duties, the Chief Executive received a sum of £9,563 and as part of her Electoral duties, the Chief Operating Officer received a sum of £1,000.

Note 2 The previous Director of Neighbourhoods left on January the 31st, 2019, and their pay includes redundancy payments. New Director commenced post on January 1st, 2019.

Note 3 This post is a shared appointment between Havering, Newham and Bexley Council but it was a statutory named officer role for Havering.

In addition to this, the Executive Director of OneSource, again a shared appointment between Havering, Newham and Bexley Council, was paid £153,237 who left on January 31st 2019, and their replacement was paid £32,673 for the period February to March 2019. These costs are the full cost between the three boroughs. Further details on the OneSource cost sharing arrangement is reported under note 36, Related Parties.

## 33. External Audit Costs

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

| 2017/18 £000 | | 2018/19 £000 |
|---:|---|---:|
| 152 | Fees payable with regard to external audit services carried out by appointed auditor | 117 |
| 15 | Certification of housing benefit subsidy claim | 7 |
| 21 | Amounts relating to prior year Statement of Accounts 2016/17 Scale Fee Variation | 0 |
| (23) | Audit fees refunded by the PSAA (Public Sector Audit Appointments Ltd) | 0 |
| **165** | **Total for year** | **124** |

# 34. Dedicated Schools Grant

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

**Details of the deployment of DSG receivable for 2018/19 are as follows:**

| | Schools Budget Funded by Dedicated School Grant | | |
|---|---|---|---|
| | Central Expenditure £000 | Individual Schools Budget £000 | Totals £000 |
| Final DSG for 2018/19 before academy recoupment | | | 215,293 |
| Less academy figure recouped for 2018/19 | | | (101,200) |
| **Total DSG after academy recoupment for 2018/19** | | | **114,093** |
| Plus: brought forward from 2017/18 | | | 2,565 |
| **Agreed initial budgeted distribution for 2018/19** | **30,327** | **86,331** | **116,658** |
| In year adjustments | - | - | - |
| **Final budgeted distribution for 2018/19** | **30,327** | **86,331** | **116,658** |
| Actual central expenditure | (27,862) | | (27,862) |
| Actual ISB deployed to schools | | (86,331) | (86,331) |
| **Carry forward to 2019/20** | **2,465** | **-** | **2,465** |

**Comparative figures for 2017/18 are as follows:**

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

## 35. Grant Income

a) The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19:

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **Credited to Taxation and Non Specific Grant Income** | | |
| 12,284 | Revenue Support Grant | - |
| 9,232 | Redistributed Business Rates | - |
| 20,889 | Non ring-fenced Grant | 17,675 |
| 31,405 | Capital Grants | 19,483 |
| **73,810** | **Total** | **37,158** |
| **Credited to Services** | | |
| 55,992 | Rent Allowances | 54,155 |
| 34,755 | Rent Rebates | 31,791 |
| 11,224 | Public Health Grant | 10,935 |
| 115,165 | Dedicated Schools Grant | 114,308 |
| 6,442 | Better Care Fund | 6,564 |
| 4,724 | Contributions from Other Local Authorities | 4,384 |
| 1,027 | School Contribution | 1,029 |
| 1,217 | Schools Funding Agency / Education Funding Agency | 1,181 |
| 6,021 | Pupil Premium Grant | 5,482 |
| 2,813 | Universal Free School Meals | 2,880 |
| 724 | Additional Funding For Schools –Primary School Sports Funding | 861 |
| 704 | Unaccompanied Asylum Seeking Children Funding | 931 |
| 1,444 | Flexible Homelessness Grant | 1,617 |
| 7,000 | Other | 7,717 |
| **249,252** | **Total** | **243,835** |

**Current Liabilities**

b) Capital Grants – receipts in advance:

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 10,599 | Brought forward | 12,527 |
| 3,848 | Amounts received in year | 2,767 |
| (1,920) | Amounts applied to meet new capital investment | (1,901) |
| **12,527** | **Carried forward** | **13,393** |

## 36. Related Parties

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

**Members**

Members of The Authority have direct control over its financial and operating policies. The total of Members' allowances paid in 2018-19 is shown in Note 31.

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

| Organisations | Member | Payments to Organisations by the Authority £000 | Balance Outstanding £000 | Income £000 | Income Outstanding £000 |
|---|---|---|---|---|---|
| Tapestry | Cllr J Alexander | 425 | - | - | - |
| Havering Sixth Form College | Cllr W Brice-Thompson | 108 | - | 39 | 3 |
| Havering Museum Ltd | Cllr W Brice-Thompson<br>Cllr F Thompson | 8 | 3 | - | - |
| Havering Association for People with Disabilities | Cllr N Dodin<br>Cllr S Nunn<br>Cllr C Smith | 79 | - | - | - |
| Local Government Association | Cllr G Ford | 55 | - | - | - |
| East London Waste Authority | Cllr R Benham<br>Cllr O Dervish<br>Cllr S Kelly | 16,416 | - | 1,132 | - |
| Havering Theatre Trust | Cllr P Crowder<br>Cllr G Ford<br>Cllr P McGeary<br>Cllr P Rumble | 340 | - | - | - |
| First Step Charity | Cllr L Van den Hende | 270 | - | - | - |
| Havering Volunteer Centre | Cllr L Van den Hende | 62 | - | - | - |

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

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

Note 11 Other operating expenditure: levies;

Note 13 Taxation and Non-specific Grant Income;

Note 30 Pooled budgets;

Note 34 Dedicated Schools Grant; and

Note 35 Grant Income

**Entity controlled or significantly influenced by the Authority**

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

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

The oneSource net controllable expenditure for 2018/19 is disclosed below indicating the share falling to each of the authorities. The LBH share is charged against the Consolidated Income and Expenditure Statement.

| 2017/18 £000 | oneSource | 2018/19 £000 |
|---:|---|---:|
| | **Net Expenditure** | |
| 6,979 | Exchequer and Transactional Services | 6,555 |
| 9,804 | Finance | 9,844 |
| 2,293 | Business Services | 1,621 |
| 3,437 | Legal and Governance | 2,225 |
| 7,895 | ICT | 8,934 |
| 2,959 | Asset Management | 2,345 |
| 2,811 | Strategic and Operational HR | 2,687 |
| **36,178** | **Total Net Expenditure** | **34,211** |
| | **Cost Sharing:** | |
| 17,103 | London Borough of Newham | 15,740 |
| 16,211 | London Borough of Havering | 15,633 |
| 2,864 | London Borough of Bexley | 2,838 |

As at 31 March 2019, the Authority owed £0.754m to the London Borough of Newham and no balance was outstanding with the London Borough of Bexley.

The joint committee council members are; Councillors R Benham, R Ramsey and D White (from Havering Council), Councillors R Fiaz, J Gray and T Paul (from Newham Council) and Councillor D Leaf (from Bexley Council).

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

| Shared OneSource role | Employing organisation |
|---|---|
| Executive Director | London Borough of Newham |
| Director of Asset Management | London Borough of Newham |
| Director of Exchequer and Transactional | London Borough of Havering |
| Director of Legal and Governance | London Borough of Newham |
| Director of Human Resources | London Borough of Havering |
| Director of Finance | Agency |
| Director of ICT | London Borough of Newham |

**Mercury Land Holdings Ltd**

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

The Council has determined that for the financial year ended 31 March 2019, it has a material interest in one of its subsidiaries, Mercury Land Holdings (MLH).

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

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

MLH directors who have held office since 1st April 2018 are as follows:

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

**Havering and Wates Regeneration LLP**

The LLP was formed on 19th April 2018 as a joint venture with two members, Wates Construction Limited and the London Borough of Havering. The LLP's principal activity is the building and selling of residential apartments and houses in the London Borough of Havering.

The Council influences the joint venture through its 50% share in the LLP, and has determined that for the financial year ended 31 March 2019, the share of the profit and loss account (£66k loss), is not material to be included in the Statement of Accounts (as part of Joint Venture accounting). However, the balance sheet includes the Council's loan to the LLP, £2.164m as at 31 March 2019.

**Bridge Close Regeneration LLP**

The LLP was formed on 4th April 2018 as a joint venture between FB BCR LLP (First Base and Savills Investment Management) and the London Borough of Havering, in order to deliver the comprehensive regeneration of the site at Bridge Close, Romford, including the development and sale of residential and commercial property as well as the development of social infrastructure, a bridge, public realm and environmental improvements to the River Rom.

The Council influences the joint venture through its 50% share in the LLP, and has determined that for the financial year ended 31 March 2019, the share of the profit and loss account (£0.078k loss), is not material to be included in the Statement of Accounts (as part of Joint Venture accounting). However, the balance sheet includes the Council's investment in the LLP, £3.289m as at 31 March 2019.

**Pension Fund**

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

# 37. Capital Expenditure and Capital Financing

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

| 2017/18 £000 | Capital Expenditure | 2018/19 £000 |
|---:|---|---:|
| 73,073 | Property, Plant and Equipment | 56,195 |
| 5,813 | Investment fixed assets | 9 |
| 299 | Intangible Assets | - |
| 5,037 | Revenue expenditure funded from capital under statute | 5,584 |
| 120 | Long Term Investments | 3,289 |
| 4,352 | Long Term Loans | 6,511 |
| **88,694** | **Total capital expenditure** | **71,588** |
| | **Less financed from** | |
| (22,457) | Capital receipts | (20,547) |
| (12,035) | Major repairs | (8,983) |
| (15,910) | Revenue funds | (15,013) |
| (22,744) | Grants and contributions | (16,297) |
| **15,548** | **Increase in need to borrow** | **10,748** |
| (1,656) | Minimum Revenue Provision | (1,875) |
| **13,892** | **Change in Capital Financing Requirement** | **8,873** |

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

| 31 March 2018 £000 | Capital Financing Requirement | 31 March 2019 £000 |
|---:|---|---:|
| 1,275,993 | Tangible fixed assets | 1,220,525 |
| 8,735 | Capital Investments - Equity | 12,024 |
| 12,341 | Capital Investments - Loans | 18,854 |
| 2,073 | Intangible assets | 1,568 |
| (470,842) | Revaluation Reserve | (408,741) |
| (563,831) | Capital Adjustment Account | (570,839) |
| - | Repayments of Loans not used to repay debt due to timing | (48) |
| **264,469** | **Net Requirement** | **273,343** |

## 38. Leases

Operating Leases

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

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 108 | Not later than one year | 129 |
| 25 | Later than one year and not later than five years | 25 |
| **133** | **Minimum Lease Payments** | **154** |

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

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| 133 | Not later than one year | 129 |
| 121 | Later than one year and not later than five years | 178 |
| **254** | **Minimum Lease Payments** | **307** |

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 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| 77 | Not later than one year | 99 |
| 116 | Later than one year and not later than five years | 82 |
| **193** | **Minimum Lease Payments** | **181** |

The minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.181m (£0.193m in 2017/18). In most cases these rents are charged to Central Support Service and subsequently released to the appropriate service.

## 39. Revaluation Gains and Impairment Losses

During 2018/19, the Authority has recognised a net revaluation gain of £6.3m in the Comprehensive Income and Expenditure Statement in relation to its revaluation of assets. A breakdown of the revaluations and impairments by asset class can be found in the table below:

| Asset Class | Revaluation Gains Credited to the CI&ES £000 | Revaluation Loss Charged to the CI&ES £000 |
|---|---|---|
| Council dwellings | 6,938 | - |
| Other land and buildings | 3,333 | 11,314 |
| Community Assets | 2 | - |
| Surplus Assets | 261 | 509 |
| **Total PPE** | **10,534** | **11,823** |
| Investment Properties | 7,535 | 1,235 |
| Assets Held for Sale | 1,297 | - |
| **Total (gain) or loss to the CI&ES** | **19,366** | **13,058** |

## 40. Termination Benefits

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

| Exit Package cost band (including special payments | Number of Compulsory Redundancies | | Number of Departures Agreed | | Total Number of exit packages by Cost Band | | Total Cost of exit packages in each band | |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 |
| £0 - £20,000 | 8 | 8 | 3 | 17 | 14 | 25 | 104,917 | 242,727 |
| £20,001 - £40,000 | 2 | 4 | 2 | 6 | 3 | 10 | 86,774 | 332,367 |
| £40,001 - £60,000 | - | - | 4 | - | 4 | 0 | 193,518 | - |
| £60,001 - £80,000 | - | 1 | 2 | 3 | 2 | 4 | 142,466 | 270,749 |
| £80,001 - £100,000 | - | - | - | - | - | - | - | - |
| £100,001 - £150,000 | - | - | - | 1 | - | 1 | - | 105,000 |
| >£150,000 | 2 | - | - | - | 2 | - | 413,303 | - |
| **Total** | **12** | **13** | **11** | **27** | **25** | **40** | **940,978** | **950,843** |

Note: The Authority terminated the contracts of a number of employees in 2018/19, incurring costs of £950,843 (£940,978 in 2017/18). The majority of the redundancies are as a result of the Havering transformation programme. The note includes redundancy as well as the strain cost to the pension fund.

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

**Teachers Pensions**

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

In 2018/19 the Authority paid £5.51m (£5.98m 2017/18) to Teachers Pensions in respect of teachers pension contributions. This represented a contribution rate of 16.5% (16.5% also in 2017/18). There were no contributions remaining payable at the end of the period.

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

**NHS Pension Scheme**

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

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

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

In 2018/19 the Authority paid £40,765 (£38,960 in 2017/18) to NHS Pensions in respect of public health pension contributions. This represented 14.38% of pensionable pay (14.4% in 2017/18). There were no contributions remaining payable at the end of the period.

# 42. Defined Benefit Pension Schemes

## Participation in Pension Schemes

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

The Authority participates in two post-employment schemes:

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

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

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

1. Legal & General Investment Management (LGIM)
2. London CIV ( Collective Investment Vehicle) Sub funds:
   • Ballie Gifford Global Alphan
   • Ballie Gifford Diversified Growth
   • Ruffer
3. Royal London
3. UBS
4. CBRE
5. GMO
6. Stafford Capital
7. JP Morgan
8. Churchill

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

### Discretionary Post-retirement Benefits

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

### Transactions Relating to Post-employment Benefits

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| | **Comprehensive Income and Expenditure Statement** | |
| | Cost of services: | |
| | Service Cost Comprising: | |
| 31,632 | Current service cost | 31,877 |
| 416 | Past service costs | 3,213 |
| (2,718) | Gain from settlements | (2,098) |
| | Financing and Investment Income and Expenditure | |
| 12,193 | Net interest expense | 12,225 |
| **41,523** | **Total post-employment benefits charged to the surplus or deficit on the provision of services** | **45,217** |
| | Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement | |
| | Re-measurement of the net defined benefit liability comprising: | |
| (13,326) | Return on plan assets (excluding the amount included in the net interest expense) | (4,488) |
| (18,415) | Actuarial gains and losses arising on changes in financial assumptions | 59,376 |
| (361) | Other | (50) |
| **(32,102)** | **Total post-employment Benefits charges to the Comprehensive Income and Expenditure Statement** | **54,838** |
| | **Movements in Reserves Statement** | |
| (41,523) | Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code | (45,217) |
| | Actual amount charged against the General Fund Balance for pensions in the year: | |
| 28,133 | Employers' contributions payable to scheme | 29,931 |
| **(13,390)** | **Net movement in Pensions Reserve** | **(15,286)** |

### Pensions Assets and Liabilities Recognised in the Balance Sheet

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

| 2017/18 £000 | | 2018/19 £000 |
|---:|---|---:|
| | **Local Government Pension Scheme** | |
| (1,060,216) | Present value of the defined benefit obligation | (1,149,291) |
| 590,958 | Fair value of plan assets | 609,909 |
| **(469,258)** | **Net liability arising from defined benefit obligation** | **(539,382)** |

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

| 2017/18 £000 | | 2018/19 £000 |
|---:|---|---:|
| | **Local Government Pension Scheme** | |
| 565,370 | Opening fair value of scheme assets | 590,958 |
| 14,087 | Interest income | 15,334 |
| | Re-measurement gain (loss): | |
| 13,326 | The return on plan assets, excluding the amount included in the net interest expense | 4,488 |
| 28,133 | Contributions from employer | 29,931 |
| 5,272 | Contributions from employees into the scheme | 5,472 |
| (32,331) | Benefits paid | (33,809) |
| (2,899) | Other – effect of settlements | (2,465) |
| **590,958** | **Closing fair values of scheme assets** | **609,909** |

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

| 2017/18 £000 | | 2018/19 £000 |
|---:|---|---:|
| | **Funded liabilities: Local Government Pension Scheme** | |
| 1,053,340 | Opening balance at 1 April | 1,060,216 |
| 31,632 | Current service cost | 31,877 |
| 26,280 | Interest cost | 27,559 |
| 5,272 | Contributions from scheme participants | 5,472 |
| | Re-measurement (gains) and losses: | |
| (18,415) | Actuarial (gains)/ losses arising from changes in financial assumptions | 59,376 |
| (361) | Other | (50) |
| 416 | Past service cost (Including curtailments) | 3,213 |
| (32,331) | Benefits paid | (33,809) |
| (5,617) | Liabilities extinguished on settlements | (4,563) |
| **1,060,216** | **Closing balance at 31 March** | **1,149,291** |

Local Government Pension Scheme assets comprised:

| 2017/18 | | | | | 2018/19 | | | |
|---|---|---|---|---|---|---|---|---|
| **Quoted Prices in Active Markets £000** | **Quoted Prices not in Active Markets £000** | **Total £000** | **Percentage of Total assets %** | **Asset Category** | **Quoted Prices in Active Markets £000** | **Quoted Prices not in Active Markets £000** | **Total £000** | **Percentage of Total assets %** |
| | | | | **Equity Securities** | | | | |
| | | - | | Consumer | | | - | |
| | | - | | Manufacturing | | | - | |
| | | - | | Energy and utilities | | | - | |
| | | - | | Financial institutions | | | - | |
| | | - | | Health and Care | | | - | |
| | | - | | Information technology | | | - | |
| | 1.30 | **1.30** | | Other | | | - | |
| | | | | **Debt Securities** | | | | |
| 52,674.60 | | **59,491.70** | 10.00 | Corporate bonds (investment grade) | 64,544.10 | | **64,544.10** | 11.00 |
| 12,391.20 | | **12,831.30** | 2.00 | UK Government | 11,805.40 | | **11,805.40** | 2.00 |
| 31,267.60 | | **27,559.90** | 5.00 | Other | 27,473.60 | | **27,473.60** | 4.00 |
| | | | | **Real Estate** | | | | |
| 32,044.50 | | **34,163.20** | 6.00 | UK Property | 37,302.00 | | **37,302.00** | 6.00 |
| | | | | **Investment Funds and Unit Trusts** | | | | |
| 423,238.00 | | **439,431.20** | 74.00 | Equities | 450,731.70 | | **450,731.70** | 74.00 |
| | | | | **Cash and Cash Equivalents** | | | | |
| 15,352.70 | | **17,479.40** | 3.00 | All | 18,052.20 | | **18,052.20** | 3.00 |
| | | | | | | | | |
| **566,968.60** | **1.30** | **590,958.00** | **100.00** | **Totals** | **609,909.00** | **-** | **609,909.00** | **100.00** |

Page 113

### Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Authority Fund being based on the latest full valuation of the scheme as at 31 March 2016.

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| | **Local Government Pension Scheme** | |
| | Mortality assumptions: | |
| | Longevity at 65 for current pensioners: | |
| 22.0 years | Men | 22.0 years |
| 24.2 years | Women | 24.2 years |
| | Longevity at 65 for future pensioners: | |
| 23.9 years | Men | 23.9 years |
| 26.3 years | Women | 26.3 years |
| 3.50% | Rate of inflation | 3.50% |
| 2.70% | Rate of increase in salaries | 2.80% |
| 2.40% | Rate of increase in pensions | 2.50% |
| 2.60% | Rate for discounting scheme liabilities | 2.40% |

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

| Change in assumptions at 31 March 2019 | Approximate % increase to Employer Liability | Approximate Monetary amount £000 |
|---|---|---|
| 0.5% decrease in Real Discount Rate | 9% | 107,680 |
| 0.5% Increase in the Salary Increase | 1% | 12,168 |
| 0.5% Increase in the Pension | 8% | 93,984 |

### Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

The Authority anticipates to pay £26.2m expected contributions to the scheme in 2019/20.

The weighted average duration of the defined benefit obligation for scheme members is 16.2 years, 2018/19 (16.2 years 2017/18).

## 43. Contingent Liabilities

**MMI Scheme of Arrangement**

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

## 44. Heritage Assets: Five-year Summary of Transactions

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

## 45. Trust Funds

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

| | Richard Ballard Charity £ | Lucas Children's Play Site Charity £ |
|---|---|---|
| Balance 31 March 2018 | 6,500 | 144,579 |
| Receipts | (35) | (781) |
| Payments | 35 | 781 |
| **Balance at 31 March 2019** | **6,500** | **144,579** |

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

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

# Housing Revenue Account

# Housing Revenue Account
# Income and Expenditure Statement 2018/19

The Housing Revenue Account (HRA) includes all transactions relating to the provision, management and maintenance of the Authority's housing stock. The increase or decrease in the year on the basis of which rents are raised is shown in the movement on the HRA Statement. The Account is "ring-fenced" in accordance with the Local Government and Housing Act 1989. Transfers to and from the General Fund are only permitted in certain specified circumstances.

| 2017/18 £000 | | Notes | 2018/19 £000 |
|---|---|---|---|
| | **Income** | | |
| (47,534) | Dwelling rents | | (47,107) |
| (422) | Non-dwelling rents | | (432) |
| (11,095) | Charges for services and facilities | | (6,491) |
| (1,350) | Contributions towards expenditure | | (1,723) |
| **(60,401)** | **Total Income** | | **(55,753)** |
| | **Expenditure** | | |
| 6,679 | Repairs and maintenance | | 6,962 |
| 21,827 | Supervision and management | | 21,491 |
| 448 | Rents, rates, taxes and other charges | | 405 |
| 461 | Increased provision for bad/doubtful debts | | 1,088 |
| (31,235) | Depreciation and Impairment of tangible fixed assets | 4 | 2,296 |
| | Debt management | | |
| **(1,820)** | **Total Expenditure** | | **32,242** |
| | | | |
| **(62,221)** | **Net expenditure or income of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement** | | **(23,511)** |
| **250** | **HRA Services' share of Corporate and Democratic Core** | | **250** |
| **(61,971)** | **Net Expenditure of HRA Services** | | **(23,261)** |
| | **HRA Share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement** | | |
| (8,654) | Net gain on disposal of HRA assets | | (6,593) |
| 5,853 | Interest payable and similar charges | | 5,854 |
| (392) | Interest and investment income | | (559) |
| **(65,164)** | **Deficit/(Surplus) for the year on HRA Services** | | **(24,559)** |

## Movement on the Housing Revenue Account Balance during 2018/19

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **(2,830)** | **Housing Revenue Account balance brought forward** | **(4,612)** |
| (65,164) | (Surplus)/deficit for the year on the HRA Income and Expenditure Account | (24,559) |
| 58,887 | Adjustments between accounting basis and funding basis under regulations | 25,709 |
| **(9,107)** | **HRA balance before transfer to earmarked reserves** | **(3,462)** |
| 4,495 | Transfers to earmarked reserves | (1,445) |
| **(4,612)** | **Housing Revenue Account balance carried forward** | **(4,907)** |

## Note to the Statement of Movement on the Housing Revenue Account Balance 2018/19

| 2017/18 £'000 | | 2018/19 £000 |
|---|---|---|
| **Items included in the HRA Income and Expenditure but excluded from the movement in the HRA balance** | | |
| Adjustments to the Revenue Resources | | |
| (741) | Pensions costs (transferred from the Pensions Reserve) | (715) |
| - | Holiday pay (transferred to the Accumulated Absences Reserve) | 7 |
| 25,125 | Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account | (13,176) |
| **24,384** | **Total Adjustments to Revenue Resources** | **(13,884)** |
| Adjustments between Revenue and Capital Resources | | |
| 15,132 | Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 17,748 |
| (322) | Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | (237) |
| 9,165 | Posting of HRA resources from revenue to the Major Repairs Reserve | 9,235 |
| 10,573 | Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 12,886 |
| (45) | Deferred Capital Receipt | (39) |
| **34,503** | Total Adjustments between Revenue and Capital Resources | **39,593** |
| **58,887** | **Adjustments between accounting basis and funding basis under regulations** | **25,709** |

## Notes to the Housing Revenue Account

### 1. Information on Housing Fixed Assets

#### a) Number of Dwellings

| 2017/18 Number | | 2018/19 Number |
|---|---|---|
| | **Flats** | |
| 2,911 | 1 bedroom | 2,741 |
| 2,326 | 2 bedrooms | 2,201 |
| 384 | 3 bedrooms | 397 |
| 20 | 4 & 5 bedrooms | 17 |
| | **Houses** | |
| 334 | 1 bedroom | 328 |
| 1,123 | 2 bedrooms | 1,112 |
| 2,386 | 3 bedrooms | 2,319 |
| 150 | 4 & 5 bedrooms | 152 |
| **9,634** | **Total Number of Dwellings** | **9,267** |

#### b) Balance Sheet Value of HRA Tangible Fixed Assets

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| | **Operational** | |
| 569,103 | Dwellings | 555,066 |
| 21,709 | Other land and buildings | 20,131 |
| 63 | Vehicles, plant and equipment | - |
| 1,672 | Infrastructure | 1,433 |
| - | Assets Under Construction | 4,301 |
| 592,547 | | 580,931 |
| | **Non-operational** | |
| - | Investment properties | - |
| - | Held for sale | - |
| - | | - |
| **592,547** | **Total Tangible Fixed Assets** | **580,931** |

#### c) Valuation of Council Dwellings at Year End

| 2017/18 £m | | 2018/19 £m |
|---|---|---|
| 2,276 | Vacant possession value | 2,220 |
| 1,707 | Excess of vacant possession value over Balance Sheet value | 1,665 |

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

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| **33,532** | **Balance brought forward at start of year** | **30,662** |
| 9,165 | Total depreciation from Capital Adjustment Account | 9,235 |
| (12,035) | less MRR used to fund Capital Expenditure on HRA Dwellings | (8,983) |
| **30,662** | **Balance carried forward at end of year** | **30,914** |

### 3. a) Total Capital Expenditure and Funding

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| | Capital expenditure on HRA property and other assets: | |
| 33,056 | Dwellings | 31,513 |
| - | Other land buildings | - |
| - | Investments | 2,164 |
| **33,056** | **Total expenditure** | **33,677** |
| | Financed from: | |
| 12,035 | Major Repairs Reserve | 8,983 |
| 91 | Grants and contributions | (2,632) |
| 10,572 | Revenue contributions | 12,886 |
| 10,358 | Capital receipts | 14,440 |
| **33,056** | **Total funding** | **33,677** |

### b) HRA Capital Receipts

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| 13,727 | Right to Buy sales | 11,604 |
| 1,082 | Other property sales | 5,908 |
| 14,809 | Total cash receipts | 17,512 |
| (1,274) | Transferred for Pooling | (1,126) |
| **13,535** | **Total income** | **16,386** |

### 4. Depreciation and Impairment Charge

The depreciation charged to the HRA breaks down as follows:

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| 8,445 | Dwellings | 8,577 |
| 383 | Other buildings | 356 |
| 80 | Equipment | 63 |
| 257 | Infrastructure | 239 |
| **9,165** | **Total HRA depreciation** | **9,235** |
| (40,400) | Revaluation credit/debit | (6,938) |
| **(31,235)** | **Total HRA depreciation and Revaluation charge** | **2,297** |

### 5. Rent Income, Arrears and Bad Debts

| 2017/18 £'000 | **Rent** | 2018/19 £'000 |
|---|---|---|
| 103.20 | Average weekly rent (including service charges unpooled) | 103.21 |

| 31 March 2018 £000 | **Arears and Bad Debts** | 31 March 2019 £000 |
|---|---|---|
| 3,556 | Rent arrears at 31 March | 3,488 |
| (2,786) | Bad debts provision at 31 March | (3,329) |
| **770** | **Total** | **159** |

# Collection Fund Account

# Collection Fund 2018/19

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

**Income and Expenditure Statement 2018/19**

| 2017/18 | | | 2018/19 | |
|---|---|---|---|---|
| Business Rates £000 | Council Tax £000 | | Business Rates £000 | Council Tax £000 |
| | | **Income** | | |
| - | (140,125) | Income from Council Tax | | (146,436) |
| (79,122) | - | Income from Business Rates | (81,648) | |
| - | (64) | Prompt payment discounts | | |
| (1,936) | - | Transitional relief | (1,576) | |
| (2,217) | - | Income collectable from Business Rate Supplement | (2,167) | |
| | | **Previous Year Deficit recognised in the CI&ES** | | |
| 147 | - | London Borough of Havering | (637) | |
| 244 | - | Central Government | (833) | |
| 98 | - | Greater London Authority | (654) | |
| **(82,786)** | **(140,189)** | **Total Income** | **(87,515)** | **(146,436)** |
| | | **Expenditure** | | |
| | | **Previous Year Surplus recognised in the CI&ES** | | |
| - | 2,201 | London Borough of Havering | | 181 |
| - | - | Central Government | | 38 |
| - | 479 | Greater London Authority | | |
| | | **Precepts** | | |
| 24,100 | 114,404 | London Borough of Havering | 51,623 | 119,125 |
| 26,510 | - | Central Government | - | - |
| 29,723 | 24,311 | Greater London Authority | 29,038 | 25,700 |
| | | **Charges to Collection Fund** | | |
| 577 | 1,032 | Write-offs | 177 | 383 |
| 75 | (71) | Increase/(decrease) in bad debt provision | 307 | 465 |
| 232 | - | Increase in provision for appeals | 3,733 | |
| 268 | - | Cost of collection | 272 | |
| | | **Business Rate supplement** | | |
| 2,210 | - | Payment to Greater London Authority | 2,161 | |
| 8 | - | Cost of Collection | 6 | |
| **83,703** | **142,356** | **Total Expenditure** | **87,317** | **145,892** |
| 916 | 2,169 | Movement in fund balance | (198) | (544) |
| 293 | (2,648) | Net deficit/(surplus) at start of year | 1,209 | (479) |
| **1,209** | **(479)** | **Net deficit/(surplus) carried forward notes 3a & 3b** | **1,011** | **(1,023)** |

**Notes to the Collection Fund Account**

## 1. Income from Council Tax

Council Tax is based partly on the valuation of domestic properties and is partly a Personal Tax with discounts for single occupiers. The Authority set the level of council tax in 2018/19 at £1,658.06 for band D properties. The number of band D equivalent properties in each band making up the council tax base was as follows:

| Band | Number of Band D Equivalent Properties |
|---|---|
| A1 | 2 |
| A | 2,059 |
| B | 5,355 |
| C | 19,445 |
| D | 30,945 |
| E | 16,709 |
| F | 8,608 |
| G | 4,747 |
| H | 582 |
| Allowance for losses in collection 1.25% | (1,106) |
| **Tax Base** | **87,346** |

## 2. Income from Business Rates

Under the arrangements for uniform business rates, the Authority collects Non-Domestic Rates (NNDR) for its area. These are based on local rateable values of £204.0m at 31 March 2019 (£204.4m at 31 March 2018) multiplied by uniform rates for large and small businesses. In 2018/19 the rate was 49.3p for large businesses (47.9p in 2017/18) and 48.0p for small (46.6p in 2017/18). The total amount, less certain reliefs and other deductions, are shared between Central Government, Havering and The Greater London Authority (GLA). In addition to the multiplier used to calculate business rates, all London local authorities are required to collect from businesses with a rateable value in excess of £70,000 an additional 2p supplement, which is payable to the GLA. Under these arrangements the amounts included in these Accounts can be analysed as follows:

2a) Income collectable from Non Domestic Rates

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 94,691 | Gross NNDR due in year | 97,801 |
| (15,569) | Less: allowances and other adjustments | (16,153) |
| **79,122** | **Net NNDR Yield** | **81,648** |

2b) Income collectable from Business Rate Supplement

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 2,434 | Gross Supplement due in year | 2,443 |
| (216) | Less: allowances and other adjustments | (276) |
| **2,218** | **Net Business Rate Surplus Yield** | **2,167** |

In 2013 The London Borough of Havering agreed to enter into a pooling arrangement with the London Borough of Barking and Dagenham, Thurrock Council and Basildon Council. As part of the agreement, a memorandum of understanding was produced to determine how the pools resources would be allocated. From 2018/19 Havering has joined the London Pool and thus the existing pool has been disbanded.

## 3. Collection Fund Surplus / Deficit

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

3a) Council Tax

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| (395) | London Borough of Havering | (837) |
| (85) | Greater London Authority | (186) |
| **(479)** | **(Surplus) / Deficit** | **(1,023)** |

3b) Business Rates

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 363 | London Borough of Havering | 902 |
| 399 | Central Government | (219) |
| 447 | Greater London Authority | 328 |
| **1,209** | **Deficit** | **1,011** |

# Pension Fund Account

# Pension Fund

## Pension Fund Account for the year ended 31 March 2019

| 2017/18 £'000 | | Notes | 2018/19 £'000 |
|---|---|---|---|
| | **Dealings with members, employers and others directly involved in the fund** | | |
| 41,649 | Contributions receivables | 7 | 43,725 |
| 2,654 | Transfers in from other pension funds | 8 | 1,633 |
| 44,303 | | | 45,358 |
| (36,486) | Benefits | 9 | (37,834) |
| (3,808) | Payments to and on account of leavers | 10 | (3,295) |
| (40,294) | | | (41,129) |
| 4,009 | Net additions (withdrawals) from dealings with members | | 4,229 |
| (4,304) | Management expenses | 11 | (5,523) |
| **(295)** | Net additions/(withdrawals) including fund management expenses | | **(1,294)** |
| | **Returns on investments** | | |
| 9,331 | Investment income | 12 | 10,835 |
| - | Taxes on Income | 13 | (4) |
| 26,693 | Profit and losses on disposal of investments and changes in the market value of investments | 14a | 16,746 |
| **36,024** | **Net returns on investments** | | **27,577** |
| **35,729** | Net increase (decrease) in the net assets available for benefits during the year | | **26,283** |
| 671,379 | Opening net assets of the Fund at start of year | | 707,108 |
| **707,108** | **Closing net assets of the Fund at end of year** | | **733,391** |

### Net Asset Statement for the year ended 31 March 2019

| £'000 | | | £'000 |
|---|---|---|---|
| - | Long Term Investments | 14 | 150 |
| 689,295 | Investment Assets | 14 | 719,286 |
| - | Investment Liabilities | 14 | - |
| **689,295** | **Total net investments** | | **719,436** |
| 18,141 | Current Assets | 21 | 14,334 |
| (328) | Current Liabilities | 22 | (379) |
| **707,108** | **Net assets of the Fund available to fund benefits at end of the reporting period** | | **733,391** |

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

# Notes to the Pension Fund

## 1 Description of the Fund

The Havering Pension Fund is part of the Local Government Pension Scheme and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer.

The following description of the scheme is a summary only. For more details on the operation of the Pension Fund, reference should be made to the Havering Pension Fund Annual Report 2018/19 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

### a) General

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

The Local Government Pension Scheme Regulations 2013 (as amended),

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended),

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

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

### b) Membership

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

Organisations participating in the Fund include:

Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Designated bodies, which are non-community schools, whose employer has changed from the Authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non community schools.

During 2018/19 five new employers joined the Fund and two ceased.

There are 49 employer organisations with active members within the Havering Pension Fund including the Authority.

The membership profile is detailed below:

| 31-Mar-18 | | 31-Mar-19 |
|---|---|---|
| **46** | **Number of employers with active members** | **49** |
| | **Number of employees in scheme** | |
| 4,746 | Havering | 4,686 |
| 1,745 | Scheduled bodies | 1,961 |
| 71 | Admitted bodies | 70 |
| **6,562** | **Total** | **6,717** |
| | | |
| | **Number of pensioners and dependants** | |
| 5,769 | Havering | 5,931 |
| 462 | Scheduled bodies | 522 |
| 16 | Admitted bodies | 20 |
| **6,247** | **Total** | **6,473** |
| | | |
| | **Deferred pensioners** | |
| 5,221 | Havering | 5,315 |
| 1,115 | Scheduled bodies | 1,183 |
| 48 | Admitted bodies | 46 |
| **6,384** | **Total** | **6,544** |
| **19,193** | **Total number of members in pension scheme** | **19,734** |

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2019. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Current employer contribution rates range from 17.5% to 38.2% of pensionable pay.

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

### d) Benefits

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

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

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

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

**2 Basis of Preparation**

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year end as at 31 March 2019. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local *Authority Accounting* in *the United Kingdom* 2018/19 "(the Code") which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018/19.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administrating authorities the option to disclose this information in the net asset statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 20.

The accounts have been prepared on a going concern basis.

**3 Summary of Significant Accounting Policies**

**Fund Account – revenue recognition**

**(a) Contribution income**

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

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

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

**(b) Transfers to and from other schemes**

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

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

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement. The date set for the transfer of assets and liabilities is the date it becomes recognised in the fund account.

**(c) Investment Income**

***i) Interest Income***

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

***ii) Dividend Income***

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

***iii) Distribution from Pooled Funds***

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

***iv) Property- Related Income***

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

***v) Movement in the Net Market Value of Investments***

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

**Fund Account – Expense Items**

**(d) Benefits payable**

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

**(e) Taxation**

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

**(f) Management Expenses**

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016).* All items of expenditure are charged to the fund on an accruals basis as follows:

*Administrative Expenses*

All staff costs of the pensions' administration team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

*Oversight and Governance Costs*

All staff costs associated with governance and oversight are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

*Investment Management Expenses*

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11a and grossed up to increase the change in value of investments

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

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

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

**(g) Lifetime Allowances**

Members are entitled to request the Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduced pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

**Net Assets Statement**

**(g) Financial Assets**

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

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

**(h) Foreign Currency Transactions**

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

**(i) Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes

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

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

**(j) Cash and Cash Equivalents**
Cash comprises cash in hand (Fund's Bank account) and includes amounts held by the Fund's external managers.

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

**(k) Financial Liabilities**
A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised by the fund account as part of the change in value of investments.

**(l) Actuarial Present Value of Promised Retirement Benefits**
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standards (IAS) 19 and relevant actuarial standards.

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

**(m) Additional Voluntary Contributions**
The Fund provides an additional voluntary contributions (AVC) scheme for it members, the assets of which are invested separately. The Fund has appointed Prudential and Standard Life as their AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

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

**(n) Contingent assets and contingent liabilities**
A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

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

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

## 4 Critical Judgements in Applying Accounting Policies

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

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

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment in the forthcoming year are as follows

| Item | Uncertainties | Effect if Actual Results differ from Assumptions | Approximate monetary amount (£m) |
|---|---|---|---|
| Actuarial present value of promised retirement benefits (Note 20) | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, and expected returns on Fund's assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied | The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant.<br>Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows:<br>0.5% decrease in the real discount rate could result in an increase of 10%<br>0.5% increase in salary increase rate could result in an increase of 1%<br>0.5% increase in the pension increase rate could result in an increase of 8% | <br><br><br><br>129<br>16<br>105 |

## 6 Events after the Reporting Date

*Ending of the UK's Membership of the European Union*
Following the above, there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK.

It is too early to estimate the impact on the financial statements, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations. For the purposes of these financial statements, the Referendum is considered a non-adjusting event.

## 7 Contributions Receivable

**By category**

| 2017/18 £'000 | | 2018/19 £000 |
|---|---|---|
| | **Employees' contributions** | |
| | **Normal:** | |
| 5,292 | Havering | 5,482 |
| 1,533 | Scheduled Bodies | 1,641 |
| 92 | Admitted Bodies | 83 |
| | **Additional contributions:** | |
| 19 | Havering | 13 |
| 4 | Scheduled bodies | - |
| **6,940** | **Total Employees' Contribution** | **7,219** |
| | **Employers' contributions** | |
| | **Normal:** | |
| 12,608 | Havering | 12,930 |
| 6,073 | Scheduled bodies | 6,494 |
| 370 | Admitted bodies | 346 |
| | **Deficit funding:** | |
| 14,303 | * Havering | 16,220 |
| | **Augmentation** | |
| 715 | Havering | 324 |
| 633 | Scheduled bodies | 192 |
| 7 | Admitted bodies | - |
| **34,709** | **Total Employers' Contributions** | **36,506** |
| **41,649** | **Total Contributions Receivable** | **43,725** |

*The £16.220m deficit funding in 2018/19 reflects additional contributions made by the Authority to the Pension Fund. It consists of £11.150m secondary contributions and £5.070m in voluntary planned contributions.

**By authority**

| 2017/18 £'000 | | 2018/19 £000 |
|---|---|---|
| 32,937 | Havering | 34,969 |
| 8,243 | Scheduled bodies | 8,327 |
| 469 | Admitted Bodies | 429 |
| **41,649** | **Total Contributions Receivable** | **43,725** |

## 8 Transfers in from Other Pension Funds

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 2,654 | Individual transfers | 1,633 |
| **2,654** | **Transfers In from Other Pension Funds** | **1,633** |

## 9 Benefits Payable

**By category**

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| | **Pensions** | |
| 28,306 | Havering | 29,702 |
| 1,169 | Scheduled Bodies | 1,222 |
| 637 | Admitted Bodies | 648 |
| **30,112** | **Pension Total** | **31,572** |
| | | |
| | **Commutation and Lump Sum Retirements** | |
| 4,328 | Havering | 4,823 |
| 864 | Scheduled Bodies | 501 |
| 247 | Admitted Bodies | 250 |
| **5,439** | **Commutation and Lump Sum Retirements Total** | **5,574** |
| | | |
| | **Lump Sum Death Benefits** | |
| 831 | Havering | 477 |
| 104 | Scheduled Bodies | 165 |
| - | Admitted Bodies | 46 |
| **935** | **Lump Sum Death Benefits Total** | **688** |
| **36,486** | **Total Benefits Payable** | **37,834** |

**By authority**

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 33,465 | Havering | 35,002 |
| 2,137 | Scheduled bodies | 1,888 |
| 884 | Admitted Bodies | 944 |
| **36,486** | **Total Benefits Payable** | **37,834** |

## 10 Payments To and On Account of Leavers

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 46 | Refunds to members leaving service | 120 |
| 3,762 | Individual transfers | 3,175 |
| **3,808** | **Payments to and on Account of Leavers** | **3,295** |

At the year end there are potential liabilities of a further £0.562m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (See Note 26).

## 11 Management Expenses

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 532 | Administrative Costs | 801 |
| 3,346 | Investment Management Expenses | 4,303 |
| 403 | Oversight and Governance Costs | 399 |
| 18 | Oversight and Governance Costs - External Audit costs | 16 |
| 5 | Local Pension Board | 4 |
| **4,304** | **Management Expenses** | **5,523** |

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

The investment management expenses above includes £0.076m (2017/18 £0.096m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.358m in respect of transaction costs (2017/18 £0.122m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14).

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

## 11a. Investment Management Expenses

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 3,188 | Management Fees | 3,895 |
| 16 | Performance measurement fees | 27 |
| 20 | Custody fees | 23 |
| 122 | Transaction costs | 358 |
| **3,346** | **Investment Management Expenses** | **4,303** |

## 12 Investment Income

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 3,577 | Pooled Investments - unit trusts and other managed funds | 4,841 |
| 3,260 | *Income from Bonds | 3,514 |
| 2,238 | Pooled Property Investments | 1,960 |
| 140 | Income form Derivatives (Foreign Exchange Gains/(losses)) | 289 |
| 113 | Interest on Cash Deposits | 149 |
| 3 | Other Income | 82 |
| **9,331** | **Investment Income** | **10,835** |

* Income includes Index linked Interest of £0.126m (2018/19 £0.161m).

## 13 Taxes on Income

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| - | Withholding Tax | (4) |
| **-** | **Taxes on Income** | **(4)** |

## 14 Analysis of Investments

| 2017/18 £000 | | 2018/19 £000 |
|---:|---|---:|
| | **Investment Assets** | |
| - | **Long Term Investments** | 150 |
| **-** | | **150** |
| | **Bonds - Fixed Interest Securities** | |
| 15,322 | UK Public Sector quoted | 13,901 |
| 68,806 | UK Corporate quoted | 76,084 |
| **84,128** | | **89,985** |
| | **Bond - Index-Linked Securities** | |
| 30,857 | UK Public Sector quoted | 30,150 |
| 2,213 | UK Corporate quoted | 2,936 |
| 2,053 | Overseas Public Sector quoted | - |
| **35,123** | | **33,086** |
| | **Equities** | |
| - | UK Quoted | 96 |
| **-** | | **96** |
| | **Derivative Contracts** | |
| 18 | Forward Currency Contracts | - |
| **18** | | **-** |
| | **Pooled Investment** | |
| 524,615 | UK Unit trusts - Quoted | 493,040 |
| 152 | UK Unit Trusts - Unquoted | - |
| - | Overseas Other unit trusts - Unquoted | 36,097 |
| 40,796 | UK Pooled property investments -Unquoted | 42,109 |
| - | Overseas pooled Property investments - Unquoted | 13,046 |
| **565,563** | | **584,292** |
| 3,215 | Cash deposits Managers | 10,505 |
| 68 | Amounts receivable for sales | - |
| 1,172 | Investment income due | 1,318 |
| 8 | Outstanding Dividend and Recoverable Withholding Tax | 4 |
| **4,463** | | **11,827** |
| **689,295** | **Total Investment Assets** | **719,436** |
| | **Investment Liabilities** | |
| **-** | **Total Investment Liabilities** | **-** |
| **689,295** | **Total Net Investments** | **719,436** |

## 14a. Reconciliation of movements in investments and derivatives

| | Market Value at 1 April 2018 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in Market Value during the year | *Cash & Other Movements | Market Value at 31 March 2019 |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Equities | - | 84 | - | (10) | 22 | 96 |
| Fixed Interest Securities | 84,128 | 25,991 | (21,565) | 1,431 | - | 89,985 |
| Index-linked Securities | 35,123 | 8,412 | (12,290) | 1,841 | - | 33,086 |
| Pooled Investment Vehicles | 565,563 | 79,680 | (74,278) | 13,499 | (22) | 584,442 |
| Derivatives – forward currency contracts | 18 | 86,021 | (86,021) | (18) | - | - |
| Cash Deposits (fund managers) | 3,215 | - | - | 3 | 7,287 | 10,505 |
| | **688,047** | **200,188** | **(194,154)** | **16,746** | **7,287** | **718,114** |
| Other Investment Balances | 1,248 | - | - | - | 74 | 1,322 |
| | **689,295** | **200,188** | **(194,154)** | **16,746** | **7,361** | **719,436** |

| | Market Value at 1 April 2017 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in Market Value during the year | Cash & Other Movements | Market Value at 31 March 2018 |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Fixed Interest Securities | 78,972 | 34,803 | (27,813) | (385) | (1,449) | 84,128 |
| Index-linked Securities | 36,940 | 17,293 | (20,533) | (26) | 1,449 | 35,123 |
| Pooled Investment Vehicles | 539,237 | 22,094 | (22,917) | 27,149 | - | 565,563 |
| Derivatives – forward currency contracts | 63 | 2,007 | (2,007) | (45) | - | 18 |
| Cash Deposits (fund managers) | 2,039 | - | - | - | 1,176 | 3,215 |
| | **657,251** | **76,197** | **(73,270)** | **26,693** | **1,176** | **688,047** |
| Other Investment Balances | 1,257 | **0** | **0** | **0** | **(9)** | 1,248 |
| | **658,508** | **76,197** | **(73,270)** | **26,693** | **1,167** | **689,295** |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £0.358m (2017/18 £0.122m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2019 were as follows:

**14b. Investments analysed by Fund Manager**

| Value 31 March 2018 | | Manager | Mandate | Value 31 March 2019 | |
|---|---|---|---|---|---|
| £000 | % | | | £000 | % |
| **Investments managed by London CIV asset Pool:** | | | | | |
| | | London CIV | Equities Unquoted | 150 | 0.02 |
| | | Ruffer | Pooled Absolute Return Fund | 94,692 | 13.16 |
| | | Baillie Gifford | Pooled Global Alpha Growth Fund | 138,095 | 19.20 |
| | | Baillie Gifford | Pooled Diversified Growth Fund | 87,740 | 12.20 |
| **309,837** | **44.95** | London CIV | Pooled Global equities | - | - |
| **309,837** | **44.95** | | | **320,677** | **44.58** |
| **PLUS Life Fund Investments aligned with London CIV asset pool:** | | | | | |
| 98,879 | 14.34 | Legal & General Investment Management | Passive UK/Global Equities/ Emerging Markets | 132,172 | 18.37 |
| **408,716** | **59.29** | **London CIV Total** | | **452,849** | **62.95** |
| **Investments managed outside of the London CIV asset Pool:** | | | | | |
| 131,077 | 19.02 | Royal London | Investment Grade Bonds | 135,062 | 18.77 |
| 40,796 | 5.92 | UBS | Pooled Property | 43,541 | 6.05 |
| 108,696 | 15.77 | GMO Global Real Return (UCITS) Fund | Pooled Multi Asset | 34,450 | 4.79 |
| - | - | CBRE | Global Pooled Property | 13,422 | 1.87 |
| - | - | Stafford Capital | Overseas Pooled Infrastructure | 7,791 | 1.08 |
| - | - | JP Morgan | Overseas Pooled Infrastructure | 29,241 | 4.06 |
| | | Churchill | Overseas Pooled Private Debt | 3,072 | 0.43 |
| 10 | 0.00 | Other | Other | 8 | 0.00 |
| **280,579** | **40.71** | | | **266,587** | **37.05** |
| **689,295** | **100.00** | **Total Fund** | | **719,436** | **100.00** |

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

| Market Value 31-Mar-18 | % of total fund | Security | Market Value 31-Mar-19 | % of total fund |
|---|---|---|---|---|
| £000 | % | | £000 | % |
| 126,973 | 18.00 | London CIV Global Alpha Fund | 138,095 | 19.20 |
| 95,216 | 13.00 | London CIV Ruffer Absolute Return Fund | 94,692 | 13.16 |
| 87,498 | 12.00 | London CIV Diversified Growth Fund | 87,740 | 12.20 |
| 49,393 | 7.00 | LGIM All World Equity Index | 54,689 | 7.60 |
| 49,486 | 7.00 | LGIM FTSE RAFI AW 3000 Index | 52,717 | 7.33 |
| 40,796 | 6.00 | UBS Property | 42,109 | 5.85 |
| 108,696 | 15.00 | GMO Global Real Return (UCITS) Fund | - | - |

## 14c. Stock Lending

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

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

All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2019, the value of quoted equities on loan was £97.6m (£75.7m 31 March 2018 ) These equities continue to be recognised in the fund's financial statements.

## 15 Analysis of derivatives

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

**Forward foreign currency**
The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Royal London. A breakdown of forward contracts held by the Fund as at 31 March 2019 and prior year is shown below:

| Settlement | Currency Bought | Local Value | Currency Sold | Local Value | Asset Value (Unrealised Gain) | Liability Value (Unrealised Loss) |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Gross open forward currency contracts at 31 March 2019** | | | | | - | - |
| **Net forward currency contracts at 31 March 2019** | | | | | - | - |
| **Prior year comparative** | | | | | | |
| **Gross open forward currency contracts at 31 March 2018** | | | | | 18 | - |
| **Net forward currency contracts at 31 March 2018** | | | | | 18 | - |

## 16 Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market based information. There has been no change in the valuation techniques used during the year.

| Description of asset | Value hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| **Market quoted investments** | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| **Pooled quoted investments** | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| **Quoted bonds** | Level 1 | Fixed interest securities are valued at a market value based on current yields | Not required | Not required |
| **Forward foreign exchange derivatives** | Level 2 | Market forward exchange rates at the year-end | Exchange rate risk | Not required |
| **UK Pooled instruments property funds** | Level 3 | Valuations carried out by the property funds external valuers, Knight Frank LLP | Market value in accordance with the "RICS" Appraisal and Valuation standards | Valuations could be affected by significant differences in rental value and rental growth |
| **Oversea Pooled instruments property funds** | Level 3 | The valuation function is performed by the Alternative Investment Fund Manager (AIFM) in accordance with the AIFMD | A Pricing Committee, composed of senior members of the AIFM, is in place, who meet quarterly and is responsible for overseeing proposed adjustments to the value of investments | Valuations could be affected by significant differences in rental value and rental growth. There may be a timing difference between the date of the last reported underlying property valuation and the date of the Funds financial statements, during which the underlying property valuation may have increased or decreased by a significant amount |

### 16 Fair Value Basis of Valuation continued

**Sensitivity of assets valued at level 3**
Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

| | Assessed valuation range (+/-) | Value at 31 March 2019 | Value on increase | Value on decrease |
|---|---|---|---|---|
| | % | £000 | £000 | £000 |
| **Pooled Investments – Property funds** | 3.40 | 55,155 | 57,030 | 53,280 |

### 16a. Fair Value Hierarchy
Asset and Liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1**
Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

**Level 2**
Where quoted market prices are not available or where valuation techniques are used to determine fair value based on observable data.

**Level 3**
Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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

| | Quoted Market price | Using observable inputs | With significant unobservable inputs | |
|---|---|---|---|---|
| **Values at 31 March 2019** | **Level 1 £000** | **Level 2 £000** | **Level 3 £000** | **Total £000** |
| **Financial Assets** | | | | |
| Financial assets at fair value through profit and loss | 616,207 | 36,247 | 55,155 | 707,609 |
| Loans and receivables | 26,161 | - | - | 26,161 |
| **Total Financial Assets** | **642,368** | **36,247** | **55,155** | **733,770** |
| **Financial Liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | (379) | - | - | (379) |
| **Total Financial Liabilities** | **(379)** | **-** | **-** | **(379)** |
| **Net Financial Assets** | **641,989** | **36,247** | **55,155** | **733,391** |

### 16a. Fair Value Hierarchy continued

| | Quoted Market price | Using observable inputs | With significant unobservable inputs | |
|---|---|---|---|---|
| **Values at 31 March 2018** | **Level 1 £000** | **Level 2 £000** | **Level 3 £000** | **Total £000** |
| **Financial Assets** | | | | |
| Financial assets at fair value | 643,884 | 152 | 40,796 | 684,832 |
| Loans and receivables | 22,604 | - | - | 22,604 |
| **Total Financial Assets** | **666,488** | **152** | **40,796** | **707,436** |
| **Financial Liabilities** | | | | |
| Financial liabilities at fair value | (328) | | | (328) |
| **Total Financial Liabilities** | | | | |
| **Net Financial Assets** | **666,160** | **152** | **40,796** | **707,108** |

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

### 16b. Reconciliation of Fair Value Measurement within Level 3

| | Market Value 31 March 2018 | Transfer In/Out of Level 3 | Purchases | Sales | Unrealised gains/losses | Realised gains/losses | Market Value 31 March 2019 |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Property Funds | 40,796 | - | 13,301 | (18) | 1,076 | - | 55,155 |
| **Total** | **40,796** | - | **13,301** | **(18)** | **1,076** | - | **55,155** |

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account

## 17 Financial Instruments

### (a) Classification of financial instruments

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

| 31-Mar-18 | | | | 31-Mar-19 | | |
|---|---|---|---|---|---|---|
| **Fair value through profit and loss** | **Assets at amortised cost** | **Liabilities at amortised cost** | | **Fair value through profit and loss** | **Assets at amortised cost** | **Liabilities at amortised cost** |
| **£000** | **£000** | **£000** | | **£000** | **£000** | **£000** |
| | | | **Financial Assets** | | | |
| - | - | - | Long Term Investments | 150 | - | - |
| - | - | - | Equities | 96 | - | - |
| 84,128 | - | - | Bonds -Fixed Interest Securities | 89,985 | - | - |
| 35,123 | - | - | Bonds - Index linked securities | 33,086 | - | - |
| 18 | - | - | Derivative contracts | - | - | - |
| 524,767 | - | - | Pooled investment Vehicles | 529,137 | - | - |
| 40,796 | - | - | Property | 55,155 | - | - |
| - | 3,215 | - | Cash | - | 10,505 | - |
| - | 1,248 | - | Other Investment Balances | - | 1,322 | - |
| - | 18,141 | - | Debtors | - | 14,334 | - |
| **684,832** | **22,604** | **-** | **Financial Assets Total** | **707,609** | **26,161** | **-** |
| | | | **Financial Liabilities** | | | |
| - | - | - | Other Investment Balances | - | - | - |
| - | - | (328) | Creditors | - | - | (379) |
| **-** | **-** | (328) | **Financial Liabilities Total** | **-** | **-** | **(379)** |
| **684,832** | **22,604** | **(328)** | **Grand total** | **707,609** | **26,161** | **(379)** |
| | **707,108** | | | | **733,391** | |

### (b) Net Gains and Losses on Financial Instruments

| **2017/18 £000** | | **2018/19 £000** |
|---|---|---|
| | **Financial assets** | |
| 26,693 | Fair value through profit and loss | 16,746 |
| **26,693** | **Total** | **16,746** |

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

## 18 Nature and Extent of Risks Arising from Financial Instruments

**Risk and Risk Management**

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

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

**(a) Market Risk**

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

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

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

**Other Price Risk**

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

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

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

**Other Price Risk – Sensitivity Analysis**

Following analysis of historical data and expected investment return movements during the financial year, in consultation with Pensions & Investments Research Consultants (PIRC) , it has been determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period:

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

| Asset Type | Value as at 31 March 2019 £000 | Potential market movements % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Equities | 96 | 10.10 | 106 | 86 |
| Total Bonds | 123,071 | 8.90 | 134,023 | 112,067 |
| Global Pooled inc.UK | 529,287 | 6.10 | 561,574 | 497,001 |
| Property | 55,155 | 3.40 | 57,030 | 53,280 |
| Cash | 10,505 | 0.50 | 10,558 | 10,453 |
| **Total** | **718,114** | | **763,291** | **672,887** |

| Asset Type | Value as at 31 March 2018 £000 | Potential market movements % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Fixed Interest Bonds | 84,128 | 8.12 | 92,526 | 78,628 |
| Index linked Bonds | 35,123 | 14.01 | 38,392 | 28,956 |
| Global Pooled inc.UK | 524,767 | 4.74 | 549,641 | 499,893 |
| Property | 40,796 | 3.65 | 42,285 | 39,307 |
| Cash | 3,215 | 0.00 | 3,215 | 3,215 |
| **Total** | **688,029** | | **726,059** | **649,999** |

**Interest Rate Risk**

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

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

**Interest Rate Risk Sensitivity Analysis**

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

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

| Assets exposed to interest rate risk | Value as at 31 March 2019 | Potential movement on 1% change in interest rates | Value on increase | Value on Decrease |
|---|---|---|---|---|
| | £000 | | £000 | £000 |
| Bond Securities | 123,071 | 1,231 | 124,301 | 121,839 |
| Cash and Cash Equivalents | 10,505 | 105 | 10,610 | 10,400 |
| Cash Balances | 13,698 | 137 | 13,836 | 13,562 |
| **Total Change in Asset Value** | **147,274** | **1,473** | **148,747** | **145,801** |

| Assets exposed to interest rate risk | Value as at 31 March 2018 | Potential movement on 1% change in interest rates | Value on increase | Value on Decrease |
|---|---|---|---|---|
| | £000 | | £000 | £000 |
| Bond Securities | 119,252 | 1,193 | 120,444 | 118,059 |
| Cash and Cash Equivalents | 3,215 | 32 | 3,246 | 3,183 |
| Cash Balances | 17,658 | 177 | 17,835 | 17,480 |
| **Total Change in Asset Value** | **140,125** | **1,402** | **141,525** | **138,722** |

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

**Currency Risk**

Currency risk represents the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling.

**Currency Risk - Sensitivity Analysis**

Following analysis of historical data in consultation with Pensions & investments Research Consultants (PIRC) it has been determined that a likely volatility associated with foreign exchange rate movements is 8.9% over a rolling 36 month period.

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

A 8.9% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

**Currency Risk – Sensitivity Analysis**

| Assets exposed to currency risk | Value as at 31 March 2019 | Potential Market movement | Value on increase | Value on Decrease |
|---|---|---|---|---|
| | £000 | 8.90% | £000 | £000 |
| Overseas Pooled | 49,143 | 4,374 | 53,517 | 44,769 |
| Overseas Cash | 770 | 69 | 839 | 701 |
| **Total change in assets available to pay benefits** | **49,913** | **4,443** | **54,356** | **45,470** |

| Assets exposed to currency risk | Value as at 31 March 2018 | Potential Market movement | Value on increase | Value on Decrease |
|---|---|---|---|---|
| | £000 | 12.29% | £000 | £000 |
| Overseas Index Linked Bonds | 2,053 | 252 | 2,306 | 1,801 |
| Overseas Cash | 1 | - | - | - |
| **Total change in assets available to pay benefits** | **2,054** | **252** | **2,306** | **1,801** |

**(b) Credit Risk**

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

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

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

**(C) Liquidity Risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments. The Fund's cash holding under its treasury management arrangements as at 31 March 2019 was £13.69m (31 March 2018 £17.66m).The Pension Fund has immediate access to its cash holdings that are invested by the Authority and periodic cash flow forecasts are prepared to manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's cash management policy and in line with the Fund's investment strategy holds assets that are considered readily realised.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2019 the value of liquid assets was £642m, which represented 88% of the total Fund (31 March 2018 £666m, which represented 94% of the total fund assets).

### (d) Refinancing Risk

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

## 19 Funding Arrangements

### Actuarial Statement for 2018/19

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

### Description of Funding Policy

The Funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS) dated March 2017 (updated November 2018). In summary, the key funding principles are as follows:

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

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

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £573 million, were sufficient to meet 67% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £284 million.

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

**Principal Actuarial Assumptions and Method used to value the liabilities**

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

**Method**

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

**Assumptions**

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

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

| **Financial assumptions** | **31-Mar-16 %** |
|---|---|
| Discount Rate for Period | 4.0 |
| Salary increases assumption | 2.4 |
| Benefit increase assumption (CPI) | 2.1 |

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

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

** Aged 45 at the 2016 Valuation*

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

**Experience over the period since 31 March 2018**

Since the last formal valuation, real bonds yields have fallen placing a higher value on the liabilities. This has been offset by strong asset returns over the period such that the funding level is broadly unchanged since 31 March 2016.

The next actuarial valuation will be carried out as at 31 March 2019.

## 20 Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, but taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future. In order to assess the value of benefits on this basis, the actuary has updated the actuarial assumption(set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS19.

| 31-Mar-18 | Year Ended | 31-Mar-19 |
|---:|---|---:|
| **£m** | | **£m** |
| 1,226 | Present Value of Promised Retirement Benefits * | 1,344 |
| 707 | Fair Value of Scheme assets (bid Value) | 733 |
| **519** | **Net Liability** | **611** |

* Incorporates an allowance for the potential increase in liabilities arising from the McCloud judgement and GMP indexation

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

### Assumptions

The assumptions used are those adopted for the Administering Authority’s IAS19 report and are different as at 31 March 2019 and 31 March 2018. It is estimated that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £71m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

### Financial assumptions

The actuary's recommended financial assumptions are summarised below:

| Year Ended (% p.a) | 31-Mar-19 | 31-Mar-18 |
|---|---|---|
| | % p.a. | % p.a. |
| Pension Increase Rate | 2.5 | 2.4 |
| Salary Increase Rate | 2.8 | 2.7 |
| Discount Rate | 2.4 | 2.5 |

### Longevity assumption

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

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

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

### Commutation assumption

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

### Sensitivity Analysis

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

| Sensitivity to the assumptions for the year ended 31 March 2019 | Approximate % increase to liabilities | Approximate monetary amount (£m) |
|---|---|---|
| 0.5% p.a. increase in the Pension Increase Rate | 8% | 105 |
| 0.5% p.a. increase in the Salary Increase Rate | 1% | 16 |
| 0.5% p.a. decrease in the Real Discount Rate | 10% | 129 |

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

### Professional notes

These notes accompany the covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliance and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

## 21 Current Assets

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| | **Debtors:** | |
| 294 | Contributions due from employers | 372 |
| 80 | Contributions due from employees | 100 |
| 104 | Pension Fund Bank Account Balances | 211 |
| 29 | Sundry Debtors | 26 |
| 17,634 | Cash deposit with LB Havering | 13,625 |
| **18,141** | **Current Assets** | **14,334** |

| 2017/18 £000 | Analysis of Debtors | 2018/19 £000 |
|---|---|---|
| 294 | Public corporation and trading funds | - |
| 80 | Other entities and individuals | - |
| **374** | **Total Debtors** | **-** |

## 22 Current Liabilities

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| | **Creditors:** | |
| (84) | Benefits Payable | (120) |
| (164) | Sundry Creditors | (122) |
| (80) | Holding Accounts | (137) |
| **(328)** | | **(379)** |

| 2017/18 £000 | Analysis of Creditors | 2018/19 £000 |
|---|---|---|
| (328) | Other entities and individuals | - |
| **(328)** | **Total** | **-** |

## 23 Additional Voluntary Contributions

| Market Value 2017/18 £000 | AVC Provider | Market Value 2018/19 £000 |
|---|---|---|
| 810 | Prudential | 788 |
| 167 | Standard Life | 134 |

Some employees made additional voluntary contributions (AVC's) of £35,004 (2017/18 £47,519) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2018/19 were £32,604 (2017/18 £40,744) to the Prudential and £2,400 (2017/18 £6,775) to Standard Life.

## 24 Agency Services

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 1,380 | Payments on behalf of Havering Council | 1,380 |

## 25 Related Party Transactions

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

The Havering Pension Fund is administering by Havering Council and consequently there is a strong relationship between the Authority and the Pension Fund. In 2018/19, £0.710m was paid to the Authority for the cost of administrating the Fund (2017/18 £0.450m).

The Authority is also the largest employer in the Fund and in 2018/19 contributed £29.150m (17/18 £26.911m) to the Pension Fund in respect of employer's contributions. All monies owing to and due from the fund were paid in year.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of Havering Council, through a service level agreement. As at 31 March 2019 cash holdings totalled £13.7m (2017/18 £17.7m), earning interest over the year of £0.148m (2017/18 £0.113m).

### Governance

Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer and the Managing Director of oneSource.

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

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

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

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

## 25a Key Management Personnel

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 244. This applies in equal measure to the accounts of the Havering Pension Fund.

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

## 26 Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2019 were £91.35m. (31 March 2018: none). These commitments relate to outstanding capital call payments due on unquoted limited partnership funds held in Private Debt and Infrastructure parts of the portfolio.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. As mentioned in Note 10 there are potential liabilities of £0.562m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

Two admitted bodies in the Pension Fund hold insurance bonds or guarantees in place to guard against the possibility of being unable to meet their pension obligations. These bonds total £1.14m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Two admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £0.16m.

# Glossary

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

(i) recognising

(ii) selecting measurement bases for, and

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

Accounting policies do not include estimation techniques.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Depreciation** The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technological or other changes.

**Earmarked Reserves** Amounts earmarked to fund known items of anticipated expenditure for which the liability is not chargeable to the current year's Accounts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Retirement benefit costs (past service costs, settlements and curtailments)
- Unused share of IT facilities

The costs of shares of long term unused but unrealisable assets.

**oneSource** A partnership between the London Boroughs of Bexley, Havering and Newham through a joint-committee arrangement to deliver support services. This will release resources to be applied to the protection of front-line services.

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

**Operating Lease** A lease other than a finance lease, i.e. a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

**Outturn** The actual level of expenditure and income for the financial year.

**Post Balance Sheet Events** Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts are approved for issue by the Chief Operating Officer

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

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

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

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

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

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

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

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

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

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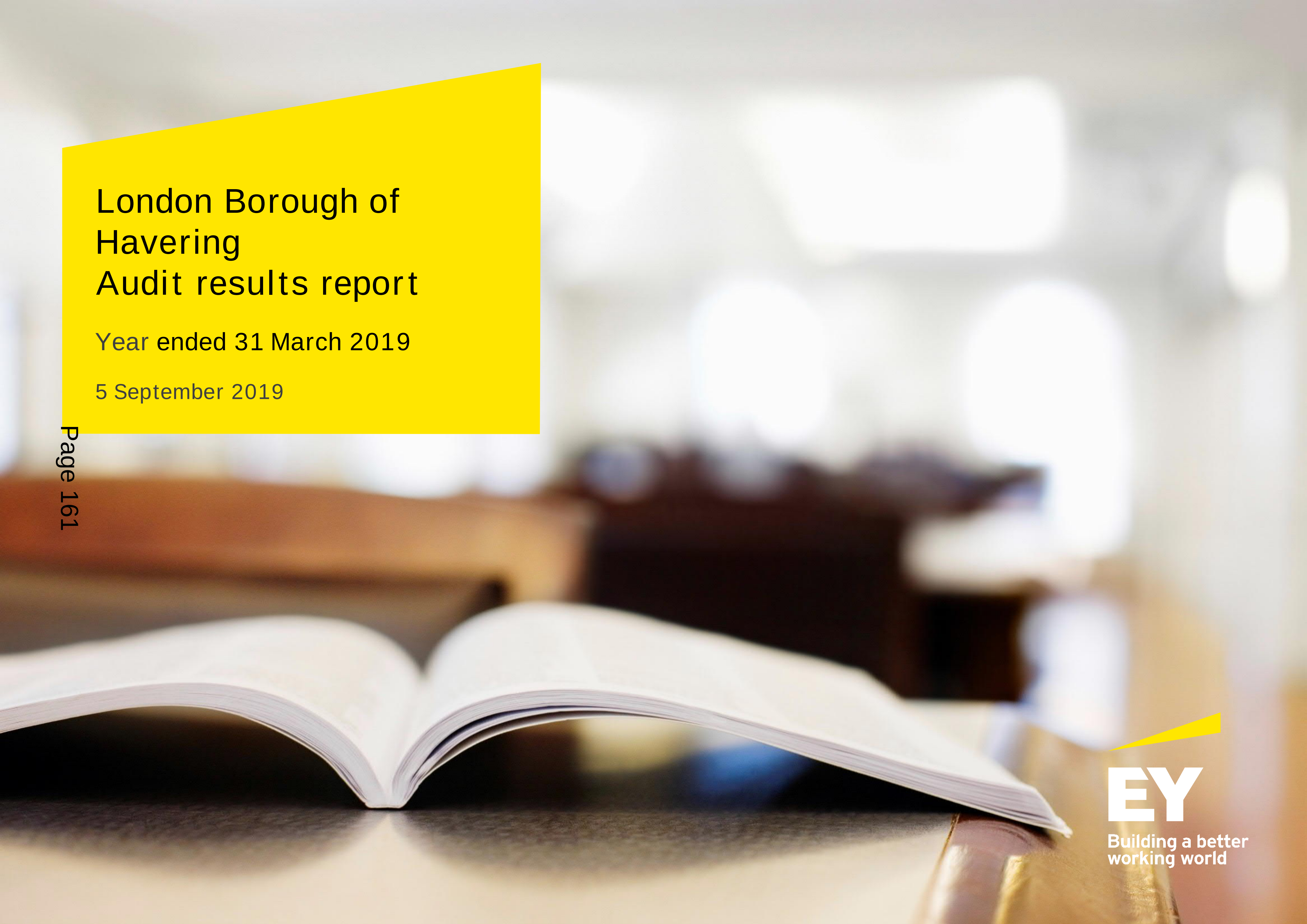


# London Borough of Havering
# Audit results report

Year ended 31 March 2019

5 September 2019

Private and Confidential

5 September 2019

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Havering Council for 2018/19. Our audit of the Council for the year ended 31 March 2019 is well progressed, but there are a number of areas of our work which remain in progress, in particular in relation to our testing of debtors, creditors and expenditure.

Subject to concluding our work in relation to these matters, and the other outstanding matters listed in our report, we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3.

This report is intended solely for the use of the Audit Committee, other members of the Council and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 5 September 2019.

Yours sincerely

Debbie Hanson

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents






Page 163

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The “Terms of Appointment (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to Audit Committee and management of Havering Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Havering Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Havering Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

# 01 Executive Summary

# Executive Summary

**Scope update**

In our Audit Planning Report presented to the Audit Committee on 30 January 2019, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this Plan subject to the modifications noted below.

Changes in materiality:

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £8.8 million, with performance materiality at 75% of overall materiality of £6.6 million, and a threshold for reporting misstatements of £0.44 million. This was based on 1.8% of the prior years gross expenditure on provision of services.

We have updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. As a result, we have updated our overall materiality assessment to £10.2 million. This results in updated performance materiality at 75% of overall materiality of £7.7 million. The threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) has increased to £0.51 million.

# Executive Summary

## Status of the audit

Our audit of Havering Council's financial statements for the year ended 31 March 2019 is well progressed and we have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the outstanding matters set out below we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Completion of our testing on employee costs, expenditure, grants, income, and provisions;
- Completion of our testing on debtors and creditors;
- Completing our review of financial instruments and the implementation of the new accounting standard, IFRS 9;
- Completing our work on the Council's Group accounts;
- Completion of pension fund work required to provide assurance over pension disclosures in the Council's financial statements.
- Clearing remaining audit queries;
- Final Associate Partner and Manager review of the completed audit work;
- Reviewing the final version of the financial statements;
- Completing the subsequent events review; and
- Receipt of the signed accounts and management representation letter.

The Council is preparing the whole of government accounts return for submission to HM Treasury and we will perform the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. The deadline for auditor certification of the return is 13 September 2019. We will provide an update to Members on 5 September of our progress in relation to this work.

The audit certificate is issued to demonstrate that the full requirements of the NAO Code of Audit Practice (the Code) have been discharged for the relevant audit year. At this stage we anticipate issuing our audit certificate alongside our auditors report.

# Executive Summary

## Audit differences

During the course of our audit we identified a number of adjusted audit differences. These relate to:

- The accounting treatment of cost associated with the redevelopment and regeneration of the 12 Estates.
- The valuation of a number of items of items of property, plant and equipment.
- A change to the valuation of the pension liability to incorporate the difference between estimates used at the time of producing the draft accounts, and actual results, and incorporation of recent developments particularly relating to the McCloud judgement and issues relating to Guaranteed Minimum Provision.

Further details on the nature and extent of the se changes are provided in Section 4 of our report. We do not deem any other amendments to be so significant that they merit reporting to you.

At the time of writing, there is 1 unadjusted audit difference arising from our audit, which management has chosen not to adjust. These relate to the capitalisation of costs. We ask that a rationale as to why the error has not been corrected be approved by the Council and included in the Letter of Representation. Again, further details as to the nature and extent of these differences are provided in section 4 or our report.



## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Havering Council’s financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

# Executive Summary

## Control observations

We have adopted a fully substantive approach and so have not tested the operation of controls. We have, however, updated our understanding of key processes and the controls which are in place to detect or prevent error. Our testing of property, plant and equipment has identified one matter that we wish to bring to your attention, and which we believe has contributed to a material misstatements within the draft financial statements. Further details of this are set out on page 32.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified no significant risks.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Page 168

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have also reviewed the Narrative Report for consistency with our knowledge and consistency with the financial statements. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have no other matters to report.

## Independence

Please refer to Section 8 for our update on Independence. We have no independence issues to bring to your attention.

# 02 Areas of Audit Focus

# Significant risk

## Misstatements due to fraud or error

Page 170

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

Significant Risk

### What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias, including the appropriateness of manual journals, including journals posted in periods 12 and 13; evaluation of any significant transactions outside the normal course of business, or those that appear unusual; and review of accounting estimates for bias.

### What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks;
- Understood the oversight given by those charged with governance of management's processes over fraud; and
- Considered of the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Assessed accounting estimates for evidence of management bias; and
- Confirmed there were no significant unusual transactions.

In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the incorrect capitalisation of revenue expenditure as set out on the next slide.

### What are our conclusions?

At the time of writing:

- We have not identified any material weaknesses in controls or evidence of material management override;
- We have not identified any instances of inappropriate judgements being applied; and
- We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

However, we are yet to conclude our work on journals. We will update this report and the Committee when the work has been finalised.

# Significant risk

## Misstatements due to fraud or error – incorrect capitalisation of revenue expenditure



### What is the risk?

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

Significant Risk

### What judgements are we focused on?

We focussed on the testing of additions to property, plant and equipment and obtaining evidence that these have been correctly classified as capital expenditure and included at the correct value.

### What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures:

- Sample testing additions to property, plant and equipment to a more granular level to ensure that they have been correctly classified as capital, and included at the correct value, to identify any revenue items that have been inappropriately capitalised; and
- In our Audit Planning Report we also noted that we would test Revenue Expenditure Funded from Capital Under Statute (Refcus) to verify that revenue costs have not been inappropriately financed from capital. We noted that Refcus included within the draft financial statements totalled £6.957 million. Therefore, given the overall level of materiality determined for this audit, we considered that there was no risk of material error with costs accounted for as Refcus.
- Reviewed unusual journal pairings related to capital expenditure posted around the year-end.

### What are our conclusions?

Our testing of additions to property, plant and equipment identified two instances where the costs associated with capital schemes had been incorrectly revalued to zero and a small number of other errors. The impact of these errors was to understate Assets Under Construction by £12.2 million Management has corrected these errors.

As noted on page 10, we are yet to conclude our work on journals. We will update this report and the Committee when this work has been finalised.

# Areas of Audit Focus

## Other areas of audit focus

We identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

| Financial statement area | What we did | What we concluded |
| --- | --- | --- |
| Valuation of Property, Plant & Equipment and Investment Properties – Higher inherent risk<br><br>The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Council's Group accounts, totalling £1.1 billion and £77 million respectively at 31 March 2019.<br><br>These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the Council's balances sheet, management are required to make material judgements and apply estimation techniques. We consider that where assets are valued at either depreciated replacement cost or existing use value, or on the basis of their market value, the judgments and estimates made by management are more likely to have a significant impact on the valuation of the asset; we will therefore focus our work on assets valued on this basis. | In response, we completed the following procedures:<br>• Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;<br>• Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);<br>• Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for Property, Plant and Equipment, and annually for Investment Property. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;<br>• Reviewed assets that are not subject to valuation in 2018/19 to confirm the remaining asset base is not materially misstated;<br>• Considered changes to the useful economic lives as a result of the most recent valuation; and<br>• Tested accounting entries, ensuring these have been correctly processed in the financial statements, | We have considered the work undertaken by the Council's valuer in relation to valuation of property, plant and equipment. We are satisfied that the scope of the work performed by the Council's valuer was adequate, that the valuer is sufficiently independent of the Council, and that they have the necessary skills and skills and experience to undertake the work they were engaged by the Council to do. Our testing identified a small number of instances where assets had been valued incorrectly, as the valuer had not been provided with full details of the circumstances relevant to those assets. The effect of these was to understate the value of property, plant and equipment by £6.3 million. Management has corrected these errors. Further details are provided in Section 4 of our report.<br><br>We are satisfied that the cycle of valuations adopted by the Council is sufficient to ensure that assets are valued within a 5 year rolling programme, and annually for Investment Property.<br><br>We have also reviewed assets that are not subject to valuation in 2018/19, and are satisfied that these would not result in a material misstatement to the asset base.<br><br>We have tested changes to the useful economic lives of assets, and the accounting entries arising from changes in the valuation of assets, and are satisfied these have been accounted for correctly. |

# Areas of Audit Focus

## Other areas of audit focus

| Financial statement area | What we did | What we concluded |
|---|---|---|
| Pension liability valuation<br>The Code of Practice on Local Authority Accounting and The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by London Borough of Havering.<br><br>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet.<br><br>The information disclosed is based on the IAS 19 report issued to the Council by the actuary.<br><br>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. | In response, we completed the following procedures:<br>• Liaised with the auditors of the pension fund (EY LLP) to obtain assurances over the information supplied to the actuary in relation to Havering Council;<br>• Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and<br>• Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.<br>• We also considered the legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. | We have assessed and are satisfied with the competency and objectivity of the Council actuary. EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries and have deemed the assumptions used to be reasonable.<br><br>In testing the Council's pension liability, we noted that the draft financial statements were prepared on the basis of IAS19 data and assumptions taken at December 2018, with a forecast of the 31 March 2019 position. The Council therefore obtained an updated valuation of the pension liability to incorporate the difference between estimates used at the time of producing the draft accounts, and actual results, and incorporation of recent developments particularly relating to the McCloud judgement and issues relating to Guaranteed Minimum Provision.<br><br>Management have corrected this difference within the draft financial statements. The effect of this is to increase the pension liability by £8.2 million, with a corresponding increase in the Pension reserve. This change also increases the deficit recognised within the Comprehensive Income and Expenditure statement. |

# Areas of Audit Focus

## Other areas of audit focus

| Financial statement area | What we did | What we concluded |
|---|---|---|
| Group Financial Statements<br><br>The Council has entered into three Joint Venture arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 housing estates within the Borough.<br><br>The Council will need to consider whether any transactions or balances relating to these joint venture arrangements should be consolidated within its group financial statements, having regard to both the specific nature or circumstances of the joint venture (qualitative criteria) and the relative size of the joint venture to the group (quantitative criteria). | In response, we completed the following procedures:<br>• Considered the Council's assessment of whether these arrangements should be reflected within its group financial statements;<br>• Considered the adequacy of the narrative disclosures made by the Council in relation to these arrangements, including the disclosure of any post balance sheet events. | We are in the process of concluding our work in this area and will update the Audit Committee following the completion of this work. |

# Areas of Audit Focus

Other areas of audit focus

| Financial statement area | What we did | What we concluded |
|---|---|---|
| IFRS 9 financial instruments<br><br>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:<br>• How financial assets are classified and measured;<br>• How the impairment of financial assets are calculated; and<br>• The disclosure requirements for financial assets.<br><br>There are transitional arrangements within the standard and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9. | • Assessed the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;<br>• Considered the classification and valuation of financial instrument assets;<br>• Reviewed new expected credit loss model impairment calculations for assets; and<br>• Checked additional disclosure requirements. | We are concluding our work in this area and will update the Audit Committee following the completion of this work. |
| IFRS 15 Revenue from contracts with customers<br><br>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.<br><br>The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced. | • Assessed the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;<br>• Considered application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and<br>• Checked additional disclosure requirements | Having reviewed the Council's analysis of the impact of IFRS 15 on their financial statements, we agreed with their conclusion that this standard does not have a material impact on their disclosures. |

Page 175

# Areas of Audit Focus

## Other matters

IFRS 16 - Leases

IFRS 16 leaves accounting requirements for lessors largely unchanged with two exceptions: the classification of sub leases and sale and leaseback accounting. For lessees there will be a substantial change in accounting requirements. The current distinction between operating and finance leases will be removed. Instead it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is low value. The changes will have a substantial impact for any local authority with material operating leases and will also impact capital financing arrangements.

Although the changes are not applicable for the 2018/19 financial year, local government clients are still expected to perform a number of IFRS 16 preparation steps in advance of the changes.

The Council also holds operating leases as a lessee, with total value of minimum lease payments over the life of these leases per the financial statements is £0.487 million.

Due to the deferral of the changes to 2020/21, the Council has not yet undertaken substantive work in relation to the implementation of IFRS 16. However, given the relatively small nature of the lease entered into by the Council, we expect the introduction of this standard to have limited impact on the Council.

Other changes

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below.

- The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework), the main elements being 20(19/20 Code Chapter 2.1 refers);
  – new definitions of assets, liabilities, income and expenses
  – updates for the inclusion of the recognition process and criteria and new provisions on derecognition
  – enhanced guidance on measurement bases
- Guidance in the treatment of the Apprenticeship Levy (2019/20 Code Chapter 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (2019/20 Code Chapter 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (2019/20 Code Chapter 9 refers)

# 03 Audit Report

# Draft audit report

## Our opinion on the financial statements

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

Opinion

We have audited the financial statements of London Borough of Havering for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

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

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Havering and Group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.



Basis for opinion

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

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

Conclusions relating to going concern

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

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

# Draft audit report

## Our opinion on the financial statements

Page 179

### Other information

The other information comprises the information included in the Narrative Report set out on pages 1 to 15, other than the financial statements and our auditor's report thereon. The Chief Operating Officer is responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, London Borough of Havering put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

# Draft audit report

## Our opinion on the financial statements

Responsibility of the Section 151 Officer

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 17, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the London Borough of Havering had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Havering put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

# Draft audit report

## Our opinion on the financial statements

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

Page 181

Delay in certification of completion of the audit

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

Use of our report

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


# 04 Audit Differences

# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We highlight the following misstatements which have been corrected by management that were identified during the course of our audit.

Property, Plant & Equipment

As part of our audit we reviewed the accounting treatment applied to the assets associated with the regeneration of the 12 estates. We identified the following



- Costs of £5.5 million associated with the re-development of the 12 estates were classified as council dwelling additions and revalued to zero (on the basis that those costs did not increase the value of the underlying asset). This treatment is incorrect, as the costs should have been accounted for as an asset under construction. Net assets were therefore understated by £5.5 million.

- Napier and New Plymouth tower blocks have been retained in the financial statements at a value of £4.3 million. However, the assets are currently vacant and are scheduled for demolition. consequently the building element of these assets have no future service potential, and should therefore have been impaired; the impact of this error was to overstate net assets by £3.4 million.

- The assets at Sunrise Lodge, Serena Court and Solar Court form part of the 12 estates redevelopment. The land value of these assets (£2.8 million) was omitted from the Council's balance sheet, understating net assets by £2.8 million.

As part of audit, we also tested the revaluation applied to a sample of assets, and identified the following:

- Costs of £7.4 million associated with the new build development at Briar Road were classified as additions to council dwellings and incorrectly revalued to zero. This treatment was incorrect, as the costs associated with this development should have been accounted for as an asset under construction. Net assets were therefore understated by £7.4 million.

- Whybridge Infant School was incorrectly removed from the Council's balance sheet, understating net assets by £2.9 million.

- Old Rainham Library is included in the financial statements at a value of £5.7 million. This value has been calculated on the basis of a 57 unit residential development existing on the site. However, no such development currently exists, and the Council's intention is to sell the site to a property developer, who will undertake the proposed development. Valuation of this asset should therefore reflect the expected receipt to the Council for this asset. Based on the information currently available to us, we consider that the value of this asset is overstated by £3.8 million.

# Audit Differences

## Summary of adjusted differences

- The Queens Theatre was valued on the basis of its Existing Use Value (EUV) basis, using the 25 year lease term. And was valued at £296,000 compared to the previous valuation, which was undertaken on a Depreciated Replacement Cost (DRC) basis of £9,1m. There has been no significant reduction in the service capacity of this asset, and therefore we consider the value of this assets was understated by £8.8 million.

In addition to the matters noted above, we also identified the following:

- Expenditure on Council assets was incorrectly accounted for as REFCUS. REFCUS was therefore overstated, and the value of PPE additions understated, by £1.4 million.

- The valuation of Nason Waters did not consider the valuation of a new extension, understating the value of the asset by £1 million.

The overall impact of the changes noted above increased the value of property, plant and equipment by £25 million, and reduced the value of assets held for sale by £8.8 million. There were corresponding entries to unusable reserves

<u>Pension Fund Liability</u>

- The Council updated its valuation of the pension liability to incorporate the difference between estimates used at the time of producing the draft accounts and actual results, and to incorporate recent developments particularly relating to the McCloud judgement and issues relating to Guaranteed Minimum Provision. The effect of this is to increase the pension liability by £8.2 million, with a corresponding increase in the Pension reserve. This change also increases the deficit recognised within the Comprehensive Income and Expenditure statement

<u>Bad Debt Provision</u>

We noted that the Council had incorrectly calculated the bad debt provision for council tax debtors, understanding the charge to the Collection Fund by £930k, with a corresponding overstatement of the surplus on the Collection Fund. The Council's share of this was £758k.

# Audit Differences

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

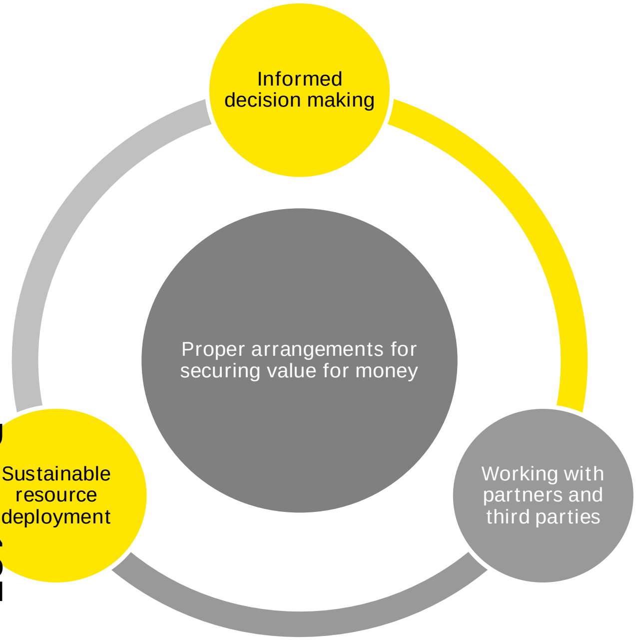
| Uncorrected misstatements [Insert date] 201X (£000) | Effect on the current period: Comprehensive income and expenditure statement Debit/(Credit) | Balance Sheet (Decrease)/Increase Assets current Debit/(Credit) | Assets non current Debit/(Credit) | Liabilities current Debit/(Credit) | Liabilities non-current Debit/(Credit) |
|---|---|---|---|---|---|
| Errors | | | | | |
| Judgemental differences: | | | | | |
| Capital Expenditure not attached to Assets and Revalued to zero | | | | | |
| Balance Sheet: Property, Plant and Equipment: Other Land and Buildings : Additions. | | | 2,700 | | |
| Balance Sheet: Reserves: Revaluation Reserve | | | (2,700) | | |

Page 185

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2019.

# 05 Value for Money Risks

# Value for Money




Page 187

## Background

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

For 2018/19 this is based on the overall evaluation criterion:

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

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

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

## Overall conclusion

In our Audit Plan reported that our value for money risk assessment had not resulted in any significant risks identified at planning stage. We did however note that We would keep our risk assessment under review throughout the audit and will report any additional risks identified to the Audit Committee. During the course of our audit we have continued to monitor developments at the Council, including recent updates to it budget and medium term financial plan, As a result of this work, we did not identify any significant risks and have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

# 06 Other reporting issues

# Other reporting issues

## Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

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

Page 189

## Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We will perform the procedures required and submit the required return in due course, in accordance with the deadline set.

As our audit of the Whole of Government Accounts has not been completed, we will not be able to issue the audit certificate at the same time as the audit opinion, but anticipate issuing by the deadline of 13 September 2019.

# Other reporting issues

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Page 190

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

We have no issues to report.

# 07 Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

Our testing of property, plant and equipment identified a number of audit differences. We have set out the impact of these on page 23 of our report. Individually and cumulatively these were significant, and resulted in a material error to the draft financial statements. We consider that these differences arose as:

- The Council did not appropriately consider the implications of the significant regeneration project being undertaken throughout the Borough on the classification and valuation of the related assets; and
- For a small number of assets, the Council did not inform the valuer of the full facts and circumstances relevant to the valuation of the asset.

# 08 Independence

# Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report presented to the Audit Committee on 30 January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 25 July 2019.

We will ensure that we adopt the necessary safeguards in our completion of this work.

# Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



## Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included below.

We confirm that none of the services listed below have been provided on a contingent fee basis.

As at the date of this report, future non-audit services are limited to certification of the Council's housing benefit subsidy claim, teachers' pension return, and pooling of housing capital receipts return for a fee of £22,500.

There are no other future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirement, although we are planning to undertake some work in August 2019, as outlined previously which will be non-audit work. We will adopt the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

| | Final Fee 2018/19 | Planned Fee 2018/19 | Scale Fee 2018/19 | Proposed Final Fee 2017/18 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Total Audit Fee – Code work | Note 2 | 116,920 | 116,920 | Note 1<br>180,903 |
| Non-audit work | 22,500 | 22,500 | N/A | 15,080 |

Page 196

Note 1 - We have proposed a variation of £29,059 to the scale fee of £151,844 to reflect the additional work undertaken to test the valuation of property, plant and equipment, the Council's group financial statements, and other significant risks identified during the course of our audit. We have provided Officers with detail of the proposed fee and are currently in the process of seeking their agreement to this prior to requesting approval from PSAA Ltd.

Note 2 - We have undertaken additional work in relation our significant risks, and identified a number of significant audit differences in relation to the valuation and classification of property, plant and equipment. We have yet to conclude our 2018/19 audit and are therefore not in a position to conclude on the final fee for 2019/19. Any fee increases will be discussed with management and need to be approved by PSAA.

# 09 Appendices

# Audit approach update

We summarise below our approach to the audit of the balance sheet.

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

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

| Net Assets Statement category | Audit Approach in current year |
|---|---|
| Property, plant and equipment, including investment properties | Substantively tested all relevant assertions |
| Short term and long term investments | Substantively tested all relevant assertions |
| Short term and long term borrowing | Substantively tested all relevant assertions |
| Long term debtors | Substantively tested all relevant assertions |
| Long term investment in subsidiaries and joint ventures | Substantively tested all relevant assertions |
| Current assets (excluding cash) | Substantively tested all relevant assertions |
| Cash and cash equivalents | Substantively tested all relevant assertions |
| Short term creditors | Substantively tested all relevant assertions |
| Other long term liabilities | Substantively tested all relevant assertions |
| Long term provisions | Substantively tested all relevant assertions |
| Capital grants receipts in advance | Substantively tested all relevant assertions |
| Usable and unusable reserves | Substantively tested all relevant assertions |

# Appendix B

## Summary of communications

| Date | Nature | Summary |
|---|---|---|
| 30 January 2019 | Meeting/Report | The Senior Manager for the audit met with the Audit Committee and senior members of the management team to discuss the Audit Planning Report, which set out areas of focus for the audit. This included confirmation of our independence. |
| 21 February 2019 | Meeting | The Associate Partner and Senior Manager for the audit met with the Chief Executive and Chief Operating Officer to discuss progress on the audit and developments at the Council. |
| 10 May 2019 | Meeting | The Associate Partner and Manager of the audit met with senior members of the management team to discuss progress on the audit and developments at the Council. |
| 18 July 2019 | Meeting | The Associate Partner and Senior Manager for the audit met with the Chief Operating Officer to discuss progress on the audit of the accounts and value for money conclusion and key issues identified. |
| 23 July 2019 | Meeting | The Senior Manager for the audit met with the Chief Operating Officer to discuss progress on the audit of the accounts and value for money conclusion and key issues identified. |
| 5 September 2019 | Meeting/Report | The Associate Partner and Senior Manager of the audit team will meet with the Audit Committee and senior members of the management team to discuss the audit results report. |

Page 199

# Required communications with the Audit Committee

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

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit planning report presented to Audit Committee on 30 January 2019 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report presented to Audit Committee on 30 January 2019 |
| Significant findings from the audit | • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>• Significant difficulties, if any, encountered during the audit<br>• Significant matters, if any, arising from the audit that were discussed with management<br>• Written representations that we are seeking<br>• Expected modifications to the audit report<br>• Other matters if any, significant to the oversight of the financial reporting process | Audit planning report presented to Audit Committee on 30 January 2019 |

Page 200

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Public Interest Entities (including Major Local Audits) | For the audits of financial statements of public interest entities our written communications to the audit committee include:<br>• A declaration of independence<br>• The identity of each key audit partner<br>• The use of non-member firms or external specialists and confirmation of their independence<br>• The nature and frequency of communications<br>• A description of the scope and timing of the audit<br>• Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits<br>• Materiality<br>• Any going concern issues identified<br>• Any significant deficiencies in internal control identified and whether they have been resolved by management<br>• Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee<br>• Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof<br>• The valuation methods used and any changes to these including first year audits<br>• The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework<br>• The identification of any non-EY component teams used in the group audit<br>• The completeness of documentation and explanations received<br>• Any significant difficulties encountered in the course of the audit<br>• Any significant matters discussed with management<br>• Any other matters considered significant | Audit Results Report presented to Audit Committee on 5 September 2019 |

Page 201

# Appendix C

| | | Our Reporting to you |
| --- | --- | --- |
| Required communications | What is reported? | When and where |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>• Whether the events or conditions constitute a material uncertainty<br>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>• The adequacy of related disclosures in the financial statements | No conditions or events were identified, either individually or together to raise any doubt about Havering Council's ability to continue for the 12 months from the date of our report. |
| Misstatements | • Uncorrected misstatements and their effect on our audit opinion<br>• The effect of uncorrected misstatements related to prior periods<br>• A request that any uncorrected misstatement be corrected<br>• Material misstatements corrected by management | Audit Results Report presented to Audit Committee on 5 September 2019 |
| Subsequent events | • Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Audit Results Report presented Audit Committee on 5 September 2019 |
| Fraud | • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council<br>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>• Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>• Any other matters related to fraud, relevant to Audit Committee responsibility. | Audit Results Report presented to Audit Committee on 5 September 2019 |

Page 202

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Related parties | Significant matters arising during the audit in connection with the Council's related parties including, when applicable:<br>• Non-disclosure by management<br>• Inappropriate authorisation and approval of transactions<br>• Disagreement over disclosures<br>• Non-compliance with laws and regulations<br>• Difficulty in identifying the party that ultimately controls the Council | Audit Results Report presented to Audit Committee on 5 September 2019 |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>• The principal threats<br>• Safeguards adopted and their effectiveness<br>• An overall assessment of threats and safeguards<br>• Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. | Audit planning report presented to Audit Committee on 30 January 2019 and Audit Results Report presented to Audit Committee on 5 September 2019 |

Page 203

# Appendix C

| Required communications | What is reported? | Our Reporting to you<br>When and where |
|---|---|---|
| External confirmations | • Management's refusal for us to request confirmations<br>• Inability to obtain relevant and reliable audit evidence from other procedures. | We have not received all requested confirmations, therefore we have undertaken alternative procedures to obtain our assurance |
| Consideration of laws and regulations | • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>• Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations. |
| Significant deficiencies in internal controls identified during the audit | • Significant deficiencies in internal controls identified during the audit. | Audit results report presented to Audit Committee on 5 September 2019 and Annual Audit Letter |

Page 204

# Appendix C



| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Group Audits | • An overview of the type of work to be performed on the financial information of the components<br>• An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components<br>• Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work<br>• Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted<br>• Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. | Audit planning report presented to Audit Committee on 30 January 2019 and Audit Results Report presented to Audit Committee on 5 September 2019 |
| Written representations we are requesting from management and/or those charged with governance | • Written representations we are requesting from management and those charged with governance | Audit Results Report presented to Audit Committee on 5 September 2019 |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit Results Report presented to Audit Committee on 5 September 2019 |
| Auditors report | • Any circumstances identified that affect the form and content of our auditor's report | Audit Results Report presented to Audit Committee on 5 September 2019 |
| Fee Reporting | • Breakdown of fee information when the audit planning report is agreed<br>• Breakdown of fee information at the completion of the audit<br>• Any non-audit work | Audit planning report presented to Audit Committee on 30 January 2019 and Audit Results Report presented to Audit Committee on 5 September 2019 |

# Management representation letter

## Management Rep Letter

Ernst & Young LLP
Luton

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of London Borough of Havering ("the Group and Council") for the year ended 31st March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of London Borough of Havering as of 31st March 2019 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and for the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.



We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and for the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and for the Council in accordance with, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 for the Group and for the Council that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole.

# Management representation letter

## Management Rep Letter



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

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

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

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Group and of the Council and committees, including the Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 5 September 2019.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

# Management representation letter

## Management Rep Letter



D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 23 to the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than disclosures described in Note 6 to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Narrative Report and Forward Plan 2019/20-2023/24.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Going Concern

1. The consolidated and council financial statements disclose all of the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and council financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

# Management representation letter

## Management Rep Letter



J. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:

- Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, etc) none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the consolidated and council financial statements or as a basis for recording a loss contingency.

L. Purchase and Sales Commitments and Sales Terms

1. Losses arising from purchase and sales commitments have been properly recorded and adequately disclosed in the consolidated and council financial statements.
2. At the year end, the Group and Council had no unusual commitments or contractual obligations of any sort which were not in the ordinary course of business and which might have an adverse effect upon the Group or council (e.g., contracts or purchase agreements above market price; repurchase or other agreements not in the ordinary course of business; material commitments for the purchase of property, plant and equipment; significant foreign exchange commitments; open balances on letters of credit; purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices; losses from fulfillment of, or inability to fulfill, sales commitments, etc.).

M. Income and Indirect Taxes

1. We acknowledge our responsibility for the tax accounting methods adopted by the Group and Council, which have been consistently applied in the current period, and for the current year income tax provision calculation.
2. We also acknowledge our responsibility for the plans with respect to future taxable income, which represent our estimates as to the outcome of those plans, based on available evidence, and for the significant assumptions used in our analysis. We would implement such strategies as necessary to prevent a tax operating loss or credit carryforward from expiring.
3. We have disclosed to you all tax opinions, correspondence with tax authorities, or other appropriate information that served as support for the accounting for potentially material matters.

# Management representation letter

## Management Rep Letter



N. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the measurement and valuation of Property and the Pension Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

O. Estimates (property, plant and equipment and pensions valuations)

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimates for property, plant and equipment and pensions appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

P. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

______________________

Chief Operating Officer

______________________

Chairman of the Audit Committee

EY | Assurance | Tax | Transactions | Advisory

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# Havering Pension Fund
# Audit results report

Year Ended 31 March 2019

5 September 2019

Building a better working world

5 September 2019

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Pension Fund and Audit Committees. This report summarises our preliminary audit conclusion in relation to the audit of Havering Pension Fund for 2018/19.

We have substantially completed our audit of Havering Pension Fund for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3.

This report is intended solely for the use of the Pension Fund and Audit Committees, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP

Enc

# Contents



Page 215

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Havering Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Havering Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Havering Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Scope update

In our Audit Plan presented to the Audit Committee on 24 April 2019, we gave you an overview of how we intended to carry out our responsibilities as your auditor.

We have carried out our audit in accordance with this plan. There have been no changes in our planned audit strategy.

We planned our procedures using a materiality of £7 million. We reassessed this using the actual year-end figures, which have increased this amount to £7.3 million. The threshold for reporting audit differences has increased from £0.35 million to £0.37 million. The basis of our assessment of materiality has remained consistent at 1% of Net Assets.

## Status of the audit



We have substantially completed our audit of Havering Pension Fund's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Fund's financial statements in the form which appears in section 3.

However until the following work is complete, further amendments may arise. The outstanding items as of 21 August 2019 are:

- Finalisation of investments testing;
- Finalisation of disclosure testing;
- Completion of subsequent events review;
- Response to planning enquiries from Monitoring Officer and Head of Internal Audit
- Completion of final Manager and Associate Partner review procedures; and
- Receipt of the signed Accounts and Management Representation letter.

# Executive Summary

## Audit differences

We identified a small number of audit disclosure differences in the draft financial statements, which management have agreed to adjust.

There are no unadjusted audit differences.

## Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Havering Pension Fund's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. During our audit we have however not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you

# Executive Summary

## Other reporting issues

We have completed our review of the information presented in the Annual Report for consistency with the financial statements we have a small number of disclosure errors, which management have amended.

## Independence

Please refer to Section 7 for our update on Independence. We have no independence issues to highlight.

# 02 Areas of Audit Focus

# Significant risk

## Misstatements due to fraud and error

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

We have identified the posting of journals related to the valuation of investment assets as a specific area where misstatements due to fraud and error may arise.

Significant Risk

Page 221

### What judgements are we focused on?

In addition to the standard areas of risk related to fraud and error we have identified management override of controls relating to the posting of journals relating to the valuation of investment assets, as the main area of risk.

### What are our conclusions?

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

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

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

Our testing has not identified any material misstatements of investment income or year end investment assets as a result of inappropriate journals.

### What did we do?

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Assessed the nature of any significantly unusual transactions identified.
- Reviewed reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences.
- Agreed the reconciliation of holdings included

# Significant risk

## Valuation of complex investments

### What is the risk?

The Fund's investments include The Fund's investments include pooled property fund investments, which are more complex to value.

The Fund will make judgements when valuing those investments where prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error.

Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the Fund year end. Such variations could have a material impact on the financial statements.

Significant Risk



### What investments are we focused on?

We have identified the Fund's investments in pooled property investments as significant risk, as even a small movement in the valuation assumptions could have an impact on the financial statements.

### What are our conclusions?

Our testing has not identified any material misstatements from testing of complex investments.

### What did we do?

- Performed analytical procedures and checked the valuation output for reasonableness against our own expectations.
- Reviewed the basis of valuation of the investments and assessed the appropriateness of the valuation methods used.
- Performed tests of valuation by obtaining the latest available audited accounts and agreed the net asset value per the confirmation received to the audited accounts provided
- Where the audited accounts do not have the same year end as the Fund we have perform other procedures to obtain assurance that the movement to 31 March 2019 is reasonable.

# 03 Audit Report

## Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS Of Havering Pension Fund

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

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

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

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

Other information

The other information comprises the information included in the Narrative Report set out on pages 1 to 15, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

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

# Audit Report

## Our opinion on the financial statements

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on pages [x], the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

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

# Audit Report

## Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Page 226

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

The maintenance and integrity of the Havering Pension Fund web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.


# 04 Audit Differences

# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted and unadjusted differences

We highlight the following misstatements greater than £0.37 million which have been corrected by management that were identified during the course of our audit

Our audit identified a number of small disclosure misstatements which our team have highlighted to management for amendment. These have been corrected during the course of the audit and relate to disclosure and presentational matters in both the Annual Accounts.

There are no unadjusted audit differences.

# 05 Other reporting issues

# Other reporting issues

## Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the Havering Pension Fund Statement of Accounts with the audited financial statements

We have yet to undertake this review.

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Pension Find to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have no matters to report.

# 06 Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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

# 07 Independence

# Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan presented at 8 November 2018 Audit Committee.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 5 September 2019.



## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

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

| | Planned Fee 2018/19 | Scale Fee 2018/19 | Final Fee 2017/18 |
|---|---|---|---|
| | £'s | £'s | £'s |
| Total Audit Fee – Code work (Note 1). | 16,170 | 16,170 | 21,000 |

# 08 Appendices

# Audit approach update

We summarise below our approach to the audit of the Net Assets Statement and any changes to this approach from the prior year audit.

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

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

Page 236

| Net Assets Statement category | Audit Approach in current year | Change to prior year |
|---|---|---|
| Investment Assets and Liabilities | Substantively tested all relevant assertions | No |
| Long term assets | Immaterial - Substantively tested assertion for presentation and disclosure | No |
| Current Assets (excluding cash) | Substantively tested all relevant assertions | No |
| Cash | Substantively tested all relevant assertions | No |
| Current Liabilities | Substantively tested all relevant assertions | Yes-Bulk Transfer meant extra work was completed in this area |

# Appendix B

## Summary of communications

| Date | Nature | Summary |
|---|---|---|
| 24 April 2019 | Meeting/Report | The partner in charge of the engagement met with the Audit Committee to discuss focus areas of the audit committee to discuss the Audit Plan and areas of focus for the audit. This included confirmation of independence. |
| 23 July 2019 | Meeting/Report | The Senior Manager for the engagement met with the Council Chief Operating Officer to discuss progress of the audit. |
| 5 September 2019 | Meeting/Report | The partner in charge if the engagement and senior manager will meet with the Audit Committee to discuss the findings from our audit. |

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

# Appendix C

## Required communications with the Audit Committee

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

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Terms of engagement | Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit Plan – 24 April 2019 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit Plan – 24 April 2019 |
| Significant findings from the audit | • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>• Significant difficulties, if any, encountered during the audit<br>• Significant matters, if any, arising from the audit that were discussed with management<br>• Written representations that we are seeking<br>• Expected modifications to the audit report<br>• Other matters if any, significant to the oversight of the financial reporting process | Audit Results Report - 24 July 2019 |
| Significant deficiencies in internal controls identified during the audit | • Significant deficiencies in internal controls identified during the audit. | Audit Results Report – 5 September 2019 |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>• Whether the events or conditions constitute a material uncertainty<br>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>• The adequacy of related disclosures in the financial statements | Audit Results Report - 5 September 2019 |
| Misstatements | • Uncorrected misstatements and their effect on our audit opinion<br>• The effect of uncorrected misstatements related to prior periods<br>• A request that any uncorrected misstatement be corrected<br>• Material misstatements corrected by management | Audit Results Report - 5 September 2019 |
| Subsequent events | • Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Audit Results Report - 5 September 2019 |
| Fraud | • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund<br>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>• Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>• Any other matters related to fraud, relevant to Audit Committee responsibility. | We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit. |

Page 239

# Appendix C

Our Reporting to you

| Required communications | What is reported? | When and where |
|---|---|---|
| Related parties | Significant matters arising during the audit in connection with the Pension Fund's related parties including, when applicable:<br>• Non-disclosure by management<br>• Inappropriate authorisation and approval of transactions<br>• Disagreement over disclosures<br>• Non-compliance with laws and regulations<br>• Difficulty in identifying the party that ultimately controls the Authority | We have no matters to report. |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>• The principal threats<br>• Safeguards adopted and their effectiveness<br>• An overall assessment of threats and safeguards<br>• Information about the general policies and process within the firm to maintain objectivity and independence | Audit Results Report - 5 September 2019 |
| External confirmations | • Management's refusal for us to request confirmations<br>• Inability to obtain relevant and reliable audit evidence from other procedures. | We have no matters to report. |
| Consideration of laws and regulations | • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>• Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations. |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Written representations we are requesting from management and/or those charged with governance | • Written representations we are requesting from management and/or those charged with governance | Audit Results Report - 5 September 2019 |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit Results Report - 5 September 2019 |
| Auditors report | • Any circumstances identified that affect the form and content of our auditor's report | Audit Results Report - 5 September 2019 |
| Fee Reporting | • Breakdown of fee information when the Audit Plan is agreed<br>• Breakdown of fee information at the completion of the audit<br>• Any non-audit work | Audit Plan –24 April 2019<br><br>and<br><br>Audit Results Report - 5 September 2019 |

Page 241

# Appendix D

## Management Representation Letter

This letter of representations is provided in connection with your audit of the financial statements of Havering Pension Fund (“the Fund”) for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 18 to 31 March 2019 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2019, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of the Fund’s financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.



Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records (See Note B)

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 201819.

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

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.

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

5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019 that are free from material misstatement, whether due to fraud or error.

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

# Appendix D

## Our opinion on the financial statements

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

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

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

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

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.

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

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

# Appendix D

## Our opinion on the financial statements

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.

- Additional information that you have requested from us for the purpose of the audit.

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

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

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

3. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

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

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

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

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

# Appendix D

## Our opinion on the financial statements

D. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

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

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the annual report.

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

G. Independence

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

H. Derivative Financial Instruments

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

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

# Appendix D

## Our opinion on the financial statements

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

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

J. Actuarial valuation

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

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.



L. Estimates

IAS26 Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of the applicable financial reporting framework.

2. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with the applicable financial reporting framework.

3. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

Havering
LONDON BOROUGH

**Jane West**
**Chief Operating Officer (s151)**

**Senior Leadership Team**
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Date 30.07.2018

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

Dear Debbie,

**Havering Pension Fund– Letter of Representation**

This letter of representations is provided in connection with your audit of the financial statements of Havering Pension Fund ("the Fund") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 18 to 31 March 2019 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2019, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 201819.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above

give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

**B. Non-compliance with laws and regulations including fraud**

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
    - Involving financial improprieties
    - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
    - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
    - Involving management, or employees who have significant roles in internal control, or others
    - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

**C. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:

    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
    - Additional information that you have requested from us for the purpose of the audit.
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.
7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

**D. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

**E. Subsequent Events**

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

**F. Other Information**

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

**G. Independence**

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

**H. Derivative Financial Instruments**

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

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

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

**J. Actuarial valuation**

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

**K. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we have engaged to value the fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

**L. Estimates**

**IAS26 Estimate**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
3. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

Yours faithfully,

______________________
Chief Operating Officer

______________________
Chairman of the Audit Committee

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**Jane West**
**Chief Operating Officer (s151)**

**Senior Leadership Team**
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Date 30.07.2018

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

Dear Debbie,

**London Borough of Havering – Letter of Representation**

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of London Borough of Havering ("the Group and Council") for the year ended 31st March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of London Borough of Havering as of 31st March 2019 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and for the Council**,** CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19*.*

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and for the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and for the Council in accordance with, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

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

4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 for the Group and for the Council that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole.

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

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

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

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

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

    - involving financial statements;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;

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

**C. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Group and of the Council and committees, including the Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 5 September 2019.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

**D. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 23 to the consolidated and council financial statements all guarantees that we have given to third parties.

**E. Subsequent Events**

1. Other than disclosures described in Note 6 to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

**F. Group audits**

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intragroup unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

**G. Other information**

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Narrative Report and Forward Plan 2019/20-2023/24.
2. We confirm that the content contained within the other information is consistent with the financial statements.

**H: Going Concern**

1. The consolidated and council financial statements disclose all of the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

**I. Ownership of Assets**

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and council financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

**J. Reserves**

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

**K. Contingent Liabilities**

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance, except as follows:
    - Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, etc) none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the consolidated and council financial statements or as a basis for recording a loss contingency.

**L. Purchase and Sales Commitments and Sales Terms**

1. Losses arising from purchase and sales commitments have been properly recorded and adequately disclosed in the consolidated and council financial statements.
2. At the year end, the Group and Council had no unusual commitments or contractual obligations of any sort which were not in the ordinary course of business and which

might have an adverse effect upon the Group or council (e.g., contracts or purchase agreements above market price; repurchase or other agreements not in the ordinary course of business; material commitments for the purchase of property, plant and equipment; significant foreign exchange commitments; open balances on letters of credit; purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices; losses from fulfilment of, or inability to fulfil, sales commitments, etc.).

**M. Income and Indirect Taxes**

1. We acknowledge our responsibility for the tax accounting methods adopted by the Group and Council, which have been consistently applied in the current period, and for the current year income tax provision calculation.
2. We also acknowledge our responsibility for the plans with respect to future taxable income, which represent our estimates as to the outcome of those plans, based on available evidence, and for the significant assumptions used in our analysis. We would implement such strategies as necessary to prevent a tax operating loss or credit carry forward from expiring.
3. We have disclosed to you all tax opinions, correspondence with tax authorities, or other appropriate information that served as support for the accounting for potentially material matters.

**N. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate the measurement and valuation of Property and the Pension Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

**O. Estimates (property, plant and equipment and pensions valuations)**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimates for property, plant and equipment and pensions appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in

accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

**O. Retirement benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

______________________________
Chief Operating Officer

_______________________________
Chair of the Audit Committee

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