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Havering
LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.30 pm	**Tuesday 25 September 2012**	**Committee Room 3B - Town Hall**

Members 6: Quorum 3

COUNCILLORS:

Conservative Group (4)	**Residents' Group (1)**	**Labour Group (1)**
Georgina Galpin (Chairman) Frederick Osborne (Vice-Chair) Roger Ramsey Frederick Thompson	Clarence Barrett	Denis Breading

For information about the meeting please contact:
James Goodwin 01708 432432
email: james.goodwin@havering.gov.uk

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

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

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

3 DISCLOSURE OF PECUNIARY INTERESTS

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

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

4 MINUTES OF THE MEETING (Pages 1 - 8)

To approve as correct the minutes of the meeting held on 25 June 2012 and authorise the Chairman to sign them.

5 ANNUAL STATEMENT OF ACCOUNTS (Pages 9 - 134)

Report attached.

6 REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) (Pages 135 - 164)

Report attached.

7 RESPONSE TO ISA 260 (Pages 165 - 168)

Report attached.

8 INTERNAL AUDIT PROGRESS REPORT (QUARTER 1) (Pages 169 - 180)

Report attached.

9 I-EXPENSES AND PURCHASE CARDS - FOLLOW UP REPORT (Pages 181 - 188)

Report attached.

10 OUTSTANDING AUDIT RECOMMENDATIONS REPORT (Pages 189 - 202)

Report attached.

11 FRAUD PROGRESS REPORT (Pages 203 - 212)

Report attached.

12 URGENT BUSINESS

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

13 EXCLUSION OF THE PUBLIC

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

14 TREASURY MANAGEMENT QUARTERLY REPORT (Pages 213 - 218)

Report attached.

Ian Buckmaster
Committee Administration &
Member Support Manager

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MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
25 June 2012 (7.30 - 8.40 pm)

Present:

COUNCILLORS:

Conservative Group	Georgina Galpin (in the Chair) Frederick Osborne (Vice-Chair), Roger Ramsey and Frederick Thompson
Residents' Group	Linda Hawthorn (substitute for Councillor Barrett.)

Apologies were received for the absence of Councillors Clarence Barrett and Denis Breading.

The Chairman reminded Members of the action to be taken in an emergency.

1 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 25 April 2012 were agreed as a correct record and signed by the Chairman.

2 **APPOINTEESHIP AND DEPUTYSHIP UPDATE**

Officers informed the Committee that of the 11 recommendations in the audit report all had been implemented or were in the process of being finalised.

To comply with regulations an annual report on the total amount of monies managed on behalf of clients was submitted to the Court of Protection and individuals were informed of the state of their individual accounts.

Concerns were raised at the last meeting that monies were being held in accounts with Allied Irish Bank. Steps were in process to transfer these to either the Royal bank of Scotland or NatWest to comply with the Councils Constitution. The monies were held in individual accounts so the process was of necessity a long one.

The Committee **noted** the report.

3 **OBJECTION TO ACCOUNTS/LAND VALUATION TRIBUNAL - UPDATE**

Officers advised the Committee of the current position with the objection to the Accounts and the concurrent Lands Valuation Tribunal situation.

Ideally the leaseholder should have approached the Lands Valuation tribunal before he lodged an objection to the accounts. When he did seek redress in the Lands Valuation Tribunal in December 2010 the Tribunal found in his favour. The Council appealed that decision and recently the original decision was found to be flawed and the matter remitted for a rehearing. Solicitors acting for the council were recommending mediation to resolve the issue. With the change to digital, from analogue everything had changed and hopefully this would help resolve the issue.

The Committee were informed that the second part of the issue the contract with Surtees had progressed. Officers explained that Surtees had provided a good service and the Council had succeeded in negotiating a 27% reduction in the cost of the contract. Unfortunately there was no provision in the contract for a break clause or termination. Officers had written to Surtees to explore the possibility of termination.

The Committee **noted** the report and **requested** an update to alternate meetings of the Committee.

4 **INTERNAL AUDIT PROGRESS REPORT**

The Committee received a report detailing progress in delivering the approved audit plan in quarter 4 of 2011/2012. By the end of March 2012 90% of the audit plan had been completed. This was against a target of 95%. The remaining days were delivered in April and May.

In the fourth quarter 10 systems audits were completed together with two non systems assurance works. Three of the system audits attracted limited assurances, those relating to Emergency planning & Business Continuity, Pensions and i-Expenses & Purchase Cards.

The committee raised concerns that some scanned documents had been incorrectly filed and other confidential documents, such as Criminal Bureau Checks, had not been given an accurate document type and were therefore accessible to general users. They were pleased to note that further audit work was planned to review controls in this area.

On the issue of budgetary control officers were asked what role members had in exercising budgetary control. Officers informed the committee that a monthly report was submitted to CMT and this, exception report, was posted on to the member only area on the intranet.

The report on i-Expenses and Purchase cards raised several issues. It was explained to the committee that this was a new system with new staff and teething problems had been expected. There needed to be an Annual System audit for the Annual accounts so the area was kept under review. However, the Committee **asked** for a report back to the next meeting so they could have an assurance that the recommendations were being implemented.

The audit team had completed 11 school audits during the same period none of which had caused concern. The worry was that academies had no need to arrange an audit more than once every three years. The Academies can employ their own external auditors, although the council's team had offered their services.

The report was **noted.**

5 FRAUD PROGRESS REPORT

The Committee considered a report on the work and performance of the Council's anti-fraud and corruption resources during the period 3rd January to 30th March 2012.

The Committee were advised that whilst there would be no further grant funding after 30th march 2013 to continue this work the Council had agreed to allocate approximately £90k per annum from the Housing revenue Account for the next two years. Over that period it was anticipated that investigations would enable the Council to claim back 25 properties per year.

Officers informed the Committee that the team worked closely with other local authorities participating in the London and Essex Fraud Forums and attending the Housing Fraud Forum. This meant there was a lot of sharing of systems and information.

The committee **noted** the report expressing their pleasure with the successful work being undertaken by the Team.

6 ANNUAL REPORT, INCLUDING HEAD OF INTERNAL AUDIT OPINION

The Internal Audit & Corporate Risk Manager submitted the Annual Report for approval. The report included her opinion that the system of internal control was adequate and effective and that processes to identify and manage risks were in place.

The report was **approved** for submission to Council.

7 ANNUAL GOVERNANCE STATEMENT

Officers had prepared the Annual Governance Statement for the Committee's approval. Since December 2011 the following actions had been taken:

a. Heads of Service had provided signed "mini" governance returns confirming that appropriate governance arrangements were in place across all services of the Council.

b. Members of management team's had reviewed these returns and then submitted a return for their portfolios, having regard to the overall position.
c. These returns had been reviewed to ensure that all relevant issues have been identified and included in the draft AGS.
d. The results of the 2011/12 audit work had been formally reviewed as part of the production of the Annual Audit Report and Head of Internal Audit Opinion to identify any additional potential issues for inclusion on the AGS.
e. An electronic evidence file had been produced documenting the process and evidencing the assurances received.
f. The officer Governance Group had discussed the outcome of the above end of year actions and agreed the outcomes.
g. Senior Management had commented on the final version.

Of the four issues highlighted in the 2010/11 Annual Governance Statement, three, relating to Data Quality, Project Management and Contracts and Supply Chain Resilience, had been fully addressed at the end of March 2012, the remaining issue, Information Governance, had wide reaching implications and although significant progress had been made it was felt that the issue remains open.

Three new issues relating to Austerity, Pace of Organisational Change and Fraud had been included for 2011/12.

The Committee **approved** the Annual Governance Statement has attached at Appendix 1 to the report.

8 **CLOSURE OF ACCOUNTS TIMETABLE**

The Committee were advised that as required by the Accounts and Audit Regulations 2012, the Council's Statement of Accounts must be approved and signed by the Director of Finance and Commerce by no later than 30th June 2012. The accounts must be published after the conclusion of the external audit no later than 30th September 2012.

Officers provided members with an assurance that the timetable would be met and the final accounts would be submitted to the meeting of this committee to be held on 25th September 2012.

The report was **noted**.

9 **EXTERNAL AUDIT UPDATE**

PricewaterhouseCoopers advised the Committee that they were waiting to start the audit once the accounts had been signed off by the Director of Finance and Commerce. From the preliminary work already undertaken with the Council they were not anticipating any major problems.

The report was **noted.**

10 ANNUAL REVIEW OF FRAUD RISK AND CORRUPTION ARRANGEMENTS

The Committee received the latest Annual Review of Fraud and Corruption. .The annual review had taken place in May 2012. The Committee noted the continuing work of the team and that the strategy had been completed. The Committee **approved** the strategy has attached as Appendix A to the report.

11 ANNUAL REVIEW OF RISK MANAGEMENT ARRANGEMENTS

Officers reported that they had completed their annual review of Risk Management. The contents of the Risk Register were produced by:

- The Corporate Leadership Team (CLT) Working Group reviewing the old register, considering the objectives in the Corporate Plan; reviewing the outcome of the last Service Risk Register review and considering what Risk specialists consider to be the top risks currently;
- The twelve risks identified were agreed by CLT and allocated a Corporate Management Team (CMT) and CLT lead;
- New risk analysis templates had been completed by lead officers and submitted; and
- The final version of the Risk Register had been agreed by CMT.

A review of the Strategy has been completed in light of the new approach to ensure it was current and reflects the outcome of the working group.

The Committee:
1. **noted** the work continuing to take place on Risk Management;
2. **noted** the updated Corporate Risk Register attached as Appendix A to the report; and
3. **approved** the Risk Management Strategy attached as Appendix B to the report.

12 TRAINING PLAN FOR AUDIT COMMITTEE

The Council had recently agreed that both members and substitute members of the Audit Committee should be adequately trained to properly carry out their role as members of the Committee. The following training plan was submitted for approval:

Frequency	Contents	Method of Delivery	Timing
Once during term	Role of Audit Committee Role of Internal	One to one or Group session	On joining Committee

	Audit Role of External Audit		
Once during term	Corporate Governance	Group session (yr 1)	June
Annual	Accounts and IFRS	Group session or one to one (yr 1) Drop in sessions (yr 2,3 & 4)	September
Frequency	Contents	Method of Delivery	Timing
Annual	Fraud & Corruption • Bribery • Money Laundering • Whistle blowing Housing Fraud Housing Benefit Fraud	Group session E Learning	December
Annual	Treasury	Group session	April
Annual	Risk Management & Internal Control	Group session (Yrs 1&3) E Learning (Yrs 2&4)	March

The Committee **approved** the training plan and noted that it would be reviewed annually.

13 **ANNUAL TREASURY REPORT**

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

The Financial Services Manager presented the report that set out the context that was part of the Chartered Institute of Public Finance and Accountancy *(*CIPFA*)* revised Code of Practice for Treasury Management. The revised Code suggested that Members would be informed of Treasury

Management activities at least twice a year or preferably quarterly. The report ensured the Council was embracing Best Practice in accordance with CIPFA's revised Code of Practice.

The details of the report were outlined to the Committee, including that the Council had remained within its prudential indicators limits.

The Committee were informed the new format provided current and relevant information for its consideration.

The report was **noted.**

Chairman

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Havering
LONDON BOROUGH

AUDIT COMMITTEE

25 September 2012

Subject Heading:	Annual Statement of Accounts 2011/2012
Report Author and contact details:	Contact: Mike Board Designation: Corporate Finance and Strategy Manager Telephone: (01708) 432217 E-mail address: Mike.Board@havering.gov.uk
Policy context:	Audit Committee responsible for approving accounts.
Financial summary:	N/A

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

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

SUMMARY

The Council's Statement of Accounts is required to be published after the conclusion of the external audit of accounts; no later than 30th September 2012. At this stage our auditors, PricewaterhouseCoopers expect to issue an unqualified opinion on the Statement of Accounts.

RECOMMENDATIONS

The Committee is asked to:

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

b) note that the audited accounts must be published by 30th September 2012.

REPORT DETAIL

1. Statement of Accounts 2011/12

Our auditors, PricewaterhouseCoopers have completed their audit of the Statement of Accounts and expect to issue an unqualified opinion. A formal report on their findings is included as item 2 on the agenda.

Appendix A ; the draft Statement of Accounts will be circulated prior to the meeting incorporating any changes agreed with the auditors.

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

IMPLICATIONS AND RISKS

Financial Implications and Risks:

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

Legal Implications and risks:

Regulation 8 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2012.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

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London Borough of Havering

Statement of accounts

For the financial year

2011/12

Contents

London Borough of Havering

Explanatory foreword

1. Introduction from the responsible financial officer

I am pleased to introduce the Council's statement of accounts for 2011/12. The Council is a large and wide ranging organisation whose goals are:

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

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

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

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

2. IFRS 2011

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the *Service Reporting Code of Practice (SeRCOP) 2011/12*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

The Code sets out the proper accounting practices required by statute to be followed in preparing the statement of accounts.

3. Review of 2011/12

During 2011/12 the Council embarked on Phase 2 of its transformation programme designed to increase efficiency and reduce bureaucracy. A significant investment in services, funded from the strategic reserve has commenced which will deliver efficiency savings in 2012/13 and beyond.

The Coalition Government announced plans for significant reductions in public expenditure during 2010 in order to reduce the public sector deficit. The Comprehensive Spending Review (CSR) indicated major reductions in funding over the next four years, and the local government financial settlement for 2012/13 followed the broad approach set out in the CSR, with a further reduction in formula grant.

The Council recognises the importance of minimising the impact on front line services by transforming the way in which back office functions are delivered. In recognising the lead in time required to introduce major changes of this kind, a significant investment in services was begun in 2010/11 which will enable substantial savings to be delivered in future years which have been reflected in the Council's Medium Term Financial Strategy (MTFS).

a) Performance and outturn

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

The following matters are particularly worthy of note:

- Overall financial performance remained consistent with longer term goals as set out in the medium term financial strategy and corporate plan. The general fund balance (excluding schools balances) has been maintained at £11.7 m.

- The revenue outturn included £9.1 m of expenditure directed towards the delivery of the transformation agenda. This included two major projects, internal shared services and customer services, which are designed to increase efficiency and reduce the cost of both back office and front office services. These major organisational changes were introduced in April 2011 and the projects have continued throughout 2011/12.

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

b) Treasury management

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

The primary objective of the Council's investment strategy is to minimise risk. The credit ratings of the banks and market information are monitored regularly by officers who are involved in the investment process. Performance is reported regularly to the cabinet member (value) and to the audit committee. In 2011/12 deposits were restricted to a limited number of institutions meeting the Council's lending criteria.

Total investments currently stand at £55.9 million with borrowing at £215.6 million.

c) Pension fund

The value of pension fund assets increased by £14.9 million in 2011/12. Asset values now stand at £403.5 million as compared with £388.6 million as at 31 March 2011. This positive result is tempered by the continuing upward pressure on longer term pension fund liabilities.

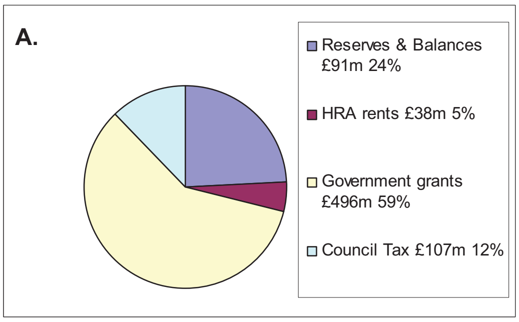
The latest triennial valuation of pension fund assets and liabilities was completed in the spring of 2011. In common with the vast majority of Local Government Pension Schemes, the Council's fund is in deficit which was valued at £227m as at 31 March 2011. The Council's share of the pension fund liability is disclosed in the accounts at the higher level of £335m based on the requirements of IAS19 rather than the triennial valuation. Further information on the basis of the IAS19 disclosure is included at note 44. As part of that review the Council's external actuary has recommended the level of contribution rates for employer bodies for a further three years. The level of the Council's employer contributions remains unaltered.

The independent public service pensions committee chaired by Lord Hutton reported on the future of public sector pensions, including the Local Government Pension Scheme. The impact of the Committee's proposals are not reflected in the actuary's report.

4. Revenue expenditure and services provided

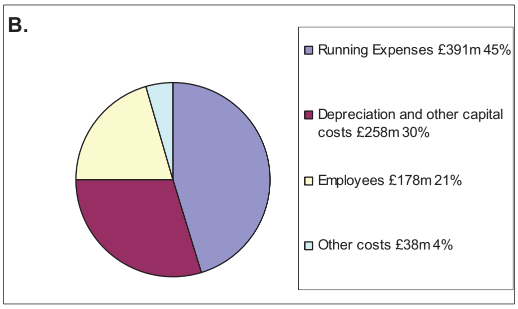
A. REVENUE FUNDING

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



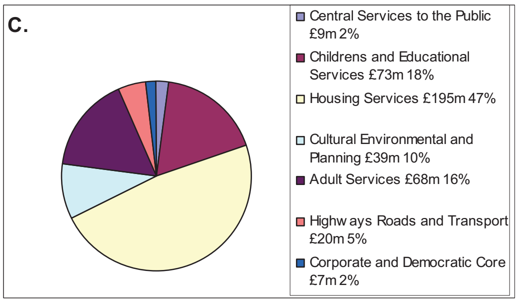
B. REVENUE EXPENDITURE

This chart shows the main categories of expenditure over Council services.
Running expenses include all maintenance of buildings, vehicles costs, purchases of supplies and services and net recharges between Council services. Depreciation and other capital costs (including impairments) represent 30% of spending and are financed from statutory reserves.



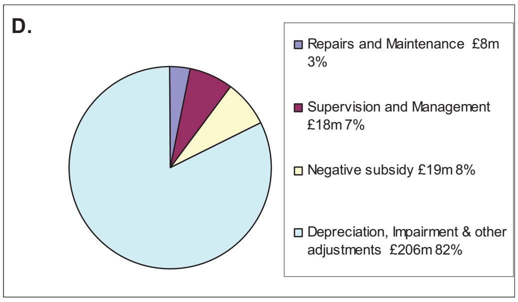
C. SERVICES PROVIDED

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



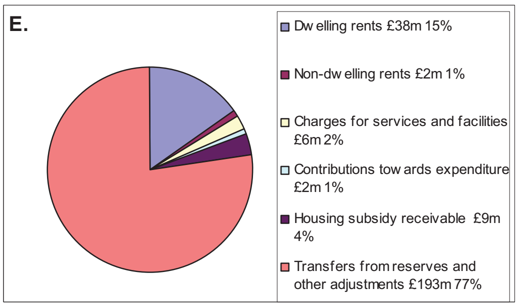
D. HOUSING REVENUE EXPENDITURE

HRA expenditure is consolidated within the C I & E and is reflected in charts A to C above. This chart shows the main categories of expenditure within the HRA in 2011/12. See Note 5 to the accounts for HRA Self-Financing Determination.



E. HOUSING REVENUE INCOME

This chart shows the main categories of income within the Housing Revenue Account which is used to fund HRA expenditure as set out in chart D. Reserves and balances include statutory adjustments to reverse the impairment charge.



5. The 2011/12 budget

The Council's general fund budget and how it was planned to be financed is set out in the following table. The 2011/12 outturn was delivered in line with budget at £163.2m after contributions to and from earmarked and statutory reserves.

	Original Budget
	£'000
Net Expenditure	**163,242**
Financed by:	
Revenue support grant	13,348
NNDR	43,184
Collection fund surplus/(deficit)	(498)
Precept on the collection fund	107,208
Surplus/ (deficit)	**-**

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

6. Capital

In 2011/12 the Council spent £238.6 million on capital projects. The main areas of capital expenditure were:

- £30.4m on schools and education
- £183.8m on housing and the enhancement and improvement of council dwellings and the Housing Debt Self-Financing Repayment (see Note 10)
- £4.9m on roads and transport
- £2.6m on leisure and sport
- £10.7m on public offices, IT and other central costs
- £5.8m on regeneration, policy & planning
- £0.4m on social services

Like most local authorities the Council has been financing a substantial level of its capital expenditure from the sale of assets. In 2011/12 £11.5m of capital expenditure was financed in this way. The balance of the funding requirement came from capital grants (£35.1m), borrowing (£178.9m), revenue contributions (£10.1m) and major repairs allowance (£3.0m). This sum should be viewed in relation to the Council's fixed assets, which have a net book value of £883.5m as at 31 March 2012.

7. Reserves and balances

The general fund working balance remains unchanged and stood at £11.7 million (excluding schools balances) as at 31 March 2012 (£11.7 million as at 31 March 2011). Earmarked reserves and balances increased by £0.7 million to £38.5 million.

8. Foundation and Voluntary Aided Schools

The School Standards and Framework Act 1998 changed the status of Grant-Maintained Schools to Foundation Schools maintained by the local Council. The change for funding purposes took effect from 1 April 1999. Fixed assets and long-term liabilities remain vested in the Governing bodies of individual foundation schools and therefore values and amounts have not been consolidated in the Balance Sheet.

9. Academies

Academies are State-maintained independent schools set up usually with help from outside sponsors and Government contributions. The schools are run outside of the local Council's funding control, though still operate within all the national requirements for curriculum and standards. As at 31 March 2012, there were eleven academies within the borough.

10. HRA Self-Financing Determinations

These determinations are concerned with the exercise of the Secretary of State's powers conferred by sections 168 to 175 of the Localism Act 2011 and by section 87 of, and item 8 of Part I and item 8 of, Part II of Schedule 4 to the Local Government and Housing Act 1989. This sets out the amount each local authority was required to either pay or receive from the Government on 28 March 2012 in order to exit the current subsidy system, and the way in which the payments will be made. The payment the Council was required to make was in the sum of £165,248,000 (See HRA Income & Expenditure Statement).

11. Arms Length Management Organisation

A report was provided to Members on the 21st March 2012 with the results of the recent test of resident opinion on whether Homes in Havering (HiH) should continue to manage the Council's housing stock, or whether the service should be brought in-house. Due to the significant majority in favour of bringing the service back to the Council it was proposed that officers be instructed to negotiate the ending of the agreement with HiH and to make preparations for the Housing management service to be brought back in house during 2012/13; the approximate date for this to happen is October 2012.

12. Transformation

The Council's Transformation Agenda is made up of several programmes that are transforming the way we work as well as transforming the Borough's physical environment. Improved technology, processes and ways of working are allowing us to provide better, more relevant information and support to our residents when they need us and will help us ensure that Havering remains a place where people like to live. Each programme aims to transform a particular area of our work, based on the principles of being even more efficient, focused and fair so that we can still provide quality services to residents with less funding available to us.

13. Further information

Further information about the accounts is available from:

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

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. For 2011/12 the inspection period takes place between 23 July 2012 and 17 August 2012. These dates were advertised in the local press on 13 June 2012.

Andrew Blake-Herbert, CPFA
GROUP DIRECTOR OF FINANCE AND COMMERCE
25 September 2012

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

Statement of responsibilities for the statement of accounts

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the group director of finance and commerce.

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

- Approve the statement of accounts.

The group director of finance and commerce's responsibilities

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

In preparing the statement of accounts the group director - finance and commerce can confirm:

- Selected suitable accounting policies and then applied them consistently.

- Made judgements and estimates that were reasonable and prudent.

- Complied with the code of practice.

The group director - finance and commerce has also:

- Kept proper accounting records which were up to date.

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

I certify that the statement of accounts presents a true and fair view of the financial position of the Council as at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Councillor Georgina Galpin
CHAIRMAN, AUDIT COMMITTEE
25 September 2012

Andrew Blake-Herbert
GROUP DIRECTOR OF FINANCE AND COMMERCE
25 September 2012

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

We have audited the statement of accounts of the London Borough of Havering and its Group for the year ended 31 March 2012 which comprises the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Movement in Reserves Statement, the Authority and Group Balance Sheet as at the end of the period, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund, the accounting policies and the related notes. The financial reporting framework that has been applied in its preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 supported by the CIPFA Service Reporting Code of Practice 2011/12.

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 6, the Group Director of Finance and Commerce is responsible for the preparation of the statement of accounts and for being satisfied that it gives a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the CIPFA Service Reporting Code of Practice 2011/12. Our responsibility is to audit and express an opinion on the statement of accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the statement of accounts

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

Opinion on statement of accounts

In our opinion the statement of accounts:

- gives a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the CIPFA Service Reporting Code of Practice 2011/12, of the state of the Authority and Group's affairs as at 31 March 2012 and of the Authority's and Group's income and expenditure and cash flows for the year then ended; and

- has been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the CIPFA Service Reporting Code of Practice 2011/12.

Opinion on other matter

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

Matters on which we are required to report by exception

We have nothing to report in respect of the Annual Governance Statement on which the Code of Audit Practice issued by the Audit Commission requires us to report to you if, in our opinion, the Statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounts

We have audited the pension fund accounting statements for the year ended 31 March 2012 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 6, the Group Director of Finance and Commerce is responsible for the preparation of the pension fund accounting statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the pension fund accounts

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

Opinion on the pension fund accounting statements

In our opinion the pension fund's accounting statements:

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

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matter

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

Julian Rickett (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Appointed Auditors
The Atrium, St Georges Street, Norwich, NR3 1AG
September 2012

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

Authority's responsibilities

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

Auditors' responsibilities

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, the London Borough of Havering put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

Delay in certification of completion of the audit

We are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of London Borough of Havering. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2012. As the Authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements. We are also responding to an objection by an elector to the statement of accounts for the year ended 31 March 2010 which is currently being addressed.

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

Julian Rickett (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
The Atrium, St Georges Street, Norwich, NR3 1AG
September 2012

Statement of Movements in Reserves 2011/12

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

	General Fund Balance £000	General Balances £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Grants Unapplied Account	Capital Receipts Reserve £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1st April 2010	**20,971**	**898**	**38,768**	**1,726**		**2,272**	**88**	**64,723**	**534,828**	**599,551**
Movement in reserves during 2010/11										
Surplus or (deficit) on provision of services	49,636	-	-	(140,841)	-	-	-	(91,205)	-	(91,205)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	122,143	122,143
Total Comprehensive Expenditure and Income	**49,636**	**-**	**-**	**(140,841)**	**-**	**-**	**-**	**(91,205)**	**122,143**	**30,938**
Adjustments between accounting basis and funding basis under regulations (Note 7)	(48,398)	-	-	144,431)	-	8,886	51	104,970	(104,970)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**1,238**	**-**	**-**	**(3,590)**	**-**	**8,886**	**51**	**13,765**	**17,173**	**30,938**
Transfers to/from Earmarked Reserves (Note 8)	1,093	31	(1,003)	(1,123)	-	(9,178)	-	(10,180)	10,180	-
Increase/Decrease in Year	**2,331**	**31**	**(1,003)**	**2,467**	**-**	**(292)**	**51**	**3,585**	**27,353**	**30,938**
Balance at 31st March 2011	**23,302**	**929**	**37,765**	**4,193**		**1,980**	**139**	**68,308**	**562,181**	**630,489**
Movement in reserves during 2011/12										
Surplus or (deficit) on provision of services	(18,857)	-	-	(191,199)	-	-	-	(210,056)	-	(210,056)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(28,731)	(28,731)
Total Comprehensive Expenditure and Income	**(18,857)**	**-**	**-**	**(191,199)**	**-**	**-**	**-**	(210,056)	**(28,731)**	**(238,787)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	29,446	-	-	195,476	-	(543)	5,778	230,157	(230,157)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**10,589**	**-**	**-**	**4,277**	**-**	**(543)**	**5,778**	**20,101**	**(258,888)**	**(238,787)**
Transfers to/from Earmarked Reserves (Note 8)	(10,015)	886	924	(2,647)	10,852	-	-	-	-	-
Increase/Decrease (movement) in Year	**574**	**886**	**924**	**1,630**	**10,852**	**(543)**	**5,778**	**20,101**	**(258,888)**	**(238,787)**
Balance at 31st March 2012	**23,876**	**1,815**	**38,689**	**5,823**	**10,852**	**1,437**	**5,917**	**88,409**	**303,293**	**391,702**

Comprehensive Income and Expenditure Statement 2011/2012

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

	Notes	1st April 2011 – 31st March 2012			1st April 2010 – 31st March 2011		
		£000s Gross Expenditure	£000s Gross Income	£000s Net	£000s Gross Expenditure	£000s Gross Income	£000s Net
Gross expenditure, gross income and net expenditure of continuing operations							
Central Services to the Public		13,292	(4,014)	9,278	10,665	(3,086)	7,579
Cultural and Related Services		15,717	(2,185)	13,533	23,655	(2,848)	20,807
Environment and Regulatory services		19,863	(6,997)	12,865	20,257	(6,250)	14,007
Planning Services		15,941	(2,875)	13,066	13,773	(3,550)	10,223
Children's and Education Services		239,641	(167,401)	72,240	284,807	(224,094)	60,713
Highways, Roads and Transport Services		25,504	(5,893)	19,611	24,062	(5,027)	19,035
Other Housing Services		113,275	(111,187)	2,088	107,487	(105,090)	2,397
Local Authority Housing (HRA)		84,549	(57,253)	27,296	194,054	(49,830)	144,224
Exceptional item - HRA Self-Determination	5	165,248	-	165,248	-	-	-
Adult Social Care Services		81,331	(13,324)	68,007	83,810	(21,117)	62,693
Corporate and Democratic Core		6,706	(97)	6,609	7,826	(207)	7,619
Non Distributed Costs		1,946	(6,744)	(4,798)	2,271	(69,795)	(67,524)
Cost Of Services		**783,013**	**(377,970)**	**405,043**	**772,667**	**(490,894)**	**281,773**
Other Operating Expenditure	9			25,459			12,071
Financing and Investment Income and Expenditure	10			11,106			14,057
Taxation and Non-Specific Grant Income	11			(231,551)			(216,696)
(Surplus) or Deficit on Provision of Services				**210,057**			**91,205**
(Surplus) or deficit on revaluation of property, plant and equipment assets	23a			(24,261)			(36,025)
(Surplus) or deficit on revaluation of available for sale financial assets				-			-
Actuarial (gains) / losses on pension assets / liabilities	23d			52,991			(86,118)
Other Comprehensive Income and Expenditure				**28,730**			**(122,143)**
Total Comprehensive Income and Expenditure				**238,787**			**(30,938)**

Balance Sheet as at 31st March 2012

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

	Notes	31st March 2012 £000s	31st March 2011 £000s
Property, Plant and Equipment	12	816,403	878,005
Investment Property	14b	61,097	29,145
Intangible Assets	15	5,972	4,742
Long Term Debtors	16	1,592	1,763
Long Term Assets		**885,064**	**913,655**
Short Term Investments	16	55,903	73,185
Inventories	17	309	361
Short Term Debtors	18	39,237	45,548
Cash and Cash Equivalents	19	22,303	26,921
Current Assets		**117,752**	**146,015**
Bank Overdraft	19	(1,744)	(8,341)
Short Term Borrowing	16	(4,364)	(15,185)
Short Term Creditors	20	(41,379)	(61,535)
Current Liabilities		**(47,487)**	**(85,061)**
Provisions	21	(6,237)	(5,745)
Long Term Borrowing	16	(211,253)	(46,403)
Other Long Term Liabilities	23d	(335,350)	(281,219)
Capital Grants Receipts in Advance	35b	(10,787)	(10,753)
Long Term Liabilities		**(563,627)**	**(344,120)**
Net Assets		**391,702**	**630,489**
Usable reserves	22	88,409	68,308
Unusable Reserves	23	303,293	562,181
Total Reserves		**391,702**	**630,489**

Cash Flow Statement as at 31st March 2012

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

2010/11 £000s		**Note**	**2011/12 £000s**
91,205	Net (surplus) or deficit on the provision of services		210,057
(154,610)	Adjust net surplus or deficit on the provision of services for non-cash movements		(269,499)
42,414	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		45,916
(20,991)	Net cash flows from Operating Activities		(13,526)
55,261	Investing Activities	25	165,480
(13,422)	Financing Activities	26	(153,933)
20,848	Net (increase) or decrease in cash and cash equivalents		(1,979)
(39,428)	Cash and cash equivalents at the beginning of the reporting period		(18,580)
(18,580)	**Cash and cash equivalents at the end of the reporting period**	**19**	**(20,559)**

Notes to the Core Financial Statements

Statement of Accounting Policies

1. Accounting Policies

Going Concern

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

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

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31st March 2012. The Authority is required to prepare an annual Statement of Accounts by 30th June 2012 (the Accounts and Audit Regulations 2011 require the accounts to be prepared in accordance with proper accounting practices). These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the *Service Reporting Code of Practice 2011/12*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

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

ii. Accruals of Income and Expenditure

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

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

iii. Acquisitions and Discontinued Operations

Acquired operations

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

Discontinued operations

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

iv. Cash and Cash Equivalents
Cash is represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

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

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

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

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

vii. Charges to Revenue for Non-Current Assets
Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

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

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

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

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General

Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

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

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

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

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

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

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

Liabilities are discounted to their value at current prices, using a discount rate of 4.8% based on the indicative rate of return on high quality corporate bonds.

The assets of the London Borough of Havering pension fund attributable to the Council are included in the Balance Sheet at their fair value:
- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into seven components:
- current service cost – the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions charged to the Pensions Reserve.
- contributions paid to the London Borough of Havering pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

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

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

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

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

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

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

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

Financial Assets
Financial assets are classified into two types:

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

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

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

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

xi. Foreign Currency Translation

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

xii. Government Grants and Contributions

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

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

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

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

For all S106 contributions, because of their complex nature and numerous legal conditions all S106 contributions are only recognised through the Comprehensive Income and Expenditure Statement once they have been spent. Only then are we certain all conditions have been met and there is no return obligation.

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

Un-ringfenced Grant

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

Business Improvement Districts

The Council is the billing Authority for the London Riverside Business Improvement District managed by Ferry Lane Action Group which provides a cleaner, safer more secure business environment and to promote the interest of the business community within the BID. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

xiii. Heritage Assets

The Council’s Heritage Assets are split into 2 categories

- Civic Regalia
- Heritage Buildings

Civic Regalia

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

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

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

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

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

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

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

xv. Interests in Companies and Other Entities
The Council has a material interest in another legal entity, "Homes in Havering," which has the nature of a subsidiary and therefore requires the Authority to prepare group accounts. In the Authority's own single entity accounts, the interest is recorded as financial assets at cost, less any provision for losses.

xvi. Inventories
The Council has a number of small number of Inventories. These are included in the Balance Sheet at the lower of cost and net realisable value.

xvii. 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.

xviii. Jointly Controlled Operations and Jointly Controlled Assets

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

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

xix. Leases

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council’s net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

xx. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2011/12* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

xxi. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

Finance costs are included in valuations for assets valued at Depreciated Replacement Cost.

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

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

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost.
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Where decreases in value are identified, they are accounted for by:

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

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

Impairment

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the Code requires that these components are depreciated separately. Major components which have a materially different asset lives will be identified in respect of:

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

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

- Capital expenditure of less than £100,000 per scheme.
- Assets valued at less than £500,000.

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

xxii. Public Private Partnership (PPP) and Similar Contracts

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

Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

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

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

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

xxiii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Contingent Liabilities

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

Contingent Assets

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

xxiv. Reserves

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

xxv. Revenue Expenditure Funded from Capital under Statute

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

xxvi. 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.

xxvii. Carbon Reduction Commitment

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

xxviii. Academies

Academies must prepare accounts under the Charities' Statement of Recommended Practice (SORP). This is a requirement in their Funding Agreements. Academies are required to publish their own accounts, the Council has therefore removed them from the 2011/12 Accounts.

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

Amendments to IFRS 7 Financial Instruments: Disclosures (transfer of financial assets) will be recognised in the 2012/13 accounts from 1st April 2012, at this stage a reasonable estimate cannot be made of its impact.

3. Critical Judgements in Applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for Local Government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The accounting disclosures relating to the provision of pensions are based upon the regulations in force during 2011/12, most notably those applying to the Local Government Pension Scheme. No account has been taken of changes in the LGPS benefit structure or contribution rates as proposed under the 2014 scheme. Neither, has any attempt been made to quantify the degree of membership fall out and the consequential impact upon solvency and funding levels.
- The statement of accounting policies incorporates a number of de-minimus thresholds below which certain low value transactions are not recognised in strict accordance with the Code of Practice. These thresholds have been selected for the purpose of reducing the volume and complexity of financial transactions without materially altering the accounting disclosures. The areas most affected by this policy relate to the recognition of fixed assets, leases and accruals.
- The Council has deposits with two Icelandic banks which are currently in administration. The accounting disclosures have been made in accordance with CIPFA guidance. The sum of £653k has been credited to the Comprehensive Income and Expenditure Statement in 2011/12 in respect of the reversal of impairment of these assets. The reversal is due to the award of preferential creditor status with respect to the Landsbanki claim where it is now estimated that 100% of the amount invested will be repaid.

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

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

The items in the Council's Balance Sheet at 31st March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. Assets have been valued by the Council's external valuers on the basis of a five year rolling valuation programme. In the current economic climate, the Balance sheet valuation of £816 million may be subject to fluctuations.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £2.3m for every year that useful lives had to be reduced If the asset valuation of all Property Plant and Equipment were to fall by 1% a reduction in value of £8.16m would arise. This would normally be reversed to the revaluation reserve. Where revaluation losses exceed unrealised gains, the net loss would be charged to the CI & E statement and subsequently written off to the Capital Adjustment Account.
Provisions	The Council has made a provision of £5.4 million for the settlement of insurance claims based upon an actuarial assessment of the current level of liability.	An increase over the forthcoming year of 10% in the value of claims to be settled would have the effect of adding £0.5m to the provision required.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £57m. However, the assumptions interact in complex ways. During 2011/12, the Council's actuaries advised that changes in actuarial assumptions gave rise to an additional charge of £35m to the C I & E statement.
Arrears	At 31st March 2012, the Council had a gross debtors balance of £55.9 m. A review of significant balances suggested that an impairment of doubtful debts of 35% (£19.8 m) was appropriate. However, in the current economic climate it may not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a 50% increase in the amount of the impairment of doubtful debts would require an additional £9.9m to set aside as an allowance.

5. Material Items of Income and Expense

Transformation

In 2011/12 the Council delivered efficiencies in both front and back office services. Expenditure of £9.1m is included in the net cost of services section of the C I & E in relation to the delivery of seven ongoing transformation projects, Corporate Transformation Management and Transformation related redundancies undertaken during the year.

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

HRA Self-financing Determinations

These determinations are concerned with the exercise of the Secretary of State's powers conferred by sections 168 to 175 of the Localism Act 2011 and by section 87 of, and item 8 of Part I and item 8 of, Part II of Schedule 4 to the Local Government and Housing Act 1989. This sets out the amount each local authority will either pay / receive from the Government on 28 March 2012 in order to exit the current subsidy system. Due to the large sum involved, £165,248k, it has been identified on the face of the Comprehensive Income and Expenditure Statement as an exceptional item.

6. Events after the Balance Sheet Date

Academies

One school applied for, and was granted Academy status by the Department for Education. Frances Bardsley on 1st July 2012 and Upminster Junior and Infants are thought to be considering.

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

Arms Length Management Organisation (ALMO)

A report provided to Cabinet on the 21st March with the results of the recent test of resident opinion on whether Homes in Havering (HiH) should continue to manage the Council's housing stock, or whether the service should be brought in-house.

Due to the significant majority in favour of bringing the service back to the Council it was proposed that officers be instructed to negotiate the ending of the agreement with HiH and to make preparations for the Housing management service to be brought back in house in 2012/13, the approximate date for this is expected to be October 2012.

Local Government Pension Scheme

On the 31 May 2012 the Local Government Association and Trades Unions announced that, following the conclusion of negotiations with the Government, they would be recommending acceptance of the new Local Government Pension Scheme. The proposals are subject to consultation with Local Authorities and Trades Union members but if accepted would be implemented from 1st April 2014. The pension fund liability, as disclosed in the Council's accounts, does not reflect the impact of the proposed scheme. The impact of the proposals are currently being evaluated but the precise impact on fund liabilities will not be known until a further valuation is carried out by the fund's actuary.

Authorisation of Accounts for Issue

The accounts were approved by Andrew Blake-Herbert, Group Director - Finance and Commerce on 28 June 2012. No material post balance sheet events were identified at that date other than the matters disclosed above.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

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

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

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

Major Repairs Reserve: The Council is required to maintain the Major Repairs Reserve, which controls the application of the Major Repairs Allowance (MRA). The MRA 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 MRA that has yet to be applied at the year-end.

	Usable Reserves				
2011/12	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**
Adjustments involving the Capital Adjustment Account:					
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>					
Charges for depreciation and impairment of non current assets	(57,896)	(32,174)	-	-	90,070
Revaluation losses on Property Plant and Equipment	-	-	-	-	-
Movements in the market value of Investment Properties	-	-	-	-	-
Amortisation of intangible assets	(1,994)	-	-	-	1,994

	Usable Reserves				
2011/12	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**
Capital grants and contributions applied	35,064	-	-	-	(35,064)
Income in relation to Donated Assets	-	-	-	-	-
Revenue expenditure funded from capital under statute	(1,896)	(165,470)	-	-	167,366
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	-	-	-	-	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	1,328	-	-	-	(1,328)
Capital expenditure charged against the General Fund and HRA balances	10,157	-	-	-	(10,157)
Adjustments involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-
Transfers in respect of Community Infrastructure Levy Receipts	-	-	-	-	-
Adjustments involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(14,430)	2,078	(2,401)	-	14,753
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	1,448	-	(1,448)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(1,496)	-	1,496	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-
Adjustments involving the Deferred Capital Receipts Reserve (England and Wales):					

	Usable Reserves				
2011/12	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-
Transfer to the Capital Receipts Reserve upon receipt of cash	(200)	-	-	-	200
Adjustment involving the Major Repairs Reserve:					
Reversal of Major Repairs Allowance credited to the HRA	2,145	-	-	(2,145)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(3,633)	3,633
Adjustments involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	96	-	-	-	(96)
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 44)	(20,140)	90	-	-	20,050
Employer's pensions contributions and direct payments to pensioners payable in the year	18,907	-	-	-	(18,907)
Adjustments involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	635	-	-	-	(635)
Adjustment involving the Unequal Pay Back Pay Adjustment Account:					
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-
Adjustment involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis	274	-	-	-	(274)

2011/12	Usable Reserves: General Fund Balance	Usable Reserves: Housing Revenue Account	Usable Reserves: Capital Receipts Reserve	Usable Reserves: Major Repairs Reserve	Movement in Unusable Reserves
	£000	£000	£000	£000	£000
is different from remuneration chargeable in the year in accordance with statutory requirements					
Total Adjustments	**(29,446)**	**(195,476)**	**543**	**(5,778)**	**230,157**

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

2010/11 Comparative Figures	Usable Reserves General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Movement in Unusable Reserves
	£000	**£000**	**£000**	**£000**	**£000**
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-
Transfers in respect of Community Infrastructure Levy Receipts	-	-	-	-	-
Adjustments involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	174	1,271	(10,629)	-	9,184
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	-	-
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(1,743)	-	1,743	-	-
Transfer from Deferred Capital Receipts Reserve	(317)	-	-	-	317
Adjustments involving the Deferred Capital Receipts Reserve (England and Wales):					
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	(317)	317
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-	-	317	(317)
Adjustment involving the Major Repairs Reserve:					
Reversal of Major Repairs Allowance credited to the HRA	1,022	-	-	(1,022)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	971	(971)
Adjustments involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	2,523	-	-	-	(2,523)
Adjustments involving the Pensions Reserve:					

	Usable Reserves				
2010/11 Comparative Figures	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 47)	35,359	41	-	-	(35,400)
Employer's pensions contributions and direct payments to pensioners payable in the year	19,214	-	-	-	(19,214)
Adjustments involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	394	-	-	-	(394)
Adjustment involving the Unequal Pay Back Pay Adjustment Account:					
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-
Adjustment involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	715	-	-	-	(715)
Total Adjustments	**48,398**	**(144,431)**	**(8,886)**	**(51)**	**104,970**

8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2011/12.

	Balance as at 31 3 2010	Transfers to/(from) Revenue	Transfers between reserves	Balance as at 31 3 2011	Transfers to/(from) Revenue	Transfers between reserves	Balance as at 31 3 2012
	£000	£000	£000	£000	£000	£000	£000
Corporate Transformation Reserve	**16,500**	(1,323)	(831)	**14,346**	2,434	-	**16,780**
Strategic Projects Reserve	**6,501**	(1,062)	-	**5,439**	(5,439)	-	**-**
Insurance Reserve	**4,675**	(394)	-	**4,281**	(85)	-	**4,196**
Revenue Contributions for future Capital Schemes	**3,518**	1,559	-	**5,077**	910	-	**5,987**
Capital bridge funding	**1,000**	-	-	**1,000**	-	-	**1,000**
Primary School Bridge Funding	**940**	420	-	**1,360**	-	-	**1,360**
Property Strategy Review	**629**	(100)	-	**529**	(444)	-	**85**
Legal Reserve	**385**	(153)	-	**232**	117	-	**349**
Standards Fund LEA Contribution	**381**	(49)	-	**332**	-	-	**332**
Crematorium and Cemetery Funds	**358**	41	-	**399**	138	-	**537**
Property Management	**353**	-	-	**353**	(353)	-	**-**
Social Care Funding	**-**	-	-	**-**	3,004	-	**3,004**
Other Reserves	**3,528**	58	831	**4,417**	642	-	**5,059**
Totals	**38,768**	**(1,003)**	**-**	**37,765**	**924**	**-**	**38,689**

Corporate Transformation and Strategic Projects

This will continue to be used to fund strategic projects and the transformation agenda.

Insurance Reserve

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

Revenue Contribution for future Capital Schemes

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

Capital and Primary School Bridge Funding

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

Property Strategy Review

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

Legal Reserve

Provide funding for legal cases.

Standards Funds LEA Contribution

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

Crematorium and Cemetery Funds

These funds have existed for many years to maintain cemeteries and to help finance improvements at the crematorium. This covers:

(a) Fund created by fees

(b) Cemetery Memorial fund

Property Management

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

Social Care Funding

This is support for Social Care funding which Councils' receives from the NHS and it was agreed to carry forward unspent monies to be spent on the programmes jointly agreed by both parties as part of the S256 agreement.

Other Reserves

Encompasses a range of several smaller reserves from year on year budget and actual brought forwards to deal with timing differences, climate change initiatives, CCTV parking equipments renewals and joint IT strategies.

9. Other Operating Expenditure

2010/11 £000		2011/12 £000
11,458	Levies	11,646
1,743	Payments to the Government Housing Capital Receipts Pool	1,461
(1,130)	(Gains)/losses on the disposal of non current assets	12,352
12,071	**Total**	**25,459**

10. Financing and Investment Income and Expenditure

2010/11 £000		2011/12 £000
2,647	Interest payable and similar charges	3,094
16,177	Pensions interest cost and expected return on pensions assets	11,781
(1,404)	Interest receivable and similar income	(2,328)
(2,978)	Income and expenditure in relation to investment properties	(788)
(385)	changes in the fair value of Investment property	(653)
14,057	**Total**	**11,106**

11. Taxation and Non Specific Grant Income

2010/11 £000		2011/12 £000
106,852	Council tax income	106,709
48,300	Non domestic rates	43,184
19,130	Non-ring fenced government grants	35,742
42,414	Capital grants and contributions	45,916
216,696	**Total**	**231,551**

12. Property, Plant and Equipment

Movements in Balances 2011/12

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

Movements in 2010/11:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture and Equipment	Infrastructure Assets	Community Assets	Heritage Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Net Book Value								
At 1st April 2010	502,826	404,039	9,190	54,873	3,230	-	7,433	**981,591**
reclassification	-	-	-	-	(28)	28	-	**-**
Additions	14,336	25,083	3,248	13,646	70	-	11,885	**68,268**
Depreciation	(4,483)	(10,105)	(2,423)	(4,466)	(40)	-	-	**(21,517)**
Revaluation increases/(decreases) to:								
• Revaluation Reserve	(21,604)	25,501	-	-	76	-	-	**3,973**
• Capital Adjustment Account	(2,767)	3,538	-	-	2	-	-	**773**
• Consolidated I & E	(131,470)	(17,572)	-	-	(4)	-	-	**(149,046)**
De-recognition - Disposals	(749)	(4,909)	-	-	-	-	-	**(5,658)**
Other movements in Cost or Valuation	-	-	(379)	-	-	-	-	**(379)**
At 31st March 2011	**356,089**	**425,575**	**9,636**	**64,053**	**3,306**	**28**	**19,318**	**878,005**

Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in 2012/13.

	31st March 2012 £000	**31st March 2011 £000**
General Fund		
Arts, Culture, Sport and Leisure	5,509	599
Roads, Footways and Bridges	2,701	4,520
Education Capital Schemes	15,368	24,929
Town Centre and Environmental Improvements	2,648	1,081
Office Accommodation, Equipment, ICT and Vehicles	4,420	2,733
Housing and Public Protection	4,021	3,117
Other Smaller GF Schemes	3,420	459
Total General Fund Commitments	**38,087**	**37,438**
Housing HRA	**-**	10,177
Total Commitments	**38,087**	**47,615**

Revaluations

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are certified by G.K. Green, FRICS, the Council's Property Strategy Manager, in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Assets Valuation Standards Committee of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies. Valuations are carried out on the basis of a five year rolling programme; the most recent of which was carried out on 1st April 2012.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, furniture and Equipment	Infrastructure Assets	Community Assets	Heritage Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at Historical Cost	-	8,914	10,739	68,058	2,118	-	10,254	**100,083**
Valued at fair value as at:								
1st April 2011	336,921	51,955	-	-	673	107	-	**389,656**
1st April 2010	-	75,446	-	-	145	-	-	**75,591**
1st April 2009	-	236,054	-	-	-	-	-	**236,054**
1st April 2008	-	73	-	-	-	-	-	**73**
1st April 2007	-	14,948	-	-	-	-	-	**14,948**
Total Cost or Valuation	**336,921**	**387,390**	**10,739**	**68,058**	**2,936**	**107**	**10,254**	**816,405**

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

13. Heritage Assets

Carrying value of heritage assets held by the Council:

	Civic Regalia £000	Heritage Buildings £000	Total Assets £000
Cost or Valuation			
1st April 2010	**80**	**29**	**109**
Additions	-	-	-
Disposals	-	-	-
Revaluations	-	-	-
Impairment losses (reversals) recognised in the Revaluation Reserve	-	-	-
Impairment losses (reversals) recognised in Surplus or Deficit in the Provision of Services	-	-	-
Depreciation	-	(1)	(1)
31st March 2011	**80**	**28**	**108**
Additions	-	-	-
Disposals	-	-	-
Revaluations	-	-	-
Impairment losses (reversals) recognised in the Revaluation Reserve	-	-	-
Impairment losses (reversals) recognised in Surplus or Deficit in the Provision of Services	-	-	-
Depreciation	-	(1)	(1)
31st March 2012	**80**	**27**	**107**

Civic Regalia

The collection of civic regalia includes the mayors and 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.

14. Investment Properties & Assets Held for Sale

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

2010/11 £000		2011/12 £000
3,054	Rental income from investment property	843
(76)	Direct operating expenses arising from investment property	(55)
2,978	**Net gain/(loss)**	**788**

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

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

2010/11 £000		2011/12 £000
30,139	**Opening Balance**	**29,145**
	Adjustment to opening balance for foundation schools	98
2,243	Revaluation gains/(losses) from fair value adjustments	1,986
-	Assets reclassified	2,002
(3,237)	Disposal of investment properties	-
29,145	**Balance at end of the year**	**33,231**

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

2010/11 £000		2011/12 £000
-	**Opening Balance**	**-**
-	Revaluation gains/(losses) from fair value adjustments	17,541
-	Assets reclassified	14,028
-	Disposal of Assets Held for Sale	(3,703)
-	**Balance at end of the year**	**27,866**

15. Intangible Assets

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £1.994m charged to revenue in 2011/12 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:

2010/11 £000	Intangible Fixed Assets Software and System Development	2011/12 £000
4,349	Gross Carrying Amounts	8,557
(2,330)	Less Accumulated Amortisation	(3,815)
2,019	**Net Carrying Amount at start of year**	**4,742**
4,208	Additions - Purchases	3,224
(1,485)	Less Amortisation for the Period	(1,994)
4,742	**Net Carrying Amount at end of Year**	**5,972**
	Comprising:	
8,557	Gross Carrying Amounts	11,781
(3,815)	Less Accumulated Amortisation	(5,809)

16. Financial Instruments

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

	Long Term			Current	
	31st March 2012 £000	31st March 2011 £000		31st March 2012 £000	31st March 2011 £000
Investments					
Loans and Receivables	-	--		55,903	73,185
Available for sale financial assets	-	-		-	-
Unquoted equity investment at cost	-	-		-	-
Financial assets at fair value through profit and loss	-	-		-	--
Total Investments	**-**	**-**		**55,903**	**73,185**
Debtors					
Loans and receivables	-	-		-	--
Financial assets carried at contract amounts	1,592	1,763		39,237	45,548
Total Debtors	**1,592**	**1,763**		**39,237**	**45,548**
Borrowings					
Financial liabilities at amortised cost	210,234	44,986		4,050	14,871
Financial liabilities at fair value through profit and loss	-	-		-	-
Total Borrowings	**210,234**	**44,986**		**4,050**	**14,871**
Other Long term Liabilities					
PPP and finance lease liabilities	1,019	1,417		314	314
Total other Long term Liabilities	**1,019**	**1,417**		**314**	**314**
Total Borrowings and Long term Liabilities	**211,253**	**46,403**		**4,364**	**15,185**
Creditors					
Financial liabilities at amortised cost	-	-		38,113	57,166
Total Creditors	**-**	**--**		**38,113**	**57,166**

Fair value of assets and liabilities carried at amortised cost

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

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

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

Details of carrying amount and fair value are shown below:

	Interest rates	**Carrying Amount**	**Fair Value**
	%	**31/3/12**	**31/3/12**
		£000	**£000**
PWLB debt	3.7% to 6.9%	203,234	189,285
Market Loan	3.6%	7,000	6,166
Temporary Borrowing	variable	4,050	4,050
Finance Lease Liability (PPP)		958	958
Total debt		**215,242**	**200,459**
Creditors		41,905	41,905
Total financial liabilities		**257,147**	**242,364**
Investments (includes cash)		65,298	65,991
Debtors Less than 1 year		39,237	39,237
Long term Debtors		1,592	1,592
Total liabilities less receivables		**151,020**	**135,544**

Comparative figures as at 31st March 2011 were as follows:

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

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

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

Methodology and Assumptions

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

Discount rates used in NPV calculation

The rates used in this valuation were obtained from financial markets on 31st March 2012, using bid prices where applicable.

Assumptions

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

- Interest is calculated using the most common market convention ACT/365
- Where interest is paid/received every 6 months on a day basis, the value of interest is rounded to 2 equal instalments
- For fixed term deposits it is assumed that interest is received on maturity, or annually if duration is greater than 1 year
- The interest value and date has not been adjusted where a relevant date occurs on a non working day

Explanation of differences between carrying and fair value

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

17. Inventories

Stocks comprise the following:

Highways - tools, clothing, guard rails and materials;

Fleet Stores - fuel and vehicle parts;

Education Computer Centre - IT hardware and consumables;

Gritting - salt;

Catering - foodstuffs/perishables

	Total	
	2011/12 £000	**2010/11 £000**
Balance outstanding at start of year	**361**	**290**
Movement in the year	(52)	71
Balance outstanding at year-end	**309**	**361**

18. Short-Term Debtors

31st March 2011 £000		31st March 2012 £000
	Collection Fund Debtors	
13,985	Council Taxpayers	14,972
548	Greater London Authority (GLA)	495
6,599	Central Government (NNDR)	3,269
	Other Debtors	
12,264	Government Departments	4,923
2,519	Housing	2,935
15	Capital Debtors	15
23,746	Sundry Debtors	27,729
59,676	Sub – total	54,338
	Less: Impairment Allowance	
(7,686)	Council Taxpayers	(8,294)
(2,984)	Housing	(4,050)
(6,818)	Sundry Debtors	(7,410)
42,188	Sub-total	**34,584**
3,360	**Payments in Advance**	4,653
45,548	**Total Short Term Debtors**	**39,237**

19. Cash and Cash Equivalents

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

31st March 2011 £000		31st March 2012 £000
1,492	Cash held by the Council	95
9,501	Schools – under the LMS Cheque book Scheme	7,910
15,928	Short-term deposits with banks – call accounts	14,298
26,921	**Cash at hand**	**22,303**
(8,341)	Bank current accounts	**(1,744)**
18,580	**Total Cash and Cash Equivalents**	**20,559**

20. Short-Term Creditors

31st March 2011 £000		31st March 2012 £000
10,403	Central Government	6,289
4,369	HMRC	3,793
8,494	Pension Fund	1,195
11,509	Capital Creditors	5,603
4,133	Council Tax Payers	4,185
13,205	Other Sundry Creditors	15,431
9,422	Income in Advance	4,883
61,535	**Total**	**41,379**

21. Provisions

	Self-Insurance £000	Other Provisions £000	Total £000
Balance at 1st April 2011	**5,129**	**616**	**5,745**
Additional provisions made in 2011/12	1,747	822	2,569
Amounts used in 2011/12	(1,737)	-	(1,737)
Transfers to/from revenue	276	(616)	(340)
Balance at 31st March 2012	**5,415**	**822**	**6,237**

Other provisions consist of:

1st April 2011: National Non-Domestic Rates £276,000 (charitable relief granted in the 2010/11 NNDR accounts but not actioned until 2011/12), and the Collection Fund (£340,000 for the Council's contribution towards the Collection Fund deficit which arose in 2009/10 and utilised in 2011/12)

31st March 2012: Carbon Reduction Commitment £400,000 (to fund the Council's commitment in respect of emissions in 2011/12, and Leasing Dilapidations £422,000 (for office premises previously leased by the Council).

Self-Insurance Provision

The Council's insurance cover is arranged with Zurich Municipal with substantial excesses for which a self-insurance provision is maintained. The self-insurance provision has been set up to meet the excesses on the Council's public and employer's liability, property and motor vehicle insurances. It is not possible to determine the precise timing of the settlement of claims relating to this provision. The excess levels were as follows:

	1st Jan 2012 £000	1st Jan 2011 £000
Public and Employer's Liability	153	151
Motor Vehicles	145	145
Property	50	50

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

22. Useable Reserves

31st March 2011 £000		31st March 2012 £000
24,231	General Fund Balance	25,899
37,765	Earmarked Reserves	38,481
4,193	Housing Revenue Account Balance	5,823
1,980	Capital Receipts Reserve	1,437
-	Capital Grants Unapplied	10,852
139	Major Repairs Reserve	5,917
68,308	**Total Usable Reserves**	**88,409**

The General Fund balance can be further analysed as follows:

31st March 2011 £000		31st March 2012 £000
11,765	General Fund	11,766
931	General Reserves	1,817
12,696	**Sub Total**	**13,583**
7,925	Schools Balances	7,412
3,610	Centrally held Schools balances (see Note 34)	4,904
24,231	**Total General Fund balance**	**25,899**

23. Unusable Reserves

31st March 2011 £000		31st March 2012 £000
116,919	Revaluation Reserve	131,095
729,932	Capital Adjustment Account	510,195
(1,400)	Financial Instruments Adjustment Account	(1,304)
1,656	Deferred Capital Receipts Reserve	1,455
(281,219)	Pensions Reserve	(335,350)
52	Collection Fund Adjustment Account	687
(3,759)	Accumulated Absences Account	(3,485)
562,181	**Total Unusable Reserves**	**303,293**

a) Revaluation Reserve

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

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

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

31st March 2011 £000		31st March 2012 £000
82,342	**Balance at 1st April**	**116,919**
	Adjustment to opening balance for foundation schools	1,134
36,025	Net gain/(losses) on revaluation of fixed assets	23,127
(1,448)	Amount written off to the Capital Adjustment Account	(10,085)
116,919	**Balance at 31st March**	**131,095**

b) Capital Adjustment Account

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

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.
Note 7 provide details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2010/11 £000		2011/12 £000	
881,203	**Balance at 1st April**		**729,932**
	Adjustment to opening balance for foundation schools		**1,959**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(202,641)	• Net charges for depreciation and impairment of non current assets	(98,751)	
-	• Revaluation gain reversing out a previous loss		
774	• Revaluation losses on Property, Plant and Equipment	2,175	
(1,485)	• Amortisation of intangible assets	(1,994)	
(4,921)	• Revenue expenditure funded from capital under statute	(167,366)	
(8,897)	• 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	(24,838)	
(217,170)			(290,774)
1,451	Adjusting amounts written out of the Revaluation Reserve		10,085
(215,719)	**Net written out amount of the cost of non current assets consumed in the year**		**(280,689)**
	Capital financing applied in the year:		
9,178	• Use of the Capital Receipts Reserve to finance new capital expenditure	11,528	
6,276	• Use of the Major Repairs Reserve to finance new capital expenditure	3,002	
42,414	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	35,064	
1,222	• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	1,328	
3,115	• Capital expenditure charged against the General Fund and HRA balances	10,157	
62,205			**61,079**
2,243	**Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement**		**(2,086)**
729,932	**Balance at 31st March**		**510,195**

c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31st March 2012 will be charged to the General Fund over the next 48 years.

2010/11 £000		**2011/12 £000**
(3,924)	**Balance at 1st April**	**(1,400)**
-	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-
391	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	96
2,133	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-
(1,400)	**Balance at 31st March**	**(1,304)**

d) Pensions Reserve

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

2010/11 £000		2011/12 £000
(421,950)	**Balance at 1st April**	**(281,219)**
86,118	Actuarial gains or (losses) on pensions assets and liabilities	(52,991)
35,399	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	(20,047)
19,214	Employer's pensions contributions and direct payments to pensioners payable in the year	18,907
(281,219)	**Balance at 31st March**	**(335,350)**

e) Deferred Capital Receipts Reserve

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

2010/11 £000		2011/12 £000
1,973	**Balance at 1st April**	**1,655**
(318)	Transfer to the Capital Receipts Reserve upon receipt of cash	(202)
1,655	**Balance at 31st March**	**1,453**

f) Collection Fund Adjustment Account

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

2010/11 £000		2011/12 £000
(342)	**Balance at 1st April**	**52**
394	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	635
52	**Balance at 31st March**	**687**

g) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund

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

2010/11 £000		**2011/12 £000**
(4,475)	**Balance at 1st April**	**(3,759)**
4,475	Settlement or cancellation of accrual made at the end of the preceding year	3,759
(3,759)	Amounts accrued at the end of the current year	(3,485)
716	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	274
(3,759)	**Balance at 31st March**	**(3,485)**

24. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2010/11 £000		**2011/12** £000
(2,240)	Interest received	**(1,539)**
2,169	Interest paid	**2,235**
(71)	Balance as at 31st March	696

25. Cash Flow Statement – Investing Activities

2010/11 £000		**2011/12** £000
71,279	Purchase of property, plant and equipment, investment property and intangible assets	**77,158**
4,921	Other payments for investing activities	**167,366**
(10,629)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(12,482)**
(39,023)	Capital grants received	**(45,950)**
24,901	Proceeds from short-term and long-term investments	**(17,282)**
3,812	Other receipts from investing activities	**(3,330)**
55,261	**Net cash flows from investing activities**	165,480

26. Cash Flow Statement – Financing Activities

2010/11 £000		2011/12 £000
(16,101)	Cash receipts of short- and long-term borrowing	**(231,389)**
2,679	Repayments of short- and long-term borrowing	**77,456**
(13,422)	**Net cash flows from financing activities**	(153,933)

27. Amounts Reported for Resource Allocation Decisions

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

- Transfers to and from reserves are included within the Directorate Income and Expenditure Statement whereas these items are excluded from the Comprehensive Income and Expenditure Statement and are subsequently reported within the Movement in Reserves Statement.
- Levies are included within the Directorate Income and Expenditure Statement but are excluded from the net cost of services line of the Comprehensive Income and Expenditure Statement. These are reported as other operating costs within that statement.

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

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

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

Reconciliation to Subjective Analysis

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

2011/12	**Directorate Analysis**	**Amounts not reported to management for decision making**	**Amounts not included in CI & E**	**Cost of Services**	**Corporate Amounts**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges and other service income	(52,771)	-	-	**(52,771)**	-	**(52,771)**
Interest and investment income	-	116	(96)	**20**	11,106	**11,126**
Income from council tax	-	-	-	**-**	(106,710)	**(106,710)**
Government grants and contributions	(345,999)	-	(36,225)	**(382,224)**	(124,841)	**(507,065)**
Total income	**(398,770)**	**116**	**(36,321)**	**(434,975)**	**(220,445)**	**(655,420)**
Employee expenses	176,870	-	867	**177,737**	-	**177,737**
Other service expenses	399,619	9,141	(13,643)	**395,117**	-	**395,117**
Depreciation, amortisation and impairment	-	2,078	256,158	**258,236**	-	**258,236**
Interest Payments	-	(851)	-	**(851)**	12,352	**11,501**
Exceptional item – pension back funding	(4,069)	-	-	**(4,069)**	-	**(4,069)**
Precepts and Levies	-	-	-	**-**	11,646	**11,646**
Payments to Housing Capital Receipts Pool	-	-	1,496	**1,496**	1,461	**2,957**
Gain or Loss on Disposal of Fixed Assets	-	-	12,352	**12,352**	-	**12,352**
Total expenditure	**572,420**	**10,368**	**257,230**	**840,018**	**25,459**	**865,477**
(Surplus) or deficit on the provision of services	**173,650**	**10,484**	**220,909**	**405,043**	**(194,986)**	**210,057**

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

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

2010/11 **£000**		**2011/12** **£000**
162,494	Net expenditure in the Directorate Analysis	173,650
135,776	Net expenditure of services and support services not included in the Analysis (including movement in Housing Revenue Account balance)	10,484
(16,497)	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	220,909
281,773	**Cost of Services in Comprehensive Income and Expenditure Statement**	**405,043**

28. Acquired and Discontinued Operations

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

29. Trading Operations

	2011/12 Income £000	2011/12 Expenditure £000	2011/12 (Surplus)/ Deficit £000	2010/11 (Surplus)/ Deficit £000
a) Open Air Market				
The Council operates an open air market three days a week	(710)	1,152	442	277
b) Other Trading Accounts				
Highways	(4,493)	4,506	13	54
Schools/Welfare Catering	(5,509)	6,184	675	1,279

The Market expenditure figure for 2011/12 includes impairment costs of £436k relating to the Market revaluation adjustment. The comparable figure for 2010/11 was £228k.

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

The Catering service has made a £39k surplus before overheads in 2011/2012. The improvement in financial performance is due to additional £500k income received with a corresponding £126k reduction in expenditure. Overheads increased in 2011/2012 by £22k to £724k.

30. Pooled Budgets

a) Learning Disabilities

Under the National Health Services Act 2006 & Local Government Acts 1972 & 2000 a partnership arrangement was established with the Havering Primary Care Trust. The agreement provides for The London Borough of Havering (LBH) to host a pooled budget between the two partners. This includes integrated services and joint commissioning in relation to the provision of Health & Social Care Services for Adults with Learning Disabilities (LD) qualifying for such provision. Services can be provided to those clients either in borough or at their current location in the United Kingdom, depending on needs and circumstances.

	2011/12 £000	2010/11 £000
Funding		
Council	13,064	12,181
Development Fund	133	157
Primary Care Trust	7,437	7,443
Total Funding	**20,634**	**19,781**
Out-turn	20,308	20,610
(Surplus)/Deficit carried forward due (to)/from Council	**(326)**	**829**

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

(b) Mental Health

Under the National Health Services Act 2006 & Local Government Acts 1972 & 2000 a partnership arrangement was established with the North East London Foundation Trust. The agreement provides for The London Borough of Havering (LBH) to host a pooled budget between the 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) qualifying for such provision.

	2011/12 £000	**2010/11 £000**
Funding		
Council	2,934	3,268
Havering PCT	243	243
NELFT	82	82
Total Funding	**3,259**	**3,593**
Out-turn	3,104	3,576
(Surplus)/Deficit carried forward due (to)/from LBH	**(155)**	**(17)**

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

31. Members’ Allowances

Payments in the year were £1,112,386 including expenses (£1,113,555 in 2010/11). Additionally, payments to co-opted Members totalled £2,304 (£1,773 in 2010/11).

32. Officers' Remuneration

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

			2011/12			2010/11	
Lower Band		Upper Band	Schools	Other	**Total**	Schools	Other	**Total**
£50,000	-	£55,000	34	26	**60**	60	44	**104**
£55,000	-	£60,000	26	26	**52**	37	31	**68**
£60,000	-	£65,000	21	31	**52**	25	21	**46**
£65,000	-	£70,000	13	7	**20**	11	15	**26**
£70,000	-	£75,000	2	9	**11**	9	10	**19**
£75,000	-	£80,000	7	3	**10**	7	1	**8**
£80,000	-	£85,000	6	5	**11**	4	2	**6**
£85,000	-	£90,000	2	-	**2**	3	3	**6**
£90,000	-	£95,000	-	5	**5**	1	4	**5**
£95,000	-	£100,000	-	3	**3**	-	3	**3**
£100,000	-	£105,000	-	3	**3**	-	2	**2**
£105,000	-	£110,000	-	2	**2**	-	2	**2**
£110,000	-	£115,000	-	1	**1**	-	1	**1**
£115,000	-	£120,000	-	-	**-**	1	1	**2**
£125,000	-	£130,000	-	2	**2**	-	2	**2**
£140,000	-	£145,000	-	-	**-**	-	1	**1**
£160,000	-	£165,000	-	1	**1**	-	1	**1**
			111	**124**	**235**	**158**	**144**	**302**

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

Four schools on and after the 1st of April 2011 transferred to Academy status resulted in 36 employees not being included within the 2011/12 note.

Senior Officers Remuneration

The following table sets out the remuneration disclosures for Senior Officers whose salaries are more than £50,000 per annum in accordance with regulation 4 of the Accounts and Audit (Amendment No.2) Regulations 2009. Under the revised regulations, the definitions of Senior Officers which are relevant to the Council are:

a) the designated head of paid service, a statutory chief officer or non statutory chief officer of a relevant body as defined under the Local Government Act 1989 or
b) Any person having responsibility for the management of the relevant body, to the extent that the person has the power to direct or control the major activities of the body, in particular activities involving the expenditure of money whether solely or collectively with other persons.

This has been determined to mean the Council's Chief Executive and Corporate Management Team.

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

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

Note 1 Amounts included under expense allowances represent sums received in respect of the role as counting officer at the referendum held on the 5th of May 2011.

Note 2 - The Group Director of Social Care and Learning resigned with effect from 31st October 2011 and was replaced on the 1st October 2011. As part of the senior management team restructure, Social Care and Learning was split in to separate directorates. The annualised salary for the former Group Director of Social Care and learning was £145,000 for 2010/11. The annualised salary for the Group Director of Adults and Health and the Group Director of Children Services was £130,000 and £113,750 respectively.

Note 3 - The Assistant Chief Executive left on the 5th of September 2011. The annualised salary for the Assistant Chief Executive was £105,000 however payments were received in respect of leave not taken and redundancy.

Note 4 - The position of Assistant Chief Executive for Legal & Democratic Services replaced the Assistant Chief Executive on the 1st of September 2011 and the annualised salary was £91,875. Payments in 2011/12 also include payments in respect of an honorarium and officer cover payments.

The comparative figures for 2010/11 are as follows:

Post Holder Information	Salary	Other Payments	Total Remuneration excluding pension contributions 2010/11	Employer's Pension contribution	Total Remuneration including pension contributions 2010/11
	£	£	**£**	£	£
Chief Executive - C Coppell	163,920	16,293	**180,213**	28,113	**208,326**
Group Director of Social Care and Learning	145,000	-	**145,000**	22,620	**167,620**
Group Director of Culture and Communities	130,000	-	**130,000**	20,280	**150,280**
Group Director of Finance and Commerce	130,000	-	**130,000**	20,280	**150,280**
Assistant Chief Executive – Legal and Democratic Services	105,000	-	**105,000**	16,380	**121,380**
Total	**673,920**	**16,293**	**690,213**	**107,673**	**797,886**

33. External Audit Costs

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

2010/11 £000		2011/12 £000
389	Fees payable with regard to external audit services carried out by appointed auditor	378
-	Fees payable to the Audit Commission in respect of statutory inspection	-
78	Fees payable for the certification of grant claims and returns carried out by the appointed auditor	77
-	Fees payable in respect of other services provided by the appointed auditor	-
467	**Total for year**	**455**

34. Dedicated Schools Grant

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

Details of the deployment of DSG receivable for 2011/12 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure	**Individual Schools Budget**	**Totals**
	£000	**£000**	**£000**
Final DSG for 2011/12			145,707
Brought forward from 2010/11			5,008
Carry forward to 2011/12 agreed in advance			-
Agreed budget distribution for 2011/12	**18,057**	**132,658**	**150,715**
Actual Central Expenditure	(13,153)	-	(13,153)
Actual ISB deployed to Schools	-	(132,658)	(132,658)
Council contribution for 2011/12	-	-	-
Carry forward to 2012/13	**4,904**	**-**	**4,904**

35. Grant Income

a) The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

2010/11 £000		2011/12 £000
Credited to Taxation an Non Specific Grant Income		
7,014	Revenue Support Grant	13,348
48,300	Redistributed Business Rates	43,184
-	Council Tax Freeze Grant	2,680
12,116	Area Based Grant	-
-	Non-ringfenced Grant	19,714
42,414	Capital grants	45,915
109,844	**Total**	**124,841**
Credited to Services		
44,434	Rent Allowances	48,719
31,248	HRA rent rebates	33,033
19,316	Council Tax benefits	19,219
(10,610)	Housing subsidies	(9,973)
158,131	Dedicated Schools Grant	145,707
23,220	Standards Fund	95
21,457	Learning Skills Councils / Young People Learning Agency	6,609
6,059	Sure Start	-
1,701	Revenues and Benefits	1,516
7,563	Other	8,316
302,519	**Total**	**253,241**

Current Liabilities

b) Capital Grants – receipts in advance:

2010/11 £000		2011/12 £000
14,143	Brought forward	10,753
39,024	Amounts received in year	44,000
(42,414)	Amounts applied to meet new capital investment	(43,966)
10,753	**Carried forward**	**10,787**

The carried forward balance consists of a large number of grants and contributions received from a variety of sources. The main grants that make up the balance of £19,689 are the Framework Academies grant (£4,556m) and the Education Capital Maintenance grant (£8,592) both of which are expected to be spent in 2012/13.

36. Related Parties

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

Organisations	**Member**	**Payments to Organisations by the Authority £'000**	**Balance Outstanding £'000**
Homes in Havering	Cllr G Brace Cllr J Alexander Cllr S Kelly Cllr R Misir	21,619	102
East London Waste Authority	Cllr S Kelly Cllr B Tebbutt	11,936	
North East London Foundation Trust	Cllr S Kelly	1,974	21
London Councils	Cllr A Curtin Cllr P Gardner Cllr S Kelly Cllr R Benham Cllr R Ramsey Cllr B Tebbutt Cllr M White Cllr L Kelly Cllr P Rochford	813	116
Age Concern: Havering	Cllr J Alexander	717	
Havering Theatre Trust	Cllr M Armstrong Cllr A Curtin Cllr R Ramsey Cllr G Ford	564	
Havering College of Further	Cllr S Binion Cllr P Rochford Cllr G Starns Cllr S Kelly	458	
First Step	Cllr Van Den Hende	268	
Lee Valley Regional Park Authority	Cllr A Curtin	265	
Environment Agency – Thames Region	Cllr B Tebbutt	164	
Relate	Cllr B Eagling Cllr K Wells	135	
London Fire & Emergency Planning Authority	Cllr R Evans	108	

Organisations	Member	Payments to Organisations by the Authority £'000	Balance Outstanding £'000
Thames Gateway London Partnership	Cllr M White	96	
Local Government Association General Assembly	Cllr A Curtin Cllr C Barrett Cllr S Kelly Cllr M White	59	(15)
Havering Museum	Cllr W Brice-Thompson Cllr F Thompson	50	
GMB	Cllr R Misir	15	(18)
London Youth Games Limited	Cllr A Curtin	10	
Court of the University of East London	Cllr P Gardner	9	
George Copsey & Co Limited	Cllr B Tebbutt	5	
The Law Society	Cllr K Darvill	3	

Of the 54 Councillors, one declaration was not received by the end of June 2012, Based on last year's return and the respective register of interest, no related party transactions were identified.

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

37. Capital Expenditure and Capital Financing

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

2010/11 £000	Capital Expenditure	2011/12 £000
68,268	Property, Plant and Equipment	68,028
4,208	Intangible Fixed Assets	3,224
4,921	Revenue expenditure funded from capital under statute	167,366
77,397	**Total Capital Expenditure**	**238,618**
	Less financed from	
(9,178)	Capital Receipts	(11,527)
(6,276)	Major Repairs	(3,002)
(3,115)	Revenue Funds	(10,157)
(42,414)	Grants and Contributions	(35,064)
16,414	**Increase in Need to Borrow Supported by Government**	**178,868**

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

31st March 2011 £000	Capital Financing Requirement	31st March 2012 £000
907,151	Tangible Fixed Assets	877,500
4,742	Intangible Assets	5,972
(116,919)	Revaluation Reserve	(131,095)
(729,931)	Capital Adjustment Account	(510,195)
(1,734)	Finance Lease Liability	(1,333)
-	Grants Deferred Account	-
63,309	**Net Requirement**	**240,849**

38. Leases

Council as Lessee

Finance Leases

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

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

31st March 2011 £000	Vehicles, Plant, Furniture and Equipment	31st March 2012 £000
51	Transport	3
571	Schools	409
622	**Net Asset Values**	**412**

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

31st March 2011 £000	Finance lease liabilities (net present value of minimum lease payments):	31st March 2012 £000
286	• Current	207
375	• Non current	168
207	Finance costs payable in future years	105
868	**Minimum lease payments**	**480**

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

	Finance Lease Liabilities		Minimum Lease Payments	
	31st March 2012 £000	**31st March 2011 £000**	**31st March 2012 £000**	**31st March 2011 £000**
Not later than one year	207	286	272	388
Later than one year and not later than five years	168	375	208	480
Later than five years	-	-	-	-
	375	**661**	**480**	**868**

Operating Leases

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

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

31st March 2011 £000		31st March 2012 £000
38	Not later than one year	33
64	Later than one year and not later than five years	37
-	Later than five years	-
102	**Minimum lease payments**	**70**

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

2010/11 £000		2011/12 £000
7	Children's and Education Services	-
33	Highways, Roads and Transport Services	37
40	**Minimum lease payments**	**37**

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

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

31st March 2011 £000		31st March 2012 £000
926	Not later than one year	356
1,107	Later than one year and not later than five years	1,026
2,036	Later than five years	1,587
4,069	**Minimum lease payments**	**2,969**

The minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.883 million (£1.228 million in 2010/11). In most cases these rents are charged to Central Support Services and subsequently recharged to the appropriate Service in accordance with *SeRCOP*.

39. Public Private Partnership (PPP)

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

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

The assets acquired through this scheme are recorded on the Balance Sheet with a net book value of £958,000 as at 31st March 2012. Depreciation of £106,000 was charged to Children's and Education Services within the Income and Expenditure Account in 2011/12.

Contract payments in 2011/12 total £164,000 of which £51,000 was allocated to financing costs and £113,000 to reduce the liability in accordance with requirements of the IFRS Code of Practice.

The current year position is shown below:

31st March 2011 £000	Finance Lease Liability	31st March 2012 £000
1,179	Balance brought forward	1,071
(108)	Repayments in year	(113)
1,071	**Balance carried forward**	**958**

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

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£000	£000	£000	£000
Not later than one year	119	118	46	283
Later than one year and not later than five years	506	532	125	1,163
Later than five years	272	307	22	601

40. Impairment Losses

During 2011/12, The Council has recognised an impairment loss of £24.8m in the Comprehensive Income & Expenditure Statement. This is in relation to its revaluation of assets and a breakdown of this impairment by asset class can be found in the table below:

Asset Class	Impairment Loss Charged to the CI&E £ 000
Council Dwellings	13,545
Other Land and Buildings	5,955
Vehicles, Plant, Furniture and Equipment	-
Infrastructure Assets	-
Community Assets	5,337
Surplus Assets	-
Assets Under Construction	-

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

41. Termination Benefits

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

Exit Package cost band (including special payments	Number of Compulsory Redundancies		Number of Departures Agreed		Total Number of exit packages by Cost Band		Total Cost of exit packages in each band	
	2010 -11	2011 - 12	2010 -11	2011 - 12	2010 -11	2011 - 12	2010 -11	2011 - 12
£0 - £20,000	-	57	16	32	16	89	145,978	687,632
£20,001 - £40,000	-	9	1	10	1	19	23,499	509,338
£40,001 - £60,000	-	4	-	6	-	10	-	526,165
£60,001 - £80,000	1	1	-	5	1	6	61,619	426,170
£80,001 - £100,000	-	-	-	1	-	1	-	89,584
£100,001 - £150,000	-	1	-	1	-	2	-	220,775
Total	**1**	**72**	**17**	**55**	**18**	**127**	**231,096**	**2,459,643**

The Authority terminated the contracts of a number of employees in 2011/12, incurring costs of £2,459,643 (£231,096 in 2010/11). Of this total, £31,635 is payable to the former Assistant Chief Director in the form of redundancy costs. All redundancies occurred in 2011/12 are all as a result of the Havering 2014 transformation programme.

42. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers Pensions

Teachers employed by the Council are members of the Teachers Pension scheme administered by the Department for Education (DfE). It provides teachers with defined benefits upon their retirement and the Council contributes towards these costs by making contributions based upon a percentage of member's personal salaries.
The Teachers Pension scheme is a defined benefit scheme, administered by the Teachers Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employer's contribution rates paid by Local Education Authorities (LEAs). However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of the Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme.
In 2011/12 the Council paid £8.7m (£11.5m 2010/11) to Teachers Pensions in respect of teachers pension contributions. This represented 14.1 % of teachers' pensionable pay (14.1% in 2010/11). There were no contributions remaining payable at the end of the period.

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

43. Defined Benefit Pension Schemes

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

The Council participates in two pension schemes:

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

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

Transactions relating to Retirement benefits

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the contributions payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in Reserves. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

	2011/12 **£000**	**2010/11** **£000**
Net Cost of Services:		
Current service cost	13,262	16,134
Past service costs / (Gain)	110	(67,710)
Losses / (Gains) on curtailments and settlements	(5,117)	-
Net Operating Expenditure:		
Interest cost	33,120	37,481
Expected return on pension fund assets	(21,328)	(21,304)
Net Charge to C, I and E and surplus / deficit on the Provision of Services	**20,047**	**(35,399)**
Movement on Pension Fund Reserve	(1,140)	54,613
Actual amount charged against Council Tax for pensions in the year	**18,907**	**19,214**
Payments in Year		
Employer Contributions	17,799	18,157
Unfunded pension payments	1,108	1,057
Actual amount charged against Council Tax for pensions in the year	**18,907**	**19,214**

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial losses of £53 million (2010/11: gain of £86.1 million) were included in the Statement of Movements in Reserves.

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pensions assets and liabilities line was at 31st March 2012 a loss of £147.3 million and at 31st March 2011 was a loss of £94.3 million.

44. Assets and Liabilities in relation to Retirement Benefits.

Reconciliation of Scheme Liabilities

Funded Liabilities	**2011/12 £000**	**2010/11 £000**
Opening Balance	618,479	736,240
Current Service Cost	13,262	16,134
Interest Cost	33,120	37,481
Contributions by Scheme Participants	4,892	5,441
Actuarial (Gains) / Losses	44,981	(82,942)
Unfunded benefits paid	(1,108)	(1,057)
Benefits Paid	(27,064)	(25,108)
Past Service Costs / (Gains)	110	(67,730)
Liabilities Extinguished on Settlements	(15,313)	-
Losses on curtailment	1,473	20
Closing Balance	**672,832**	**618,479**

Reconciliation of fair value of the scheme assets:

Scheme Assets	**2011/12 £000**	**2010/11 £000**
Opening Balance	337,260	314,290
Expected Rate of Return	21,328	21,304
Actuarial Gains or (Losses)	(8,010)	3,176
Assets Distributed on Settlements	(8,723)	-
Employer Contributions	18,907	19,214
Contributions by Scheme Participants	4,892	5,441
Benefits Paid	(28,172)	(26,165)
Closing Balance	**337,482**	**337,260**

The Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted market principles. The assumed rate of return on each asset is set out within this note. The overall expected return on assets is therefore derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31st March 2012.

The actual gain on scheme assets in the year was £13.32m (£24.48m in 2010/11).

Scheme history

	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000	2007/08 £000
Present Value of Fund Liabilities	(672,832)	(618,479)	(736,240)	(548,510)	(532,780)
Fair Value of assets in the Scheme	337,482	337,260	314,290	229,610	313,610
Net Surplus/ (Deficit)	**(335,350)**	**(281,219)**	**(421,950)**	**(318,900)**	**(219,170)**

Assets are measured at current bid price.

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £335.4m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a reduction in the overall balance from £727.1m to £391.7m, a reduction of 47%. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

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

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2013 is £16.4 m. This does not take account of any “strain on fund contributions” which may be required.

Basis of Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Hymans Robertson LLP, the actuaries to the Council Pension Fund, have assessed the liabilities, with estimates being based on the latest full valuation of the schemes as at 31st March 2011.

The main assumptions used in their calculations are as follows:

Salary increases are assumed to be 1% until 31st March 2015 reverting to the long term assumption

	31st March 2012	31st March 2011
Long-term expected rate of return on assets in the scheme		
Equity Investments	6.2%	7.5%
Bonds	4.0%	4.9%
Property	4.4%	5.5%
Cash	3.5%	4.6%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.9	21.9
Women	24.6	24.6
Longevity at 65 for future pensioners:		
Men	23.8	23.8
Women	26.5	26.5
Rate of inflation	2.5%	2.8%
Rate of increase in salaries *	4.3%	4.6%
Rate of increase in pensions in payment	2.5%	2.8%
Rate of increase in deferred pensions	2.5%	2.8%
Discount Rate	4.8%	5.5%
Take-up of option to convert annual pension into retirement lump sum	75%	75%

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

	31st March 2012 %	31st March 2011 %
Equity Investment	63	62
Property	6	5
Bonds	30	29
Cash	1	4
Total	**100**	**100**

History of Experience Gains and Losses

The actuarial gains / (losses) identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories:

	2011/12	2010/11	2009/10	2008/09	2007/08
	£000	£000	£000	£000	£000
Experience gains / (losses) on Assets	(8,010)	3,176	74,330	(104,330)	(46,660)
Experience gains / (losses) on Liabilities	(44,981)	82,942	(162,540)	(2,790)	(5,710)

45. Contingent Liabilities
Employee related liabilities

There are 6 non equal pay complaints against the Council in Employment Tribunals, which are at various stages in the process. At this time it is not possible to assess the potential liability because it is either too early in the process or it is in respect of a claim where there is no limit of liability.

There are potentially between 2 and 20 equal pay claims that are no longer time barred as a result of a recent court decision. These claims are subject to negotiation to reach settlement.

46. Contingent Assets
Employers Liability Trigger litigation

Following judgement of the Supreme Court on 28th March 2012 the Council expects to receive a reimbursement of approximately £400k from Municipal Mutual Insurance in respect of the Council's incurred liability for mesothelioma claims. A statement from Municipal Mutual Insurance is awaited which may give some indication on whether they intend to accept the ruling. If this decision is delayed the Council could incur expenditure on further claims. It is difficult to estimate the potential exposure period, which is over many years. Periods of self funding and issues of limitation could prevent or reduce recovery.

47. Nature and Extent of Risks Arising from Financial Instruments
Key risks

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

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

Overall procedures for managing risk

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

1. By formally adopting the requirements of The Code of Practice;

2. By approving annually in advance, prudential indicators for the following three years limiting;

   - the Council 's overall borrowing;
   - its maximum and minimum exposure to fixed and variable rates;
   - its maximum and minimum exposure to the maturity structure of its debt;
   - its maximum annual exposure to investments beyond a year.

3. By approving an Investment Strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government guidance.

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

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined in the procedures referred to above.

This risk is addressed within the Treasury Management Strategy Statement (TMSS) approved annually at Full Council. The latest version was approved in February 2012. This requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria (i.e. as identified by credit rating agencies such as Fitch and Moody's). The TMSS also imposes a maximum sum to be invested with a financial institution located within each category. Whilst a great deal of reliance is placed on credit rating agencies the Council recognises that this must not form the sole basis for assessing Counterparty eligibility. Market intelligence is gathered from a variety of sources and is reviewed by officers. More details on the Council's strategy can be found in the TMSS which is available on the Council's website.

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

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

	Amount at 31st March 2012 £000	Historical experience of default %	Estimated maximum exposure to default and un-collectability %	Estimated maximum exposure at 31st March 2012 £000
Deposits with Banks and financial Institutions:				
UK Banks with a long term rating of AA- or higher	4,000	0%	0%	-
UK Banks with a long term rating of A- to A+	61,298	0%	0%	-
Customers (Debtors)	58,633	1.1%	35%	20,521

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

The Council does not normally allow credit for its customers; however, £17.5 million of £58.6 million shown in the above table is past its due date and is in excess of one year in arrears. The Council actively pursues all debtors in accordance with its debt management policy and does not write debt off until it has exhausted all options for recovery. The Council regularly reviews its levels of debt, which includes considering the adequacy of its provision for bad debts. Amounts due from customers can be analysed by age as follows.

	2011/12 £000	2010/11 £000
Less than three months	36,987	45,195
Less than six months	1,989	2,063
Six months to one year	2,110	2,132
More than one year	15,955	13,646
Long Term Debtors	1,592	1,763
	58,633	**64,799**

Long term debtors include loans secured by mortgage to the value of £1.2m. Debts to the value of £1.5m are also secured by way of a legal charge.

Liquidity risk

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

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

Re-financing and maturity risk

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

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

The maturity analysis of loans is as follows:

	2011/12 **£000**	**2010/11** **£000**
Less than one year	4,050	14,871
Between one and two years	-	-
Between two and five years	-	-
More than five years	210,234	44,986
	214,284	**59,857**

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

Market risk

Interest rate risk

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

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

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

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

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

	2011/12	**2010/11**
	£000	**£000**
Increase in interest payable on variable borrowings	(58)	(31)
Increase in interest receivable on investments	909	946
Impact upon C, I and E Account	**851**	**915**

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

48. Heritage Assets: Five-year Summary of Transactions

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

49. Heritage Asset: Change in Accounting Policy required by the Code of Practice for Local Authority Accounting in the United Kingdom

The *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* introduced a change to the treatment in accounting for heritage assets held by the Council. As set out in our summary of significant accounting policies, the Council now requires heritage assets to be carried in the balance sheet at valuation.

Heritage Assets

For 2011/12 the Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. Community Assets (that are now to be classified as heritage assets) that were donated to the Council were held at valuation as a proxy for historical cost. The Council's accounting policies for recognition and measurement of heritage assets are set out in the Council's Statement of Accounting Policies.

In applying the new accounting policy, the Council has identified that the assets that were previously held as community assets within property, plant and equipment at £27k should now be recognised as heritage assets and still measured at £27k. The Council will also recognise an additional £80k for the recognition of heritage assets that were not previously recognised in the Balance Sheet. Again, this increase is recognised in the Revaluation Reserve. The 1st April 2010 and 31st March 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

50. Trust Funds

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

	Richard Ballard Charity £	Lucas Children's Playsite Charity £
Balance 31st March 2011	6,500	165,566
Receipts	24	620
Payments	(24)	(19,990)
Balance 31st March 2012	**6,500**	**146,196**

The Richard Ballard Charity

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

The Lucas Children's Play Charity

The income from this charity may be applied towards the provision, maintenance and improvements of childrens' playgrounds and equipment in the borough.

Housing Revenue Account
Income and Expenditure Statement 2011-12

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

2010/11 £'000		Notes	2011/12 £'000
	Income		
36,097	Dwelling rents		38,439
2,393	Non-dwelling rents		2,495
5,577	Charges for services and facilities		5,859
1,830	Contributions towards expenditure		1,682
6,327	Housing subsidy receivable	6	8,780
52,224	**Total Income**		**57,255**
	Expenditure		
7,021	Repairs and maintenance		8,074
18,558	Supervision and management		17,850
374	Rents, rates, taxes and other charges		530
16,937	Negative subsidy payable to the Secretary of State	6	18,753
132	Increased provision for bad/doubtful debts		308
150,969	Depreciation and Impairment of tangible fixed assets	4	38,808
48	Intangible fixed assets amortised	5	-
31	Revenue expenditure funded from capital under statute amortised	5	222
4	Debt management		4
-	Local Authority Housing – Settlement payment to Government for HRA Self Financing	3 & 5	165,248
194,074	**Total Expenditure**		**249,797**
141,850	**Net Cost of Services included in the Comprehensive I & E Statement**		**192,542**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(1,273)	Net gain on HRA assets		(2,078)
372	Interest payable and similar charges		851
(108)	Interest and investment income		(116)
140,841	**(Surplus) / deficit for the year on HRA Services**		**191,199**

Movement on the Housing Revenue Account Balance during 2011/12

2010/11 £'000		2011/12 £'000
(1,726)	**Housing Revenue Account balance brought forward**	**(4,194)**
140,841	(Surplus) or Deficit for the Year on the HRA I & E Account	191,199
(144,431)	Adjustments between accounting basis and funding basis under regulations	(195,476)
(5,316)	**Net increase/decrease before transfer to earmarked reserves**	**(8,471)**
1,122	**Transfers to/from earmarked reserves**	**2,646**
(4,194)	**Housing Revenue Account balance carried forward**	**(5,825)**

Note to the Statement of Movement on the Housing Revenue Account Balance 2011/12

2010/11 £'000	Notes	2011/12 £'000
	Items included in the HRA Income and Expenditure Account but excluded from the movement in the HRA balance	
(145,744)	Depreciation and impairment of fixed assets	(197,644)
0	Revaluation gain matching previous impairment	-
0	Short term accumulating absences	-
1,273	Gain or (loss) on fixed assets	2,078
(1)	Difference between the amounts debited (-) /credited(+) to the I & E account and amounts payable(+)/receivable(-) to be recognised under statutory provisions relating to premiums and discounts	
41	Net charge made for retirement benefits	90
(144,431)		**(195,476)**
	Items not included in the HRA Income and Expenditure Account but included from the movement in the HRA balance	
1,022	Net contribution from the major repairs reserve	2,146
100	Capital Expenditure funded by the HRA	500
1,122		**2,646**
(143,309)	**Net additional amount required by statute to be debited or credited to the HRA balance**	**(192,830)**

Notes to the Housing Revenue Account

1. Information on Housing Fixed Assets

a) Number of Dwellings

	2011/12 Number	2010/11 Number
Flats		
1 bedroom	3,039	3,142
2 bedrooms	2,398	2,403
3 bedrooms	391	391
4 or more bedrooms	21	21
Houses		
1 bedroom	336	405
2 bedrooms	1,185	1,192
3 bedroom	2,486	2,494
4 or more bedrooms	148	144
Total Number of Dwellings	**10,004**	**10,192**

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

b) Balance sheet value of HRA tangible fixed assets

	2011/12 £'000	2010/11 £'000
Operational		
Dwellings	336,920	356,089
Other Land and Buildings	22,389	22,861
Vehicles, Plant and Equipment	163	81
Infrastructure	3,241	3,477
	362,713	382,508
Non-operational		
Investment Properties	20,198	21,043
	20,198	21,043
Total Tangible Fixed Assets	**382,911**	**403,551**

c) Valuation of Council dwellings at year end

	1st April 11 £m	1st April 10 £m
Vacant possession value	1,348	1,424
Excess of vacant possession value over balance sheet value	1,011	1,068

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

	2011/12 £'000	2010/11 £'000
Total depreciation from Capital Adjustment Account	6,634	5,305
Net contribution (to)/from HRA for difference between Major Repairs Allowance and depreciation	2,146	1,022
Net Income equal to Major Repairs Allowance	8,780	6,327
Capital expenditure on HRA capital assets:		
Dwellings	3,026	6,255
Other Land and Buildings	-	21
Infrastructure	(24)	-
Grants	-	-
Total Capital Expenditure	3,002	6,276
Balance brought forward at start of year	139	88
Balance carried forward at end of year	**5,917**	**139**

3. a) Total Capital Expenditure and Funding

	2011/12 £'000	2010/11 £'000
Capital expenditure on HRA property and other assets:		
Dwellings	17,071	14,336
Other Land and Buildings	151	938
Equipment	92	49
Infrastructure	87	131
Revenue expenditure funded from capital under statute and intangibles	222	31
Renovations & Defects Grant	-	948
Housing Self Financing Settlement	165,248	-
Total Expenditure	**182,871**	**16,433**
Financed from:		
Borrowing	178,868	8,809
Major Repairs Reserve	3,002	6,276
Grants and Contributions	214	1,929
Revenue Contributions	500	100
Capital Receipts	287	(681)
Total Funding	**182,871**	**16,433**

b) HRA Capital Receipts

	2011/12 £'000	2010/11 £'000
Right to Buy Sales	1,663	2,361
Other Property Sales	977	3,542
Other Receipts	-	-
Total Cash Receipts	2,640	5,903
Transferred for Pooling	(1,461)	(1,743)
Total New Usable	**1,179**	**4,160**

4. Depreciation and Impairment Charge

The depreciation charged to the HRA breaks down as follows:

	2011/12 £'000	2010/11 £'000
Dwellings	5,810	4,484
Other Buildings	490	471
Equipment	10	21
Infrastructure	324	329
Surplus Property	-	-
Total HRA depreciation	**6,634**	**5,305**
Impairment charge	**32,174**	**145,664**
Total HRA depreciation and impairment charge	**38,808**	**150,969**

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

	2011/12 £'000	2010/11 £'000
Housing Self Financing Settlement	165,248	-
Mobility Grants and Other Revenue expenditure funded from capital under statute	222	31
Intangible Assets: Computer Software	-	48
Total Amortised	**165,470**	**79**

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

6. Housing Revenue Account Subsidy Payable

Allowances:	2011/12 £'000	2010/11 £'000
Management and maintenance	18,778	17,983
Others	1,454	1,207
Guide line rent	(38,989)	(36,123)
Prior years adjustments	4	(4)
Sub-total subsidy payable	**(18,753)**	**(16,937)**
Major Repairs Allowance	8,780	6,327
Sub-total subsidy receivable	**8,780**	**6,327**
Total subsidy payable	**(9,973)**	**(10,610)**

7. Rent Income, Arrears and Bad Debts

	2011/12	2010/11
Average weekly rent (including service charges unpooled)	£78.90	£73.43

The increase in average weekly rents was 7.45%.

	2011/12 £'000	2010/11 £'000
Rent arrears at 31st March	2,219	1,975
Bad debts provision at 31st March	1,521	1,394

Collection Fund 2011/2012

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

Income and Expenditure Account

2010/11 £'000		Note	2011/12 £'000
	Income		
116,833	Income from Council Taxpayers		117,890
	Transfers from General Fund		
19,093	Council Tax benefit		19,021
39	Prompt payment discounts		40
(1)	Transitional relief		(2)
63,526	Income collectable from Non Domestic Rates	2a	66,269
2,128	Income collectable from Business Rate Supplement	2b	2,038
201,618	**Total Income**		**205,256**
	Expenditure		
134,219	Precepts and Demands	3	134,999
(164)	Distribution of previous year's Council Tax surplus/(deficit)		(1,055)
	Bad and doubtful debts provision		
507	Write-offs		1,439
907	Provisions		766
	Non Domestic Rates		
63,260	Payment to National Pool		65,991
266	Cost of Collection		278
	Business Rate supplement		
2,113	Payment to Greater London Authority		2,025
15	Cost of Collection		13
201,123	**Total Expenditure**		**204,456**
(495)	Movement in fund balance		(800)
429	Net (surplus) deficit at start of year		(66)
(66)	**Net (surplus) deficit carried forward**	**4**	**(866)**

Notes to the Collection Fund Accounts

1. Income from Council Tax

The Local Government Finance Act 1992 abolished the Community Charge and established the Council Tax. This Tax is based partly on the valuation of domestic properties and is partly a Personal Tax with discounts for single occupiers. The Council set the level of Council Tax in 2011/12 at £1,511 for band D properties. The number of band D equivalent properties in each band making up the Council Tax base was as follows:

Band	Number of Band D Equivalent Properties
A1	4
A	2,822
B	6,564
C	19,834
D	31,449
E	16,778
F	8,395
G	4,720
H	500
Allowance for losses in collection 1.5%	(1,366)
Tax Base	**89,700**

2. Income from Business Rates

Under the arrangements for uniform business rates, the Council collects Non-Domestic Rates (NNDR) for its area. These are based on local rateable values of £184.3 million at 31st March 2012 (£186.7 million at 31st March 2011) multiplied by uniform rates for large and small businesses. In 2011/12 the rate was 43.3p for large businesses (41.4p in 2010/11) and 42.6p for small (40.7p in 2010/11). The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government. In addition to the multiplier used to calculate business rates, all London councils are required to collect from businesses with a rateable value in excess of £55,000 an additional 2p supplement, which is payable to the GLA. Under these arrangements the amounts included in these Accounts can be analysed as follows:

2a) Income collectable from Non Domestic Rates

	2011/12 £'000	2010/11 £'000
Gross NNDR due in year	75,215	70,299
Less: allowances and other adjustments	(8,946)	(6,773)
	66,269	**63,526**

2b) Income collectable from Business Rate Supplement

	2011/12 £'000	2010/11 £'000
Gross Supplement due in year	2,353	2,405
Less: allowances and other adjustments	(315)	(277)
	2,038	**2,128**

3. Precepts and Demands

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

	2011/12 £'000	2010/11 £'000
London Borough of Havering	107,208	106,589
Greater London Authority	27,791	27,630
	134,999	**134,219**

4. Collection Fund Deficit

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

	2011/12 £'000	2010/11 £'000
London Borough of Havering	(688)	(53)
Greater London Authority	(178)	(13)
Deficit/(Surplus)	**(866)**	**(66)**

Pension Fund

Introduction

The Havering Pension Fund is part of the Local Government Pension Scheme and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the fund have been delegated to the Group director Finance and Commerce.

The following description of the scheme is a summary only. For more details on the operation of the pension fund, reference should be made to the Havering Pension Fund Annual Report 2011/12 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

The pension fund is a contributory final salary scheme and operates as a funded, defined benefits scheme which provides benefits for employees (excluding teachers) which include retirement pensions, spouse, civil partners and children's pensions, death grants and other lump sum payments.

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

During 2011/12 ten schools converted to Academies and Volker were admitted as a new employer to the fund and May Gurney ceased to be an active employer.

Membership

The membership of the Pension Fund is as follows:

	As at 31st March 2012	As at 31st March 2011
Contributors	5,878	6,155
Deferred pensioners	4,405	4,041
Pensioners and Dependants	5,253	5,065
TOTAL	**15,536**	**15,261**

Employers in the Fund

The other employers in the Pension Fund are as follows:

Scheduled bodies:
Havering College of Further Education
Havering Sixth Form College
Homes in Havering
Drapers Academy (Academy from September 2010)
Abbs Cross School (Academy from 1 April 2011)
Brittons School & Technology College (Academy from 1 April 2011)
Coopers' Company & Coborn School (Academy from 1 April 11)
The Albany School (Academy from 1 August 2011)
Campion School (Academy from 1 August 2011)
Hall Mead Secondary School (Academy from 1 August 2011)
Sacred Heart of Mary's Girl's School (Academy from 1 August 2011)
St Edwards CE Secondary Comprehensive (Academy from 1 August 2011)
Emerson Park (Academy from 1 September 2011)
Redden Court (Academy from 1 September 2011)

Admitted Bodies:
Havering Citizens Advice Bureau
Morrisons (formerly AWG)
May Gurney (ceased 31 October 2011)
Sports & Leisure Management Ltd
KGB Cleaners
Volker (joined 1 November 2011)

Designated Bodies:

Trust Schools
Corbets Tey Special School

Foundation Schools

Marshall Park (Foundation from 1 September 2011)
Royal Liberty
The Chafford School
The Sanders Draper School
The Mawney Primary School
Frances Bardsley School for Girls (Academy from 1 July 2012)

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

Investment Arrangements

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

A review of the Fund's investment strategy took place during the summer of 2008. Given that markets had seen unprecedented volatility and market falls during 2008 some of the intended restructuring was postponed. The markets were monitored during 2009 and the Fund carried out a competitive tender process for a Passive Equity Manager and a Multi – asset Manager. The results of this exercise awarded contracts to State Street (passive equities manager) and Ruffer Investment Company (Multi-asset manager) who commenced trading in September 2010. In September 2010 the Pensions Committee decided to terminate the mandate with the Global Equities Manager (Alliance Bernstein) and assets were placed with the Passive Equity Manager (State Street Global Assets) until a new Global Equity Manager was appointed. A new Global Equity Manager Baillie Gifford was awarded the mandate for Global equities in December 2011. Assets are in the process of being transferred and it is anticipated that trading will commence in April 2012. Further strategy implementation (including rebalancing) will be undertaken during 2012/13.

The Fund managers and the market value of assets under their management as at 31st March 2012 were as follows:

Manager	Mandate	Value	
		£'000	%
Standard Life	UK Equities	90,178	22.4
Royal London	Investment Grade Bonds	104,182	25.9
UBS	Property	26,654	6.6
Ruffer	Absolute Return	39,146	9.8
State Street Global Assets	Passive UK/Global Equities	142,116	35.3
Alliance Bernstein	Global Equities	21	0.0
Baillie Gifford	Global Equities	-	-
	Other	22	0.0
	Total Fund	**402,319**	**100.0**

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

Performance

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

In 2011/12, the overall return on the Fund's investments was 4.2% (2010/11 6.3%). This represented an under performance of -0.6% against the tactical benchmark (2010/11 underperformance of -1.9%) and an under performance of -16.9% against the strategic benchmark (2010/11 underperformance -3.3%).

The longer term performance is as follows:

	3 years to 31.3.12 %	5 years to 31.3.12 %
Fund return	**15.3**	**1.5**
Tactical Benchmark	15.3	4.0
Performance	**0.0**	**-2.3**
Fund return	**15.3**	**1.5**
Strategic benchmark	12.4	11.3
Performance	**2.6**	**-8.8**

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

Pension Fund Account for the year ended 31st March 2012

2010/11 £'000		Note	2011/12 £'000
	Contributions and benefits		
28,337	Contributions	3	30,286
4,311	Transfers in from other pension funds	4	2,637
32,648			**32,923**
(25,702)	Benefits	5	(31,215)
(1,258)	Payments to and on account of leavers	6	(2,581)
(613)	Administration expenses	7	(586)
(27,573)			**(34,382)**
5,075	**Net additions / (withdrawals) from dealings with members**		**(1,459)**
	Returns on Investments		
(1,282)	Investment management expenses	8	(1,138)
10,196	Investment income	9	8,360
14,174	Profit and losses on disposal of investments and changes in the market value of investments	10	9,108
23,088	**Net returns on investments**		**16,330**
28,163	**Net Increase in the net assets available for benefits during the year**		**14,871**
360,471	Net assets of the Fund at start of year		388,634
388,634	**Net assets of the Fund at end of year**		**403,505**

Net Asset Statement as at 31 March

2011 £'000		Note	2012 £'000
388,686	Investment Assets	11	402,319
(164)	Investment Liabilities	11	-
413	Current Assets	12	1,695
(301)	Current Liabilities	13	(509)
388,634	**Net assets of the fund available to fund benefits at end of the year**		**403,505**

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. Refer to Note 22 for details of the Actuarial Valuation.

Notes to the Pension Fund

1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting 2011/12 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Transactions are included on an accruals basis, other than transfer values which are included on a cash basis, on the basis that they represent a reasonable estimation of cost.

2. Summary of Significant Accounting Policies

Fund Account - revenue

(a) Contribution income
Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. This is then broken down to show the amount allocated for the deficit funding (past service costs).

Pension strain contributions (augmentation) are accounted for in the period in which the liability arises.

(b) Transfers to and from other schemes
Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see note 4 and 6)

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

(c) Investment Income
i) Interest income
Interest income is recognised in the fund as it accrues.
ii) Dividend income
Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an Investment asset.
iii) Distribution from pooled funds
Distributions from pooled funds are recognised at the date of issue.
Iv) Property- related income
Property related income consists primarily of rental income and are recognised at the date of issue.
v) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

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

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

(f) Administrative expenses
All administrative expenses are accounted for on an accruals basis. A proportion of relevant officers' salary costs, including related on-costs, has been charged to the Fund.

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

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

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

For officers' time spent on investment management functions; a proportion of the relevant officers' salary costs, including related on-costs, has also been charged to the Fund.

Net Assets Statement

(h) Financial assets

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

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-quoted investments

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

(ii) Fixed interest securities

Fixed interest securities are recorded at net market value.

(iii) Unquoted investments

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

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

(iv) Pooled investment vehicles

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

(i) Foreign currency transactions

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

(j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities.

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

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

(k) Cash and cash equivalents

Cash comprises cash in hand.

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

(l) Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

(m) Actuarial present value of promised retirement benefits

The actuarial present value of promised benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

Stock Lending

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

3. Contributions

	2011/12 £'000	2010/11 £'000
Employers		
Normal:		
Havering	11,322	13,057
Scheduled Bodies	3,421	2,072
Admitted Bodies	541	560
Deficit funding:		
Havering	6,994	5,734
Augmentation:		
Havering	1,083	311
Scheduled Bodies	63	63
Admitted Bodies	499	2
Employer Total	**23,923**	**21,799**
Members		
Normal:		
Havering	5,029	5,506
Scheduled bodies	1,060	723
Admitted bodies	150	160
Additional contributions:		
Havering	96	127
Scheduled bodies	27	21
Admitted bodies	1	1
Members Total	**6,363**	**6,538**
	30,286	**28,337**

Note: Some employees made additional voluntary contributions (AVC's) of £80,030 (£99,053 10/11) excluded from the statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2011/12 were £69,870 to the Prudential and £10,160 to Standard Life. These amounts are not included in the Pension Fund Account in accordance with regulation 5[2] c of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

4. Transfers in from other pension funds

	2011/12 £'000	2010/11 £'000
Individual transfers in from other schemes	2,637	4,311

5. Benefits

	2011/12 £'000	2010/11 £'000
Pensions		
Havering	22,274	20,766
Scheduled Bodies	483	327
Admitted Bodies	278	197
Pension Total	**23,035**	**21,290**
Commutation & Lump Sum Retirements		
Havering	5,773	3,426
Scheduled Bodies	562	360
Admitted Bodies	868	128
Commutation Total	**7,203**	**3,914**
Lump sum death benefits		
Havering	610	161
Scheduled Bodies	270	165
Admitted Bodies	97	172
Death Benefits Total	**977**	**498**
	31,215	**25,702**

6. Payments To and On Account of leavers

	2011/12 £'000	2010/11 £'000
Refunds to members leaving service	2	1
Individual transfers to other schemes	2,579	1,257
	2,581	**1,258**

7. Administrative expenses

	2011/12 £'000	2010/11 £'000
Administration & Processing	522	499
Actuarial Fees	9	63
Audit Fees	35	35
Other Fees	5	6
Other Expenses	15	10
	586	**613**

8. Investment management expenses

	2011/12 £'000	2010/11 £'000
Administration, management and custody	1,053	1,224
Performance measurement services	12	11
Other Advisory Fees	73	47
	1,138	**1,282**

9. Investment Income

	2011/12 £'000	2010/11 £'000
Income from Fixed Interest securities	*4,137	4,702
Dividends from equities	3,700	4,419
Income from pooled vehicles	1,260	617
Cash & Deposits	54	128
Other	0	117
Other Income		
Foreign Exchange (Losses) / Profits/	(791)	213
Total Income	**8,360**	**10,196**

* Income includes Index linked Interest of £532k

10. Reconciliation of movements in investments & derivatives

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

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year as supplied by the Fund's custodian amounted to £201,591 (2010/11 £564,898). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

11. Analysis of investments

	2011/12 £'000	2010/11 £'000
Equities		
UK Quoted	91,511	90,970
Overseas quoted	12,698	5,168
	104,209	**96,138**
Fixed Interest Securities		
UK Public sector	9,716	10,963
UK Private (corporate)	59,671	58,527
Overseas Public sector	1,467	6,644
	70,854	**76,134**
Index-Linked Securities		
UK Public sector	36,887	33,690
UK Private (corporate)	575	564
Overseas Public sector	9,198	3,001
	46,660	**37,255**
Derivative Contracts		
Forward FX Contracts	516	(164)
	516	**(164)**
Pooled Investment Vehicles		
UK Managed Funds		
UK Quoted	147,750	146,141
UK Unquoted	22	19
Overseas	1,111	-
Property	981	1,084
UK Unit Trust		
UK Property	25,592	18,521
	175,456	**165,765**
Cash Instruments		
UK	673	-
	673	**-**
Cash Deposits		
Managers	3,231	2,655
	3,231	**2,655**
Short Term Investments		
L.B. of Havering	-	8,495
	-	**8,495**

11. Investments (continued)

	2011/12 £'000	2010/11 £'000
Other Investment balances		
Outstanding Sales	3,004	1,439
Investment income	1,325	1,504
Outstanding dividend and recoverable withholding tax	841	568
Outstanding Trades	(4,448)	(1,266)
Investment Income	(2)	(2)
	720	**2,243**
Total Investments	**402,319**	**388,521**

12. Current Assets

	2011/12 £'000	2010/11 £'000
Pension Grants	13	17
Contributions due from Employers	378	312
Contributions due from members	109	84
Cash deposit with LB Havering	1,195	-
Current Assets	**1,695**	**413**

13. Current Liabilities

	2011/12 £'000	2010/11 £'000
Unpaid Benefits	(178)	(87)
Accrued Expenses	(331)	(214)
Current Liabilities	**(509)**	**(301)**

Analysis of Debtors

	2011/12 £'000	2010/11 £'000
Central government bodies	-	-
Other Local Authorities	-	-
NHS bodies	13	17
Public corporation and trading funds	378	312
Other entities and individuals	109	84
Total	**500**	**413**

Analysis of Creditors

	2011/12 £'000	2010/11 £'000
Central government bodies	-	-
Other Local Authorities	-	-
NHS bodies	-	-
Public corporation and trading funds	-	-
Other entities and individuals	(509)	(301)
Total	**(509)**	**(301)**

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the fund. The use of derivatives is managed in line with the investment management agreement agreed between the fund and various investment managers.

Forward foreign currency

The fund currently has exposure to forward currency contracts and the purpose of this is to reduce the fund's exposure to fluctuations in exchange rates. A breakdown of forward contracts held by the fund as at 31 March 2012 is given below.

Open forward currency contracts

Settlement	Currency Bought	Local Value £'000	Currency sold	Local Value £'000	Asset Value (Unrealised Gain) £'000	Liability Value (Unrealised loss) £'000
Up to one month	GBP	3,823	JPY	453,902	370	-
Up to one month	GBP	956	JPY	116,869	68	-
Up to one month	GBP	791	JPY	99,252	36	-
Up to one month	GBP	370	JPY	47,358	10	-
Up to two months	GBP	530	JPY	836	6	-
Up to three months	GBP	1,370	EUR	1,627	13	-
Up to three months	GBP	2,130	USD	3,345	36	-
Up to three months	GBP	706	USD	1,130	-	(1)
Up to three months	USD	3,226	GBP	2,041	-	(22)
Gross Open forward currency contracts at 31 March 2012					**539**	**(23)**
Net Forward currency contracts at 31 March 2012					**516**	
Prior year comparative						
Gross Open forward currency contracts at 31 March 2011					**172**	**(336)**
Net Forward currency contracts at 31 March 2011						**(164)**

14. Financial instruments

(a) Classification of financial instruments

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

31 March 2011				31 March 2012		
Designated as fair value through fund account	**Loans and receivables**	**Financial liabilities at amortised cost**		**Designated as fair value through fund account**	**Loans and receivables**	**Financial liabilities at amortised cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial Assets			
96,138			Equities	104,209		
76,134			Fixed Interest Securities	70,854		
37,255			Index linked securities	46,660		
172			Derivative contracts	539		
147,244			Pooled investment Vehicles	149,864		
18,521			Property	25,592		
	2,655		Cash		3,904	
			Other investment balances			
	12,419		Debtors		6,865	
375,464	**15,074**	**-**	**Financial Assets Total**	**397,718**	**10,769**	**-**
			Financial Liabilities			
(336)			Derivative contracts	(23)		
			Other investment balances			
		(1,569)	Creditors			(4,959)
(336)	-	(1,569)	**Financial Liabilities Total**	(23)	-	(4,959)
375,128	**15,074**	**(1,569)**	**Grand total**	**397,695**	**10,769**	**(4,959)**

(b) Net gains and losses on financial instruments

	2011/12	2010/11
	£'000	**£'000**
Financial assets		
Fair value through fund account	9,122	14,372
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	-
Financial liabilities		
Fair value through fund account	-	(80)
Loans & receivables	-	
Financial liabilities measured at amortised cost	(14)	(118)
Total	**9,108**	**14,174**

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

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

2010/11			2011/12	
Carrying Value	**Fair Value**		**Carrying Value**	**Fair Value**
£'000	**£'000**		**£'000**	**£'000**
		Financial assets		
375,464	375,464	Fair value through fund account	397,718	397,718
15,074	15,074	Loans & receivables	10,769	10,769
390,538	**390,538**	**Total financial assets**	**408,487**	**408,487**
		Financial liabilities		
(336)	(336)	Fair value through fund account	(23)	(23)
(1,569)	(1,569)	Financial liabilities at amortised cost	(4,959)	(4,959)
(1,905)	**(1,905)**	**Total financial liabilities**	**(4,982)**	**(4,982)**

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

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

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

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 compromise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which fair value is observable.

Values at 31 March 2012	Quoted Market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through fund account	402,297	-	22	402,319
Loans and receivables	1,695	-	-	1,695
Total financial Assets	**403,992**	**-**	**22**	**404,014**
Financial Liabilities				
Financial liabilities at fair value through fund Account	-	-	-	-
Financial liabilities at amortised cost	(509)	-	-	(509)
Total Financial Liabilities	**(509)**	**-**	**22**	**(509)**
Net Financial Assets	**403,483**	**-**	**22**	**403,505**

Values at 31 March 2011	Quoted Market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through fund account	388,666	-	19	388,685
Loans and receivables	413	-	-	413
Total financial Assets	**389,079**	**-**	**19**	**389,098**
Financial Liabilities				
Financial liabilities at fair value through fund account	(164)	-	-	(164)
Financial liabilities at amortised cost	(301)	-	-	(301)
Total Financial Liabilities	**(465)**	**-**	**-**	**(465)**
Net Financial Assets	**388,614**	**-**	**19**	**388,633**

15. Nature and extent of risks arising from financial instruments

Risk and Risk Management

The Fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

(a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the administrating authority and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held for the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the administrating authority to ensure it is within limits specified in the investment strategy.

Other Price Risk – sensitivity analysis
Following analysis of historical data and expected investment return movements during the financial year, in consultation with the fund's performance monitoring service, it has been determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	21.5%
Overseas Equities	15.7%
Fixed Interest Bonds	7.0%
Index Linked bonds	8.0%
Property	4.1%
Cash	0%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of assets.
If the market price of the fund investments had increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2012 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	239,900	21.5	291,551	188,249
Overseas Equities	14,173	15.7	16,395	11,950
Fixed interest Bonds	70,853	7.0	75,834	65,872
Index Linked bonds	46,661	8.0	50,403	42,918
Property	25,592	4.1	26,629	24,556
Cash	3,904	0.0	3,904	3,904
Total	**401,083**		**464,716**	**337,449**

Asset Type	Value as at 31 March 2011 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	238,213	21.5	289,429	186,997
Overseas Equities	5,168	15.7	5,979	4,356
Fixed interest Bonds	76,134	7.0	81,463	70,804
Index Linked bonds	37,256	8.0	40,236	34,275
Property	18,521	4.1	19,281	17,762
Cash	2,,656	0.0	2,656	2,656
Total	**377,948**		**439,044**	**316,850**

Currency Risk
Currency risk represents the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund, i.e. £sterling.

Currency risk – sensitivity analysis
The table below summarises the fund's currency exposure by asset type as at 31 March 2012. Following analysis of historical data in consultation with the fund's performance measurement service it has been determined that a likely volatility associated with foreign exchange rate movements is 10.3% over a rolling 36 month period.

A 10.3% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - Asset Type	Value as at 31 March 2012	Change to net assets available to pay benefits	
		+10.3%	-10.3%
	£'000	£'000	£'000
Overseas Equities	14,172	15,634	12,711
Overseas Index Linked Bonds	9,198	10,147	8,249
Overseas Fixed interest Bonds	1,467	1,618	1,315
Overseas Cash	66	73	59
Total	**24,903**	**27,472**	**22,334**

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 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Cash and cash equivalent	3,904	2,655
Cash Balances	1,195	8,495
Fixed interest securities	117,514	113,389
Total	122,613	124,539

Interest rate risk sensitivity analysis
The pension fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates

Asset Type	Value as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+100BPS	-100BPS
	£'000	£'000	£'000
Cash and cash equivalent	3,904	12	(12)
Cash Balances	1,195	39	(39)
Fixed interest Securities	117,514	1,175	(1,175)
Total change in asset value	**122,613**	**1,226**	**(1,226)**

(b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.
Cash not needed to settle immediate financial obligations are invested by the authority in accordance with the Treasury Investment Strategy. The Treasury Investment Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk.

(c) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The administrating authority therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. The Pension Fund has immediate access to its cash holdings that are invested by the authority and periodic cash flow forecasts are prepared to manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund's cash management policy and in line with the fund's investment strategy holds assets that are considered readily realised.

16. Related Party Transactions

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

There were no transactions with related parties other than those disclosed elsewhere within the accounts. During the year fees were paid to certain trustees for their services to the scheme. During the year no Member or Council officer with direct responsibility for pension fund issues has undertaken any declarable material transactions with the Pension Fund.

In 2011/12, £0.522m was paid to the Council for administration (£0.499m in 2010/11) and £19.398m (£19.102m in 2010/11) was paid by the Council to the Pension Fund in respect of employer's contributions.

Part of the pension fund cash holdings are invested on the money markets by the treasury management operations of Havering Council, through a service level agreement. As at 31 March 2012 cash holdings totalled £1.2m.

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

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

17. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2012 totalled £186k.This commitment relates to outstanding commitment due on an unquoted private equity fund.

18. Contingent Assets

Two admitted bodies in the Havering pension fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £0.9m and are drawn down in favour of the pension fund and payment will only be triggered in the event of employer default.

19. Contingent Liabilities

The Pension fund has no material contingent liabilities or contractual commitments as at 31 March 2012 (2011: none).

20. Impairment losses

There were no material impairment losses during as at 31 March 2011/12.

21. Actuarial Present value of promised retirement benefits

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

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 22). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2012 was £764m (31 March 2011 £663m). The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2010 triennial funding valuation (see Note 22) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used for the IAS 19 valuation are as follows:

	31 March 2012	31 March 2011
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.5	2.8
Salary Increase Rate	4.3*	4.6**
Discount Rate	4.8	5.5

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

** Salary increases are assumed to be 1% p.a. until 31 March 2013, then 2 years at 2.8% p.a. reverting to 4.6% thereafter.

22. Actuarial Valuation

London Borough of Havering ("the Fund") Actuarial Statement for 2011/12

This statement has been prepared in accordance with Regulation 34(1) (d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

Description of Funding Policy

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

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 24 years

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £361 million, were sufficient to meet 61.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £228 million.

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

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

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

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

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London Borough of Havering, administering authority to the Fund.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 30 March 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

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

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

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

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

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

23. Critical Judgements in applying accounting Policies

Pension Fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates provided to the majority of admitted and scheduled bodies in the fund in the intervening years. The methodology used in the annual updates is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 22. This estimate is subject to significant variances based on changes to the underlying assumptions.

24. Events after the year end date

Local Government Pension Scheme

On the 31 May 2012 the Local Government Association and Trades Unions announced that, following the conclusion of negotiations with the Government, they would be recommending acceptance of the new Local Government Pension Scheme. The proposals are subject to consultation with Local Authorities and Trades Union members but if accepted would be implemented from 1st April 2014. The pension fund liability, as disclosed in the Council's accounts, does not reflect the impact of the proposed scheme. The impact of the proposals are currently being evaluated but the precise impact on fund liabilities will not be known until a further valuation is carried out by the fund's actuary. This change is deemed to be a non-adjusting post year end event.

25. Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the net asset statement at 31 March 2012 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results differ from assumptions
Pension 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 fund with expert advice about the assumptions to be applied	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £57m. However, the assumptions interact in complex ways. During 2011/12, the actuaries advised that changes in actuarial assumptions gave rise to an additional charge of £35m.

Introduction to the Group Financial Statements

Basis of Consolidation

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

Homes in Havering are subject to a separate audit carried out by Grant Thornton. The Group Accounts have been consolidated using the draft accounts of Homes in Havering as provided on 19th June 2012 and remain subject to audit at the date of approval by the Director of Finance and Commerce.

Introduction

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

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

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

A report was provided to Members on the 21st March with the results of the recent test of resident opinion on whether Homes in Havering (HiH) should continue to manage the Council's housing stock, or whether the service should be brought in-house. Due to the significant majority in favour of bringing the service back to the Council it was proposed that officers be instructed to negotiate the ending of the agreement with HiH and to make preparations for the Housing management service to be brought back in house in 2012/13; the approximate date for this is expected to be October 2012.

Notes to the Group Accounts

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

Group Comprehensive Income and Expenditure Statement 2011/2012

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

	Note	1st April 2011 – 31st March 2012			1st April 2010 – 31st March 2011		
		£000s Gross Expenditure	£000s Gross Income	£000s Net	£000s Gross Expenditure	£000s Gross Income	£000s Net
Gross expenditure, gross income and net expenditure of continuing operations							
Central Services to the Public		13,292	(4,014)	9,278	10,665	(3,086)	7,579
Cultural and Related Services		15,717	(2,185)	13,533	23,655	(2,848)	20,807
Environment and Regulatory services		19,863	(6,997)	12,865	20,257	(6,250)	14,007
Planning Services		15,941	(2,875)	13,066	13,773	(3,550)	10,223
Children's and Education Services		239,641	(167,401)	72,240	284,807	(224,094)	60,713
Highways, Roads and Transport Services		25,504	(5,893)	19,611	24,062	(5,027)	19,035
Other Housing Services		113,275	(111,187)	2,088	107,487	(105,090)	2,397
Council Housing (HRA)		83,814	(56,618)	27,196	189,878	(47,493)	142,385
Exceptional item - HRA Self-Determination		165,248	-	165,248	-	-	-
Adult Social Care Services		81,331	(13,324)	68,007	83,810	(21,117)	62,693
Corporate and Democratic Core		6,706	(97)	6,609	7,826	(207)	7,619
Non Distributed Costs		1,946	(6,744)	(4,798)	2,271	(69,795)	(67,524)
Cost Of Services		**782,278**	**377,335**	**404,943**	**768,491**	**(488,557)**	**279,934**
Other Operating Expenditure				25,459			12,071
Financing and Investment Income and Expenditure				10,868			14,065
Taxation and Non-Specific Grant Income				(231,551)			(216,695)
Group (Surplus) or Deficit on Provision of Services				**209,719**			**89,375**
Surplus or deficit on revaluation of property, plant and equipment assets				(24,261)			(36,025)
Surplus or deficit on revaluation of available for sale financial assets				-			-
Actuarial gains / losses on pension assets / liabilities	2a			53,514			(88,837)
Other Comprehensive Income and Expenditure				**29,253**			**(124,862)**
Group Comprehensive Income and Expenditure				**238,972**			**(35,487)**

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

2010/11 £'000		2011/12 £'000
91,205	(Surplus) / deficit on the provision of services in the Council's single entity Comprehensive Income and Expenditure Statement for the Year	210,057
(1,839)	Add: (Surplus) or deficit arising from Subsidiaries	(338)
89,366	**Group Account (Surplus) or Deficit in the year**	**209,719**

Group Statement of Movements in Reserves 2011/12

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

	General Fund Balance £000	General Balances £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000	Council Share of other Group Reserves £000	Total Group Reserves £000
Balance at 1st April 2010	**20,971**	**898**	**38,768**	**1,726**	**2,272**	**-**	**88**	**64,723**	**534,828**	**599,551**	**(3,813)**	**595,738**
Movement in reserves during 2010/11												
Surplus or (deficit) on provision of services	49,636	-	-	(140,841)	-	-	-	(91,205)	-	(91,205)	1,830	(89,375)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	122,143	122,143	2,719	124,862
Total Comprehensive Expenditure and Income	**49,636**	**-**	**-**	**(140,841)**	**-**	**-**	**-**	**(91,205)**	**122,143**	**30,938**	**4,549**	**35,487**
Adjustments between accounting basis and funding basis under regulations	(48,398)	-	-	144,431	8,886	-	51	104,970	(104,970)	-	-	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**1,238**	**-**	**-**	**3,590**	**8,886**	**-**	**51**	**13,765**	**17,173**	**30,938**	**4,549**	**35,487**
Transfers to/from Earmarked Reserves	1,093	31	(1,003)	(1,123)	(9,178)	-	-	(10,180)	10,180	-	-	-
Increase/Decrease in Year	**2,331**	**31**	**(1,003)**	**2,467**	**(292)**	**-**	**51**	**3,585**	**27,353**	**30,938**	**4,549**	**35,487**
Balance at 31st March 2011	**23,302**	**929**	**37,765**	**4,193**	**1,980**	**-**	**139**	**68,308**	**562,181**	**630,489**	**736**	**631,225**
Movement in reserves during 2011/12												
Surplus or (deficit) on provision of services	(18,857)	-	-	(191,199)	-	-	-	(210,056)	-	(210,056)	338	(209,718)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(28,731)	(28,731)	(523)	(29,254)
Total Comprehensive Expenditure and Income	**(18,857)**	**-**	**-**	**(191,199)**	**-**	**-**	**-**	**(210,056)**	**(28,731)**	**(238,787)**	**(185)**	**(238,972)**
Adjustments between accounting basis and funding basis under regulations	29,446	-	-	195,476	(543)	-	5,778	230,157	(230,157)	-	-	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**10,859**	**-**	**-**	**4,277**	**(543)**	**-**	**5,778**	**20,101**	**(258,888)**	**(238,787)**	**(185)**	**(238,972)**
Transfers to/from Earmarked Reserves	(10,015)	886	924	(2,647)	-	10,852	-	-	-	-	-	-
Increase/Decrease (movement) in Year	**574**	**886**	**924**	**1,630**	**(543)**	**10,852**	**5,778**	**20,101**	**(258,888)**	**(238,787)**	**(185)**	**(238,972)**
Balance at 31st March 2012	**23,876**	**1,815**	**38,689**	**5,823**	**1,437**	**10,852**	**5,917**	**88,409**	**303,293**	**391,702**	**551**	**392,253**

Group Balance Sheet as at 31st March 2012

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

		31st March 2012 £000s	31st March 2011 £000s
Property, Plant and Equipment		816,440	878,099
Investment Property		61,097	29,145
Intangible Assets		5,972	4,742
Long Term Debtors		1,592	1,763
Long Term Assets		**885,101**	**913,749**
Short Term Investments		55,903	73,185
Inventories		309	361
Short Term Debtors	2b	37,924	44,490
Cash and Cash Equivalents		26,279	31,566
Current Assets		**120,415**	**149,602**
Bank Overdraft		(1,744)	(8,341)
Short Term Borrowing		(4,364)	(15,185)
Short Term Creditors		(43,528)	(64,480)
Liabilities in disposal groups		-	-
Current tax liability (groups)		-	-
Current Liabilities		**(49,636)**	**(88,006)**
Provisions		(6,237)	(5,745)
Long Term Borrowing		(211,253)	(46,403)
Other Long Term Liabilities		(335,350)	(281,219)
Capital Grants Receipts in Advance		(10,787)	(10,753)
Long Term Liabilities		**(563,627)**	**(344,120)**
Net Assets		**392,253**	**631,225**
Usable reserves		88,960	69,044
Unusable Reserves	2c	303,293	562,181
Total Reserves		**392,253**	**631,225**

Group Cash Flow Statement as at 31st March 2012

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

2010/11 £000s		2011/12 £000s
89,366	Net (surplus) or deficit on the provision of services	209,957
(154,792)	Adjust net surplus or deficit on the provision of services for non-cash movements	(268,728)
42,414	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	45,916
(23,012)	Net cash flows from Operating Activities	(12,855)
-	Taxation	-
55,261	Investing Activities	165,480
(13,423)	Financing Activities	(153,935)
18,826	Net (increase) or decrease in cash and cash equivalents	(1,310)
(42,051)	Cash and cash equivalents at the beginning of the reporting period	(23,225)
(23,225)	**Cash and cash equivalents at the end of the reporting period**	**(24,535)**

Group Notes and Accounting Policies

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

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

1. Property Plant and Equipment

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

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

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

There are no de-minimus limits for the following categories: land acquisition, vehicles and plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled and intangible assets and deferred charges.

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

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

2. Prior Period Adjustments

The Group Accounts incorporate the following prior period adjustments relating to the consolidation of the Council's, subsidiary, Homes in Havering.

Note 2a.	**2010/11 £,000**
Actuarial gains / losses on pension assets / liabilities	86,118
Gain on HiH pension assets	2,719
Actuarial gains / losses on pension assets / liabilities re-stated	**88,837**

Note 2b.	**2010/11 £,000**
Short term Debtors	44,256
Accruals adjusted on consolidation	234
Short term Debtors re-stated	**44,490**

Note 2c.	**2010/11 £,000**
Unusable Reserves	561,947
Accruals adjusted on consolidation	234
Unusable Reserves 2010/11 re-stated	**562,181**

Glossary

Accounting Policies Those principles, bases, conventions, rules and practices applied by an entity that specify how the effect of transactions and other events are to be reflected in its financial statements through:

(i) recognising
(ii) selecting measurement bases for, and
(iii) presenting assets, liabilities, gains, losses and charges to reserves.

Accounting policies do not include estimation techniques.
Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Accruals The amounts by which receipts or payments are increased (or reduced) in order to record the full income and expenditure incurred in an accounting period.

Actuary An independent consultant who advises on the financial position of the Pension Fund.

Actuarial Valuation Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the Fund's financial position and recommended employers' contribution rates.

Agency Arrangement An arrangement whereby a Council (the agent) acts on behalf of another (the principal) to collect income or incur expenditure on the behalf of the principal. Such income or expenditure is not included in the agent's accounts other than any commission paid by the principal.

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

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

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

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

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

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

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

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

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

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

Comprehensive Income and Expenditure Account A statement showing the income and expenditure for the year of all the functions for which the Council is responsible and complies with accounting practices as required under International Financial Reporting Standards (IFRS).

Contingent Assets A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

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

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

Defined Benefit Scheme A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

Depreciation The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technological or other changes.

Earmarked Reserves Amounts earmarked to fund known items of anticipated expenditure for which the liability is not chargeable to the current year's Accounts.

Effective Interest Rate The rate of interest needed to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument to equal the amount at the initial recognition.

Finance Lease A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

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

Financial Asset A right to future economic benefits controlled by the Council that is represented by:

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

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

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

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

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

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

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

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

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

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

Minimum Revenue Provision (MRP) The Council is required to make an annual provision from revenue to contribute towards the reduction in it's overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance or loans fund principal charges) The charge has been determined as 4% of the Capital Financing Requirement.

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

Net Book Value The amount at which fixed assets are included in the balance sheet after depreciation has been provided for.

Net Current Replacement Cost The current cost of replacing or recreating an asset in its existing use, adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

Net Realisable Value The open market value of the asset less the expenses to be incurred in realising the asset.

Non-Operational Assets Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of its services. Examples include investment and surplus properties.

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

Non Distributed Costs Costs which are not chargeable to services and comprise of:

- Retirement benefit costs (past service costs, settlements and curtailments)
- Unused share of IT facilities
- The costs of shares of long term unused but unrealisable assets.

Operating Lease A lease other than a finance lease, i.e. a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

Outturn The actual level of expenditure and income for the year.

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

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

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

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

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

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

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

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

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

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

Havering
LONDON BOROUGH

AUDIT COMMITTEE

25 September 2012

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

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

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

SUMMARY

The draft ISA 260 report from the external auditor PWC will be circulated (as Appendix A) to members prior to the meeting. It summarises their findings from the 2011/12 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate. The draft Letter of representation is included as appendix B.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2012.

RECOMMENDATIONS

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

REPORT DETAIL

Regulation 11 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2012.

The draft report from the external auditor summarises their findings from the 2011/12 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate. The Committee is also asked to consider the draft Management letter setting out the assurances required of the Group Director of Finance and Commerce by the auditors.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2012.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

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

Legal Implications and risks:

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

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

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London Borough of Havering

Report to those charged with governance – 2011/12 audit

September 2012

pwc

PricewaterhouseCoopers LLP
7 More London Riverside
London, SE1 2RT

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

25 September 2012

Dear Sirs

We are pleased to enclose our report to the Audit Committee in respect of our audit for the year ended 31 March 2012. The primary purpose of this report is to communicate the significant findings arising from our audit.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee on 29 February 2012. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed on page six.

We have substantially completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements before 30 September 2012.

At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised are; third party confirmations for investments and loans, final review of the statement of accounts, completion of the audit of the Whole of Government Accounts return, finalisation of our work in respect of Value for Money (VfM) conclusion, finalisation of the pension fund work and completion procedures including our subsequent events review. We will provide an oral update on these matters at the meeting on 25 September 2012. Attending the meeting from PwC will be Ciaran McLaughlin and Chris Hughes.

Yours faithfully

PricewaterhouseCoopers LLP

Contents

Executive summary

The purpose of this report

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

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

Our audit work during the year was performed in accordance with the plan that we presented to the Audit Committee on 29 February 2012. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports, together with those yet to be issued, is included in Appendix 3.

Significant matters

We have set out below what we consider to be the most significant matters that we have discussed with management in the course of our work and within this report:

- accounting treatment for government and non government grants; and
- resolution of a prior year issue in respect of component accounting of property plant and equipment.

We have also identified a number of control points which we have detailed in Appendix 2 of this report.

We have also provided details on:

- significant areas identified through our risk assessment performed as part of our audit plan and the work we have performed in response to these risks; and,
- significant judgements and accounting estimates used in the preparation of the accounts.

We will discuss the matters contained within this letter with the Audit Committee on 25 September 2012.

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

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Authority throughout our work.

Audit approach

Responses to significant risks identified in our risk assessment

We raised a number of significant risks in our audit plan where we detailed work we would be carrying out as part of our audit procedures. We performed procedures at our interim and year end audits to address each of these and other risks to gain reasonable assurance that the accounts as a whole are free from material misstatement.

We provide a summary of the work performed in relation to the significant risks identified in our audit plan below.

Risk	Reason for risk identification	Audit response
Recognition of income and expenditure	We consider the risk of material misstatement in relation to revenue recognition as a significant risk on all audits, unless explicitly rebutted, as there is an inherent risk in any organisation that recognition of revenue may be manipulated to achieve financial results, for example by recognising income in the wrong period or overstating income through accruals. Because of the nature of local authorities we consider the risk of material misstatement in relation to expenditure recognition as well. There is a risk that the Authority could adopt accounting policies or treat income and expenditure transactions in such as way as to lead to material misstatement in the reported income and expenditure position. Due to their nature, we do not consider the receipt of council tax, national non domestic rates, housing rent, financing income or revenue support grant to be a significant risk and these income streams are therefore excluded from this category. The Authority is likely to be experiencing increased pressures on many of its budgets as a result of the recent economic conditions. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.	We performed the following audit procedures to address this risk: • understood and evaluated controls relating to significant risks of income and expenditure recognition; • considered the accounting policies adopted by the Authority and subjected income and expenditure to the appropriate level of testing to identify any material misstatement; • carried out cut off testing on expenditure and income at year end to ensure that the sampled income and expenditure had been recorded in the correct financial year; • tested expenditure invoices to ensure they had been correctly classified in the accounts as either revenue or capital expenditure; • tested grant income receipts to verify that they occurred and have been recorded in the correct period; • performed testing for unrecorded liabilities post year end for expenditure that should have been accrued in 11/12; and • performed risk based testing of manual journal entries made throughout the year to ensure these were appropriate transactions. Control weaknesses are noted in Appendix 2. There are no other matters identified from our work which we wish to draw to your attention.

Risk	Reason for risk identification	Audit response
Management Override of Controls	ISA (UK&I) 240 (revised) 'The auditor's responsibilities relating to fraud in an audit of financial statements requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements or to misappropriate assets. In any organisation, management may be in a position to override the controls that have been put in place. A control breach of this nature may result in a material misstatement to the financial statements. The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the organisation's policies, aims and objectives and to manage the risks facing it; this includes the risk of fraud. Our audit is designed to provide reasonable assurance that the 2011/12 Accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates, such as accruals as significant fraud risks.	We have understood and evaluated the Authority's internal control processes. We performed risk based testing of the appropriateness of manual journals and significant transactions processed during the year, to ensure that manual adjustments were appropriate and agreed to accounting records. We also evaluated significant management judgments and estimations and considered if they are reasonable, objective and not subject to bias. We also took comfort from the work carried out in response to the risks of material misstatement in expenditure and revenue recognition. Our audit procedures also included an element of unpredictability in our audit testing which will vary year to year. Control weaknesses identified are noted in Appendix 2. There are no other matters identified from our work which we wish to draw to your attention.

Risk	Reason for risk identification	Audit response
New financial system – Oracle E-suite	The Authority implemented a new financial system, Oracle 12, in April 2011. As well as the risk that that data is mapped inaccurately or incompletely from the old system to the new system, there is a risk that internal control processes may not operate effectively in the period immediately after the transition.	We understood and evaluated the controls in place around the completeness and accuracy of data migration, including review of validation tests carried out by the Authority and the Authority's Internal Audit team. We updated our understanding of business process controls via walkthroughs and the changes to the IT environment. As part of testing linked to the Risk of Management override, we tested the opening Trial Balance (TB) on the upgraded system to ensure that it agreed to the closing TB on the old system and audited 2010/11 financial statements. Control weaknesses identified are noted in Appendix 2. There are no other matters identified from our work which we wish to draw to your attention. The cost of the additional work carried out in respect of the new system was £10,000.

Significant audit and accounting matters

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

Accounts

We have completed the audit of the Authority's accounts in line with current Auditing Standards except for the following outstanding matters:

- signing of letters of representation; and
- completion procedures including subsequent events review.

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

As part of our work on the Statement of Accounts we have also examined the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

Accounting issues

Government and non-government grants

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance as* interpreted and adapted in the Local Authority Accounting Code (the 'Code') states that Grants should not be recognised until there is reasonable assurance that the Authority will comply with the conditions attached to them, and the grants or contributions will be received. Our testing of government grants included in the Authority's financial statements identified a number of exceptions where conditions and restrictions had not been correctly identified and thus the treatment in the financial statements did not comply with the Code.

We have discussed the accounting treatment with Officers and agreed the following corrections to the financial statements:

- Reclassified grant monies of £11.1m disclosed as receipts in advance to recognise this amount as income in the Comprehensive Income and Expenditure statement. There is no impact on the resources available to the Council as a result of this change. This is a technical accounting adjustment that reflects the fact that the grant monies have no conditions attached and should therefore be recognised immediately within the Comprehensive Income and Expenditure statement.
- Reverse the impact on the General Fund reserve of the above, by putting through an adjustment for £11.1m through the Movement in Reserves Statement.
- Recognise the revenue element of this adjustment (£0.3m) within the Earmarked reserve and recognise the capital element of this adjustment (£10.8m) within the Capital grant unapplied account.

We recommend the Authority reviews the accounting treatment of new government and non-government grants in 2012/13. We would be happy to have early discussions in this area if that would be helpful.

Component accounting

IAS 16 – Property plant and equipment requires the separate depreciation of components for items of property, plant and equipment where the cost is significant in relation to the total cost of the asset and which have a different useful life than the asset as a whole.

In the 2010/11 ISA260 report to Those Charged With Governance, we reported the Authority incorrectly treated depreciation in the accounts and highlighted that there is a risk depreciation may not be treated correctly in the

2011/12 financial statements. We also noted that the Authority had not componentised its Housing Revenue Account ("HRA") Dwellings to calculate the depreciation charge as required by the Code.

As part of audit we reviewed the component methodology applied in 2011/12 including the component percentages of HRA and General Fund assets. We have reviewed the basis of componentisation and, based on the information presented for audit there are no matters we wish to draw to your attention.

The Authority set a de-minimus level of £6m, whereby general fund assets with a net book value of below £6m have not been depreciated under the componentised method. We have reviewed the impact of this de-minimus level and there are no matters we wish to draw to your attention.

Accounting observations – Pension Fund

Separation of bank accounts – Pension Fund

From 1 April 2011 the pension fund was required to have its own bank account, in accordance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
Havering pension fund opened a bank account with RBS by April 2011 in order to comply with this regulation, however the bank account was not used at all during the year to 31 March 2012 and we understand that this account remains unused. The regulations state the following:

"On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation —

(a) all monies held by the authority on that date; and

(b) all monies received by it on or after that date for the purpose of its pension fund."

The pension fund has failed to comply with the above requirements and we recommend that appropriate action is taken to ensure that the bank account becomes fully operational in accordance with the above regulation.

Monitoring receipt of contributions – Pension Fund

We communicated to you in the prior year that it is a statutory requirement that contributions are paid monthly. Regulation 42(2) of the Local Government Pension Scheme (Administration) Regulations 2008 requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate.

The vast majority (more than 75%) of the fund's contributions are processed through the Council's payroll, which results in prompt payment to the pension fund and therefore compliance with the 19 day rule stated above.

The remaining contributions are received from the respective bodies and the fund does not enforce any monitoring of these contributions receipts, in order to ensure that all employee contributions are received in accordance with the 19 day rule.

Whilst we acknowledge that there are controls in place to ensure that all external contributions are paid over during the year, we continue to encourage the fund to review the current process and recommend that the contributions receipts are monitored on a monthly basis to ensure timely receipt.

Financial Instruments Disclosures – Pension Fund

IFRS 7 sets out the information that an entity should disclose to enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed to at the end of the reporting period. This includes providing disclosures around the risks arising, for example credit risk, liquidity risk and market risk, and how they have been managed by the entity.

The fund has made disclosures within the notes to the financial statements which set out the risks that are relevant to the fund's specific circumstances and reflects how the fund monitors and controls its risk. Consideration could be given to expanding this in future years to also address the specific risks inherent within the financial instruments in which the fund invests.

Misstatements and significant audit adjustments

We are required to report to you all uncorrected misstatements which we have identified during the course of our audit, other than those of a trivial nature, which we agreed with those charged with governance was £500,000. These misstatements are described in Appendix 1 to this report.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Audit Board to represent to us, by approval of the Letter of Representation, that they have considered the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements.

Judgments and accounting estimates

The following significant judgments or accounting estimates were used in the preparation of the financial statements:

Valuation of property, plant and equipment and investment properties – The Authority revalues HRA land and buildings every year based on beacon values and all other operational land and buildings and investment properties on a five year cycle. This year's valuation as at 1 April 2011 resulted in a revaluation decrease of £1.4m on council dwellings. The revaluation was carried out by Wilks Head and Eves, and a number of key judgements and estimates were used as part of the valuation methodology. Management believe there is no material difference between the valuation as at 1 April 2011 and 31 March 2012. Our valuations team reviewed the valuation performed by Wilks Head and Eve and there are no matters we wish to draw to your attention.

Calculation and completeness of accrual estimates - The financial statements are prepared on an accruals basis. Accruals are estimates for goods and services received by the Authority, but where the Authority has not yet received an invoice for those goods and services. The Authority's policy is to raise accruals for amounts above and equal to £10,000 only. As part of our testing of the Accounts payable balance, management were unable to provide to us a list of the creditors making up the balance of £41.4m in the accounts split by trade payables and accruals, this issue and our response is further explained in Appendix 2.

Treatment of Government and Non- Government Grants - The Code provides extended guidance on the treatment of government and non –government grants, following adaptations and interpretations of IAS 20 and IPSAS 23. The accounting treatment requires that grants shall not be recognised until there is reasonable assurance that the Authority will comply with the conditions attached to them, and the grants or contributions will be received. We identified an exception in the accounting treatment as reported above, which the Authority agreed to make corrections for in the final statements of accounts.

Pension 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. Hymans and Robertson were engaged to provide the Authority with the expert advice about the assumptions to be applied. Following the conclusion of our work, there are no matters we wish to draw to your attention.

Future levels of funding – There is a high degree of uncertainty about the future levels of funding for local government. 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 or that there is a need to make a specific provision for this uncertainty. We have assessed the Authority's impairment assessment and assessed whether the Authority has proper arrangements in place to secure its financial resilience and there are no matters we wish to draw to your attention.

Accounting issues - new requirements in the 2011/12 Code of Practice

The Code of Practice on Local Authority Accounting in the United Kingdom for 2011/12 was published in spring 2011 setting out a number changes in accounting requirements for local authorities. We set out below the audit work we have done in respect of these changes:

- Heritage assets – the Code requires authorities to present information about the heritage assets that they hold. Heritage assets are those that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. We have discussed with management the approach taken to identifying potential heritage assets, and there are no matters we wish to draw to your attention.

- Carbon Reduction Commitment (CRC) – 2011/12 is the first year that the Authority is required under the CRC Energy Efficiency Scheme to purchase and surrender CRC allowances in proportion to the emissions it makes during the year. The Authority has recorded a provision of £400,000 in its accounts in respect of the CRC. During our audit we did not become aware of any information which contradicted the recognition of this provision.

- Exit packages - There is a new requirement for a disclosure note setting out the number of exit packages agreed, analysed between compulsory redundancies and other departures and presented in £20,000 bands up to £100,000 and £50,000 bands above £100,000. We reviewed the presentation and disclosure of the note and found salary plusage was omitted from draft one of the accounts. The final version of the financial statements has been corrected for this omission.

Management representations

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in Appendix 4.

Related parties

No significant matters in connection with the Authority's related parties were identified during the audit.

Financial standing

No significant matters in connection with the Authority's financial standing were identified during the audit.

Audit independence

We are required to follow the International Standard on Auditing (UK and Ireland) 260 (Revised) "*Communication with those charged with governance*", UK Ethical Standard 1 (Revised) *"Integrity, objectivity and independence*" and UK Ethical Standard 5 (Revised) *"Non-audit services provided to audited entities"* issued by the UK Auditing Practices Board. Together these require that we communicate at least annually with you regarding all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority, its directors and senior management and its affiliates ("the Group") that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers' teams whose work we intend to use when forming our opinion on the truth and fairness of the consolidated financial statements.

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

Services provided to the Authority

The audit of the consolidated financial statements is undertaken in accordance with the UK Firm's internal policies. The audit is subject to other internal PwC quality control procedures such as peer reviews by other offices.

PricewaterhouseCoopers LLP (PwC) was engaged by the Authority in March 2012 to perform an assessment of the implemented Oracle E-Business Suite Release ("Oracle R12"). The assessment and report issued was also subject to other internal PwC quality control procedures. The engagement was not part of our responsibilities under the Code of Audit Practice. The threat of self review was mitigated by the fact that management were responsible for making any decisions to implement and/or enable controls.

Accounting systems and systems of internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

Matters that we wish to bring to your attention are detailed in Appendix 2. These have been discussed and agreed with management, an action plan will be developed by management and we will follow these matters up as part of our audit procedures in 2012/13.

Annual Governance Statement

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

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE 'Delivering Good Governance in Local Government' framework and whether it is misleading or inconsistent with other information known to us from our audit work. There are no matters that we wish to draw to your attention.

Economy, efficiency and effectiveness

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

In accordance with guidance issued by the Audit Commission, in 2011/12 our conclusion is based on two criteria:

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

We are not been required to reach a scored judgement in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we have assessed the risk that the Authority did not have adequate arrangements in place, informed by the criteria and our statutory responsibilities. Our work has consisted of meeting with the Directors responsible for each of the Authority's Directorates to understand and evaluate the significant risk and projects that they are managing. We also discussed with them the nature of the savings that they have had to implement and their views on issues relating to future savings requirements. We then reviewed appropriate documentation to support the information obtained from them. We will update you on the status of our value for money conclusion at the Audit Committee on 25 September 2012. At the time of drafting this report we had not identified any matters which we wished to bring to your attention, but were still in the process of completing our work

Risk of fraud

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

In presenting this report to the Audit Committee, we seek members' confirmation that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Fees update for 2011/12

We reported our fee proposals as part of the Audit Plan for 2011/12. Our current anticipated outturn is shown below:

	2011/12 Outturn	**2011/12 Fee proposal**
Financial Statements	£378,099	378,099
Oracle access, security, controls and Usage report	£45,000	£45,000
TOTAL	**£423,099**	**£423,099**

Our fee for certification of grants and claims is yet to be finalised for 2011/12 and will be reported to those charged with governance in January 2013 within the *Grants Report to Management* in relation to 2011/12 grants.

Recent developments

Future of public audit

On 13th August 2010 the Department for Communities and Local Government announced that the Audit Commission will be disbanded and on 28 July 2011 the Department confirmed that the work previously carried out by the Commission's in-house Audit Practice would be outsourced to the private sector.

The Commission confirmed the appointment of external auditors for a period of 5 years starting in 2012/13 in July 2012.

The Government also consulted on its proposals for a new local public audit framework and published its response in January 2012. The draft Local Audit Bill has been published by the Department for Communities and Local Government for consultation and pre-legislative scrutiny. The consultation closed on 31 August 2012.

The draft Bill sets out the proposed new audit framework for local public bodies, the process for the appointment of auditors, and the regulatory framework for local public audit.

We have recently received confirmation from the Commission that we have been appointed as your auditors for the five years starting with the 2012/13 financial year.

Appendices

Appendix 1 - Summary of uncorrected misstatements

We have identified the following errors during our audit of the financial statements that have not been adjusted by management. The Audit Committee are requested formally to consider the uncorrected misstatements listed and determine whether they would wish the accounts to be amended. If the misstatements are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
			Dr	Cr	Dr	Cr
1	Dr Short term creditors Cr Cash From our testing of creditors, we identified two items which had been recorded as amounts being owed by the Authority as at the 31 March 2012. We noted that both items were in fact paid before the year end and therefore incorrectly recognised as creditors. Based upon our extrapolation of the error, the financial statements are projected to overstate creditors and understate the cash balance.	P			£555,295	£555,295
2	Dr Income Cr Income in advance From our testing of income, we identified two items in our sample that had been recorded as income related to the 2011/12 financial year. We noted that both items relate to income received in advance for the 2012/13 financial year and should be recognised instead as income in advance in the balance sheet. Based upon our extrapolation of the error, the financial statements are projected to overstate income and understate the income in advance balance by £521,216.	P	£521,216			£521,216
Total uncorrected misstatements			**£521,216**		**£555,295**	**£1,076,511**

There are no other corrected or uncorrected misstatements other than those reported above and on page nine within this report.

Appendix 2 - Summary of significant internal controls deficiencies

We are required to report to management and those charged with governance any deficiencies in internal control that we have identified during the audit.

Deficiency	Recommendation	Management's response
Listing of creditor and accruals from Oracle system As part of our testing of the Accounts payable balance, we requested a list of the creditors making up the balance of £41.9m in the accounts split by trade payables and accruals. Management were unable to provide us with the information to support this request, therefore we had to adopt alternative audit procedures which involved identifying listings for specific TB codes and manually netting off debits and credits in order to identify the actual year end position and the in year movement. This listing was then used as the basis for sample testing.	We recommend that management investigate the reporting capabilities of the Oracle system. It is expected for both management information and audit purposes a report that enables a simple listing of creditors and accruals should be produced.	
Monthly payroll reconciliations did not operate as intended throughout the financial year During the 2011/12 financial year the Authority was unable to perform monthly payroll reconciliations between the payroll system and the main accounting Oracle R12 system. From discussion with management we understand the control deficiency is due to an Oracle report issue which is being investigated and corrected. A year end payroll reconciliation was produced for the purpose of the audit. The payroll reconciliation included non payroll costs that resulted in a £850,000 difference between the payroll system and the general ledger. Additional audit procedures were undertaken to reconcile the balance.	We recommend that management investigate the reporting capabilities of the Oracle system. It is expected that payroll reconciliations are performed monthly and authorised by both the preparer and reviewer.	

Appendix 3 – Reports issued

We have issued the following reports in relation to the 2011/12 audit:

- London Borough of Havering 2011/12 Audit Plan – presented to the Audit Committee on 29 February 2012;
- Oracle Access, Oracle Security, Controls and Usage review report; and
- London Borough of Havering 2011/12 ISA260 Report to those charged with governance.

The following reports are to be issued in relation to the 2011/12 audit:

- Insights report to management on journals;
- Audit Opinion for the 2011/12 Statement of Accounts (including the Pension Fund accounts) and the value for Money (VfM) conclusion; and
- Pension Fund – Report to those charged with governance – presented to the Pension Fund Audit Committee on 24 September 2011 (incorporated into this report).
- Grants Report to Management in relation to 2011/12 grants - to be provided in January 2013.

Objection to 2009/10 accounts

We explained in our 2010/11 Annual Audit Letter that our work was still continuing to address the objection to the 2009/10 accounts. As such, we had not issued our completion certificate on either the 2009/10 or 2010/11 audits.

The objection relates to certain leaseholder service charges and is similar in nature to the objection we received to the 2008/09 accounts, for which we issued a report to management in August 2010. Since that time, the Head of Housing has provided reports to the Audit Committee summarising the work the Council has done to address the recommendations in our report.

We have issued our statement of reasons to the objector and the objector has now appealed against our decision.

Due to the pending appeal, at the time of drafting this report, we remain unable to issue our completion certificate for the 2009/10 and 2010/11 audits, and hence will be unable to issue our completion certificate for the 2011/12 audit.

Appendix 4 - Letter of representation

To PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of London Borough of Havering (the "Authority") including the consolidated financial statements of the Authority and its subsidiaries (together the "group") for the year ended 31st March 2012 for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice 2011/12. Subsequent references in this letter to "the Statement of Accounts" refer to both the financial statements of the Authority and the consolidated financial statements of the group.

My responsibilities as Group Director – Finance and Commerce for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the Authority. I also acknowledge that I am responsible for making accurate representations to you.

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

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries so far as materially relevant in each case, the following representations:

Financial Statements

- I have fulfilled my responsibilities, for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions used by the Authority and group in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom requires adjustment or disclosure have been adjusted or disclosed.
- The effects of extrapolated uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the extrapolated uncorrected misstatements is listed below.

Uncorrected misstatements

No	Description of misstatement (factual (F), judgemental (J), projected (P))		Income statement		Balance sheet	
			Dr	Cr	Dr	Cr
1	Dr Short term creditors Cr Cash	P			£555,295	£555,295
2	Dr Income Cr Income in advance	P	£521,216			£521,216

The selection and application of accounting policies are appropriate

- I acknowledge the accounting policies adopted by the Authority including their policy for accruing for liabilities equal to and above £10,000 give a true and fair view in the financial statements. Further I am not aware of any material liabilities omitted from the financial statements.

Information Provided

- I have taken all the steps that I believe I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the Authority's Auditors) are aware of that information.

I have provided you with:

  - Access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters, including minutes of the Authority and relevant management meetings;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the Group from whom you determined it necessary to obtain audit evidence.

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

Fraud and non-compliance with laws and regulations

- I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority group and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Authority and group's financial statements communicated by employees, former employees, analysts, regulators or others.

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

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

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

The Pension Fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that there were instances of late contributions during the year. However, due to the amounts not being significant, these have not been reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

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

Related party transactions

I confirm that we have disclosed to you the identity of the Authority and group's related parties and all the related party relationships and transactions of which we are aware.

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

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

Employee Benefits

I confirm that the Authority has made you aware of all employee benefit schemes in which employees of the Authority and the group participate.

Contractual arrangements/agreements

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

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims, including those relating to the implementation of the Single Status Agreement, whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Taxation

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

In particular:

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

Pension fund assets and liabilities

All material known assets and liabilities including contingent liabilities, as at the 31 March 2012, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2012 have been properly valued and that valuation incorporated into the financial statements.

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

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

Pension fund registered status

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

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the Pension Fund.

Revaluation of Property, Plant and Equipment

I confirm that the Authority is satisfied that the findings of Wilks Head and Eve, experts in valuing property result in the assets being held at their fair value. I am also satisfied that we have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the authority's and the group's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the financial statements.

Deficiencies in internal control

I have communicated to you all deficiencies in internal control of which I am aware.

As minuted by the Audit Committee at its meeting on 25 September 2012.

....

Group Director – Finance and Commerce
For and on behalf of London Borough of Havering

Date ....

Havering
LONDON BOROUGH

AUDIT COMMITTEE

25 September 2012

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

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

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

SUMMARY

The draft ISA 260 report from the external auditor PWC will be considered by the Committee as Item 2 to this agenda. A separate report from Management will be circulated to the Committee prior to the meeting setting out their responses.

RECOMMENDATIONS

To consider and note the responses from management to the "Report To Those Charged With Governance (ISA260)" and the draft Letter of Representation and consider any issues raised.

REPORT DETAIL

A detailed response will be circulated to the Committee prior to the meeting.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

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

Legal Implications and risks:

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

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

Appendix 1

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

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

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

ISA Reference	**response**
Page 5 Significant matters	The prior year issue relating to component accounting has been resolved. Changes to our accounting polices were adopted for 2011/12 and were fully discussed with PwC in advance of implementation. The matter is described more fully in page 9 to the report and we are pleased to note that PwC have no matters to which they wish to draw to the member's attention.
Page 9 Government and Non government Grants	We have revised the draft financial statements in order to reflect the accounting treatment agreed with the auditors. This is essentially a technical accounting matter relating to Balance Sheet disclosure. Grants received but not yet applied are now disclosed as reserves (where previously recorded as liabilities). This has no impact upon our useable revenue reserves or the sums allocated for future capital spending. It will be necessary to review the conditions associated with all unspent grants by the end of 2012/13 to ensure that the correct disclosure is adopted.
Page 10 Separation of bank accounts	The account will be utilised in 2012/13 in order to reflect the net cash movements of the Fund. All pension fund transactions are currently recorded in a separate ledger account and are properly reconciled. Interest is allocated on the net balance in accordance with a formal agreement between the Fund and the Council. The ability of the Oracle system to allow more than one bank account to be linked to the Accounts Payable, Accounts Receivable and Payroll system is being investigated by Business Systems. Subject to the Oracle system being able to link the feeder systems with more than one bank account for the Pension entity (02), a plan of work will be put in place to update the feeder systems to post the transactions from the Pensioners payroll directly to the Pension Fund bank account, together with all invoices processed for pension's expenditure. A review of the most transparent method of

	posting employers and employees contributions is also being reviewed to ensure that contributions will also be posted in a timely way to the pensions bank account. The aim is to map the Oracle system to the Pension bank account by the end of December.
Page 10 Monitoring of Receipts of Contributions	We disagree with the implication that we do not monitor these receipts of contributions. The receipts are monitored as they arrive, written records of the receipts for the last 3 years do exist against each employer
Page 11 Financial Instrument Disclosures	The final paragraph refers to the statements made in relation to the specific risks inherent within the financial instruments of the pension fund. We believe that the expanded pension fund disclosures included in notes 14 and 15 explain those risks and provide sensitivity analysis relating to the extent the fund's risk exposure. These disclosures are set out in accordance with the relevant section of the code of practice.
Page 16 - Appendix 1 Summary of uncorrected Mis-statements	The sums quoted in the table are not the values of the errors identified but are extrapolations based upon statistical sampling (the purpose of which is to demonstrate that the error is not indicative of a material error)
Page 17 - Appendix 2 Summary of Significant Internal controls Listing of creditor and accrual listings from Oracle	The recommendation is agreed. Options to produce the report will be investigated and explored to determine the most appropriate way forward
Page 17 - Appendix 2 Summary of Significant Internal controls Monthly payroll systems	The recommendation is agreed and already implemented. Reconciliations are taking place on a regular basis. Gross to net to P35 is monthly. Gross to net to costing to GL is quarterly. Clearance of the suspense account is quarterly. The evidence log for 12/13 is available. An automated report for the Gross to net to GL reconciliations is being developed.

Havering
LONDON BOROUGH

AUDIT COMMITTEE

25 September 2012

Subject Heading:	Internal Audit Progress Report
Report Author and contact details:	Vanessa Bateman – Internal Audit & Corporate Risk Manager ext 3733
Policy context:	To inform the Committee of progress to deliver the approved audit plan in quarter one of 2012/13.
Financial summary:	N/a

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

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

SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 1st April 2012 to 29th June 2012.

RECOMMENDATIONS

1. To note the contents of the report.

2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

This progress report contains an update to the Committee regarding Internal Audit activity presented in seven sections.

Section 1 Background and Resources

Some information about resources is included for information.

Section 2 Audit Work 1st April to 29th June

A summary of the work undertaken in quarter one is included in this section of the report.

Section 3 Management Summaries

Summaries of all final reports issued in the period.

Section 4 Schools Audit Work

A summary of schools final reports issued in the period.

Section 5 Key Performance Indicators

The actual performance against target for key indicators is included.

Section 6 Changes to the Approved Audit Plan

The changes made to the audit plan since the last meeting are detailed and explained in this section of the report.

IMPLICATIONS AND RISKS

Financial implications and risks:

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work.

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

Data Quality and Performance Management Final Audit Report 2011/12
Information Governance Final Audit Report 2011/12.
Langtons Infant School Final Audit Report 2011/12
Parsonage Farm Primary School Final Audit Report 2011/12
Internal Audit Plan 2012/13

Section 1 Background and Resources

1.1 The restructure was implemented on 1st February 2012 and since the last meeting all vacancies have been filled. Excluding the Internal Audit & Corporate Risk Manager the established structure consists of eight full time equivalent (FTE) posts. Three dedicated to proactive and reactive fraud and special investigations and five to systems (including Homes in Havering), schools, follow up etc. Since the restructure one member of staff has requested a reduction to their working hours to 0.8 full time equivalent and this has been agreed. It is not anticipated that this will result in a reduction in the approved planned days for 2012/13.

1.2 This report relates to the work of the five audit posts, the outputs from the fraud resources are reported in the fraud progress report along with the results of the investigations team.

1.3 The table below includes budget information. This budget is for both the Internal Audit and Insurance Teams. The Insurance Team has 3.2 FTE.

1.4 Income is generated by selling services to Schools and Homes in Havering.

REVENUE BUDGET FOR 2012/13				
Controllable costs	Non-controllable recharges in	Controllable income	Non-controllable recharges out	Net cost (or income)
579,670	37,050	-80,690	-536,030	0

1.5 The forecast outturn for 2012/13 is currently within the allocated budget.

Section 2 Audit Work 1st April 2012 to 29th June 2012.

2.1 At the end of June 16% of the audit plan had been delivered. This was against a target for the period of 20%.

2.2 At the end of June three assignments had been completed and fifteen were in progress but had not reached the final report stage. One assignment related to a follow up of the Oracle Financials and the results were reported to the Committee in April. Monthly targets are in place for the team and monitored closely.

2.3 Schedule 1 details the work completed in quarter one. Details are listed in the table below and management summaries under Section 3 starting on the next page.

SCHEDULE 1: 2011/2012 – Systems Audits Completed

Report	Opinion	Recommendations				Ref Below
		High	Med	Low	Total	
Data Quality / Performance Management	Full	0	0	0	0	**3** (1)
Information Governance	Substantial	1	2	0	3	**3** (2)

2.4 Work in progress includes:

- Risk Based Systems Audits – Contracts & Procurement, Agency Worker Contract, Debt Management, Ingrebourne Children's Centre, Elm Park Children's Centre, South Hornchurch Children's Centre, Traded Services, Telecoms, Network Permissions and i-Expenses follow up.
- School Audit – Parklands Infants, Newtons Primary, The Mawney Primary and Frances Bardsley School for Girls.

Section 3 Management Summaries

Data Quality / Performance Management	ref 3 (1)

3.1 Background

3.1.1 A total of 86 performance indicators were reported to CMT with an annual position at the end of quarter four. A total of 55 performance indicators have been measured and presented quarterly to CMT during 2011/12.

3.1.2 The effective and accurate reporting of performance indicators is important to inform management decisions and correctly reflect the performance of the Council.

3.1.3 Summary of Audit Findings

3.1.4 The Corporate Policy and Partnership Team have implemented a number of controls surrounding performance indicators including:

- A data quality checklist to ensure the indicators are calculated correctly; and
- The development of a new Data Quality strategy to reflect the indicators included as part of the new Performance Management Framework.

3.1.5 No issues around the control of and reporting of the performance indicators tested as part of this audit were found.

3.1.6 Audit Opinion

3.1.7 As a result of this audit no recommendations have been raised.

3.1.8 A **Full Assurance** has been given as the audit has found that there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

Information Governance	**ref 3** (2)

3.2 Background

3.2.1 Organisations have a legal obligation to protect the personal data that they hold. Non compliance with requirements can led to significant monetary penalties being incurred.

3.2.2 IG is a risk on the Council's Corporate Risk Register and has been an issue on the Annual Governance Statement for the last three years.

3.2.3 Although responsibility sits with service areas for IG there is a corporate framework that exists to guide Managers and Staff and assist in the management of this risk. An Information Governance Group (IGG) exists and report to the Corporate Governance Group.

3.2.4 The secure health connection is currently a priority for Social Care and Learning due to the changes around Public Health.

3.2.5 Summary of Audit Findings

3.2.6 Key services instrumental in achieving compliance with IG requirements are not attending the IGG.

3.2.7 Documentation is available to meet the needs of the IG toolkit. A clear understanding of which documents underpin the organisations IG framework has not been established and approved.

3.2.8 Intranet information available to staff around IG is difficult to locate. Although there is significant information and guidance available, the signposting for staff and managers is not effective.

3.2.9 The evidence gathered as part of this audit that is relevant to the completion of the toolkit will be feed directly into the team compiling the return.

3.2.10 As a result of this work a further three audits are planned around IG. These are:

- Document Imaging Systems;
- Service Awareness and Compliance; and
- Provider Compliance.

3.2.11 Audit Opinion

3.2.12 As a result of this audit we have raised two Medium and one High priority recommendation relating to the need for:

- The structure of the Information Governance Group to be reviewed (Medium);
- Key documents that make up the Council's IG Framework to be agreed (Medium); and
- All IG information to be collated into one dedicated intranet page (High).

3.1.13 **Substantial Assurance** has been given as the audit has found that while there is a basically sound system, there are limitations that may put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Section 4 Schools Audit Work

Two Schools audits were finalised by the end of December. Results of the audits are included in Schedule 2 below.

Management summaries will only be included in the quarterly progress reports when we have given limited or no assurance.

Schedule 2: 2011/12 – School Audits Completed

Report	Opinion	Recommendations				Ref Below
		High	Med	Low	Total	
Langtons Infant School	Substantial	1	2	2	5	N/A
Parsonage Farm Primary School	Substantial	0	6	1	7	N/A

Section 5 – Key Performance Indicators

The tables below detail the profiled targets for the year and the performance to date at the end of June and the targets for the rest of the financial year.

Audit Plan Delivered (%)										
	Q1	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Actual	16									
Cumulative Target	20	30	37	45	53	63	70	80	90	99

At the end of June 2012 the team is just behind being on target.

KPI 01 - Briefs issued										
	Q1	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Actual	16									
Cumulative Target	12	19	25	32	40	48	53	55	60	60

At the end of June the team were four briefs ahead of target.

KPI 02 – Draft Reports											
	Q1	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Actual	7										
Cumulative Target	8	15	21	26	32	39	44	50	57	60	

At the end of June the team were 2 draft reports behind target.

KPI 03 – Final Reports											
	Q1	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Actual	3										
Cumulative Target	5	10	15	21	26	32	39	44	50	57	60

At the end of June the team were three final reports behind target. There are no concerns regarding completion of the plan at this time.

Section 6 – Changes to the Approved 2011/12 Audit Plan

In April 2012 the Audit Committee approved an Annual Audit Plan for the 2012/13 financial year totalling 1576 days.

The table below provides a summary of the audits removed from, and added to, the 2012/13 approved audit plan and the reason for the change. It also reflects where there has been a change in budget.

The impact on the total days in the plan has been managed by adjusting other budgets for the year. The totalled planned days remain at 1576.

Audit Title	**Days**	**Revised Days**	**Directorate**	**Reason**
Contracts & Procurement	40	23	Corporate	Budget reduced when scope of audit work defined.
Information Governance	25	15	Corporate	Original allocation for Information Governance reduced when scope set however additional separate audits have been identified.
Information Governance - Electronic Docs & Records Management	0	15	Corporate	Added to 2012/13 plan.
Information Governance – Service Area Control & Compliance	0	15	Corporate	Added to 2012/13 plan.
Information Governance – Provider Compliance	0	15	Corporate	Added to 2012/13 plan.
Troubled Families Funding Return	10	0	Social Care & Learning	Audit cancelled as funding return will not be completed this financial year.
Customer Services	15	0	Computer	Audit cancelled as no benefit of audit to Senior Management as risks and issues being monitored closely.

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Havering
LONDON BOROUGH

AUDIT COMMITTEE

25 September 2012

Subject Heading:	iExpenses Follow Up
Report Author and contact details:	Vanessa Bateman Internal Audit & Corporate Risk Manager Tel: 01708 - 433733. E-mail : Vanessa.bateman@havering.gov.uk
Policy context:	To advise the Committee on progress to implement the recommendations from the iExpenses audit.
Financial summary:	N/A

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

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

SUMMARY

Some progress has been made to address the issues and implement recommendations raised by the iExpenses & Purchase Card audit report.

Of the five high, three medium and one low priority recommendations raised in the report; one high and one medium priority recommendation have been implemented at the time of the follow up.

Since the issuing of the final report, one recommendation has been rejected by management. Progress has been made towards the remaining six, two of which were not due to be completed at the time of this follow up.

Appendix 1 contains a summary of the outcome of the follow up.

RECOMMENDATIONS

1. To note the contents of the report.

2. To raise questions for management regarding progress.

REPORT DETAIL

In May 2012 a final audit report was issued to management following an audit of the iExpenses and Purchase Card system.

The objective of the audit was to provide assurance regarding the internal controls within the iExpenses area of Oracle system which had been implemented in April 2011. This module is used to reclaim personal expenses and also account for transactions made via the Corporate Purchase Cards held by approved officers.

The audit reviewed the following key risk areas:

- Compliance;
- Quality and Value for Money;
- Financial; and
- Management Information.

As a result of the audit five high, three medium and one low priority recommendation were raised and a 'Limited Assurance' was provided to management. All recommendations were agreed at the time of issuing the final report and deadlines for all but two (one low, one medium) were prior to 30th August 2012.

The management summary for this audit was presented to Audit Committee in June 2012 as part of the Internal Audit progress report. Members requested an update regarding this report due to the number of recommendations that had been raised.

Appendix 1 details that outcome of the follow up work.

The results are also summarised below:

- ➢ Three recommendations have been completed at the time of the follow up (3, 4 and 5) although it should be noted in two cases no action to improve control has been taken. These risk areas will be revisited in 2012/13 when the other control improvements have been embedded;
- ➢ Three recommendations were in progress with extended implementation dates identified (1, 2 and 6);

- One recommendation had not been progressed at all within the expected implementations dates; this recommendation has now been rejected by Management and the risks accepted (7);
- Two recommendations had implementation dates of 30th September 2012 and were being progressed for implementation by the date of the follow up (8 and 9).

The follow up indicates that some progress has been made in implementing recommendations and therefore addressing some of the risks identified by the original audit.

Due to the nature of the outstanding actions the assurance provided from the audit work remains at 'Limited Assurance', the audit plan for 2012/13 contains a provision of days to allow this audit area to be revisited once the recommendations around guidance and compliance have been implemented and had time to bed in. The objective of this audit work was to assess the impact of recommendations and consider the risk levels that remain. It is anticipated that this work will be completed in February 2013. Proactive Fraud work is also planned in this area during 2012 and this will also provide management with information.

IMPLICATIONS AND RISKS

Financial implications and risks:

None directly arising from this report, managers have the opportunity of commenting on audit recommendations before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Resources to follow up audit work are included within the annual audit plan and provided within existing budgets.

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None

IEXPENSES
FOLLOW UP
August 2012

	Original 2011/12 Audit Report						
Rec no	Recommendation	Priority	Responsible Officer	Implementation Date	Status (Complete/In Progress/Not Started)	Follow Up Finding	Revised Implementation Date (where applicable)
1	Guidance should be updated to provide staff and managers with clear direction about appropriate claiming and approving of expenses.	M	Head of Finance and Procurement	27th July 2012	In Progress	A draft version of updated guidance has been produced and will be presented to Corporate Management Team for approval in September 2012.	Sep-12
2	A reminder should be sent to all staff to highlight the areas of non compliance identified by this audit and communicate clearly their responsibilities.	H	Group Director Finance and Commerce	27th July 2012	In Progress	A reminder has been drafted but awaits the publication of revised guidance so will be completed at same time as recommendation 1.	Sep-12
3	The purpose of the Audit Manager function of Oracle and the decisions being made in relation to non compliant claims should be considered and guidance provided to relevant staff.	H	Head of Internal Shared Services	20th April 2012	Complete	Clear direction has been provided to staff. Claimants who make claims which are subsequently rejected because they do not comply with policy are sent an email to explain why.	n/a

IEXPENSES
FOLLOW UP
August 2012

	Original 2011/12 Audit Report						
Rec no	Recommendation	Priority	Responsible Officer	Implementation Date	Status (Complete/In Progress/Not Started)	Follow Up Finding	Revised Implementation Date (where applicable)
4	Management should explore closing the control weakness regarding the use of cost centres without the knowledge of the appropriate officer.	H	Transactional Team Lead/ Business Systems	30th July 2012	Complete	Management have explored this issue and reviewed whether is it technically possible, and also looked at the operational impact of this recommendation. Although it is possible to make the default cost centre non updateable, it has been decided not to close this control weakness in Oracle because the control is covered elsewhere - a) at cost centre manager level via budget monitoring, which will pick up issues after the event; and b) cost centre managers should have control over who has access to approve against their cost centres and the authorisation report James is developing for October will provide this. Operationally, to move to a non updateable cost centre would increase the workload of ISS by increasing the volume of journals having to be processed to allow officers to code expenditure in appropriate cost centres other than the fixed cost centre. *Internal Audit will revisit the control environment after other recommendations have had a chance to bed in and consider the risks again.*	N/a

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IEXPENSES
FOLLOW UP
August 2012

	Original 2011/12 Audit Report						
Rec no	Recommendation	Priority	Responsible Officer	Implementation Date	Status (Complete/In Progress/Not Started)	Follow Up Finding	Revised Implementation Date (where applicable)
5	Management should consider implementing a minimum claim threshold that reflects costs incurred. Depending on cost this could be procedural and monitored by ISS or enforced by the system. Strategic Finance also advise it be beneficial to reduce the 90 time limit to 30 days.	M	Group Director Finance and Commerce	27th July 2012	Complete	This recommendation has been considered and it has been decided that the guidance and reminders will encourage staff and managers to claim in an efficient and effective manner. This will be monitored for 2012/13 before decisions around system changes are made. Some further analysis has been completed re time taken to claim expenses and the report going to Corporate Management Team seeks views on reduction of time limits for claims.	n/a
6	Management should investigate potential solutions to clarify the different screens within iExpenses, in an attempt to reduce the likelihood of purchase card transactions being inadvertently claimed as a personal expense.	H	Transactional Team Lead	30th August 2012	In Progress	An update has been created and tested no date is yet available for implementation into production.	unknown

IEXPENSES
FOLLOW UP
August 2012

	Original 2011/12 Audit Report						
Rec no	Recommendation	Priority	Responsible Officer	Implementation Date	Status (Complete/In Progress/Not Started)	Follow Up Finding	Revised Implementation Date (where applicable)
7	Cost effective risk based monitoring activity should be undertaken by ISS to ensure that claims are compliant and bona fide.	H	Transactional Team Lead	30th June 2012	Not Started	This recommendation has now been considered and is not agreed. Claims compliance is the role of managers under the principles of Self Service following the implementation of Oracle using the vanilla t-gov solution. The system has pre-set limits and checks built in (value, time) as per the authorities policies should managers approve claims outside of policy. Building in a compliance and correctness checking system within ISS is a duplication of the role of managers, who are responsible for the checking and authorisation/approval. *Internal Audit will revisit the control environment after other recommendations have had a chance to bed in and consider the risks again.*	n/a
8	A review of purchase card limits should be undertaken on an annual basis to ensure that limits, especially those with increased limits, are still necessary.	L	Transactional Team Lead/ Cost Centre Managers	30th September 2012	In Progress	The report requirements are being specified currently to undertake this review as planned.	n/a
9	Management information to assist in the performance/ monitoring of iExpenses should be produced once recommendations relating to clear roles and responsibilities, raised within this report have been implemented.	M	Head of Internal Shared Services	30th September 2012	In Progress	This recommendation will be implemented after recommendation 1 and 2 have been completed.	n/a

Havering
LONDON BOROUGH

AUDIT COMMITTEE

25 September 2012

Subject Heading:	**Outstanding Audit Recommendations**
Report Author and contact details:	Vanessa Bateman Internal Audit & Corporate Risk Manager Tel: 01708 - 433733. E-mail : Vanessa.bateman@havering.gov.uk
Policy context:	To advise the Committee on progress to implement the recommendations raised in prior years by internal audit.
Financial summary:	N/A

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

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

SUMMARY

Quarterly the Audit Committee receives updates regarding the outstanding audit recommendations. Annually a full review is undertaken and the latest position is presented to inform the Committee of the detail relating to outstanding recommendations.

Due to the changes in the structure of the Internal Audit Team, auditors now are responsible for audit recommendations until they are implemented. The Report detail includes information about this year's process to update the recommendations and Appendix 1 contains the full list of outstanding recommendations.

RECOMMENDATIONS

1. To note the contents of the report.

2. To raise questions for management regarding progress.

REPORT DETAIL

As part of the new team structure implementation new processes have been put in place for a number of activities. Monitoring and update of outstanding audit recommendations is one of the first processes to be updated.

The annual full review of recommendations has taken place; all recommendations have been reviewed and updated. The auditors who raise the recommendations will now be responsible for monitoring and update when the deadline is reached. The Principal Auditor (Systems and Risk Management) is responsible for quality review of this work.

Follow Up Audits are completed for audits where Limited Assurance is given.

Management are asked to provide updates regarding recommendations and a sample is confirmed as complete via audit testing.

Following this year's annual review there are 35 recommendations on the outstanding list.

3 relate to 2008/2009.
4 relate to 2009/2010.
11 relate to 2010/2011.
17 relate to 2011/2012.

The results of this follow up have been reported to Heads of Service and Corporate Management Team.

The recommendations will continue to be followed up on a quarterly basis and summary tables presented to the other quarterly Audit Committee meetings.

IMPLICATIONS AND RISKS

Financial implications and risks:

None directly arising from this report, managers have the opportunity of commenting on audit recommendations before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Resources to follow up audit work are included within the annual audit plan and provided within existing budgets.

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None

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Year	Name of Audit	Rec	Recommendations	Priority	Responsible Person	Dates Due	Position/Progress to date
2008/ 2009	Commissioning of Works	R2	A signed copy of the approved contract and financial submission for Architectural and Surveying (Property) contract should be supplied to the Head of Asset Management. A signed copy of the approved contract and financial submission for Civil Engineering (Highways) should be supplied to the Head of Street care.	H	ACE Legal & Democratic Services	Original - Feb 2009. Revised - March 2013.	Draft documentation has been exchanged between solicitors acting for the Council and Jacobs and whilst close to conclusion there is still no signed contract. **August 2012 Update** - Still outstanding.
2008/ 2009	IT Security & Data Management	R2	A corporate information identification, classification and assessment exercise should be conducted. A resource that details all the Council's information (including data owners, retention periods, sensitivity etc) should be developed as well as an information management policy document which could consider the adoption of the Local Government Classification Scheme.	H	Information Governance Group Chaired by ACE - Legal & Democratic Services	Original - Mar 2010. Revised - Mar 2013.	The Information Governance Group has considered this recommendation along with other risk areas to the organisation. The recommendation is accepted and included in the improvement plan. Responsibility for implementing will require significant resources across the whole organisation and other actions are of higher priority currently. The Group meets quarterly and reports to the Corporate Governance Group on progress with the action plan.
2008/ 2009	Cemeteries and Crematorium	R8	It is recommended that: a) the maps currently held in the service managers office, should be placed in the fire proof safe; b) work should be undertaken to collate the maps located elsewhere within the Authority and ensure that maps are in place for all sections of the Cemeteries; and c) a separate project will need to be undertaken scan and preserve the maps to ensure that these are sufficiently safeguarded.	M	Cemeteries & Crematorium Manager	Original - Mar 2010. Revised - Apr 2013.	a & b completed. All cemetery maps and plans have been scanned by Asset Management and are currently stored with them. Awaiting consultation with technical specialists for solution/time and budget costings. Pilot plan of Rainham cemetery maps to be set up by 31 March 2013. This will be used to formulate the action plan for the other 3 cemeteries.
2009/ 2010	Climate Change	R1	It is recommended that the service consider the establishment of a formal protocol for input by the Environmental Strategy Team into Asset Management and construction standards / projects.	M	Head of Asset Management/ Energy Management Officer	Original - Apr 2010. Revised - Sept 2011. Revised - Sept 2012.	Draft protocol was presented to Climate Change Working Group - 24th July 2012. Some amendments were requested to be reported back to September meeting.

Year	Name of Audit	Rec	Recommendations	Priority	Responsible Person	Dates Due	Position/Progress to date
2009/ 2010	Government Connect GCSx	R13	Management should undertake a review of its data and undertake a process to classify data in accordance with the recommended national and Government classification scheme so that it can begin to protect its data and grant access on the classification assigned to the data.	M	Information Governance Group Chaired by ACE - Legal & Democratic Services	Original Sep 2010. Revised - Mar 2013.	The Information Governance Group has considered this recommendation along with other risk areas to the organisation. The recommendation is accepted and included in the improvement plan. Responsibility for implementing will require significant resources across the whole organisation and other actions are of higher priority currently. The Group meets quarterly and reports to the Corporate Governance Group on progress with the action plan.
2009/ 2010	Contract Completion Final Accounts	R1	It is recommended that a system of management or peer reviews is implemented to ensure :- suitable safeguards are being applied to prevent service exposure / liability to unconfirmed or unbudgeted works from informal works orders, instructions and variations; only correctly specified and agreed works are being commissioned and only fully completed works certificated; that projects are progressed in logical and methodical manner; and the status of all projects is readily discernable.	M	Facilities Group Manager	Original - Mar 2011. Revised - Dec 2011. Revised - Dec 2012.	Bimonthly Project Review Panel meetings have now been initiated for all capital projects and change control logs/requests are now applied to all larger schemes, overseen by a Project/Programme Board.
2009/ 2010	Contract Completion Final Accounts	R2	It is recommended that post completion reviews for projects, incorporating client feedback as to whether their expectations were met, are completed and results monitored.	Low	Facilities Group Manager	Original - Mar 2011. Revised - Dec 2011. Revised - Dec 2012.	See comments above relating to Project Review Panel.
2010/ 2011	Corporate Support Team	R1	As a matter of good practice, the procedures manual should indicate when the last review was undertaken. In addition, any procedures no longer applicable to the team should be removed from the manual	L	Corporate Support Manager	Original - Apr 2011. Revised - Nov 2012.	Following a recent restructure, new staff are are about to join the service and the revised procedures manual is being prepared to support staff training.

Year	Name of Audit	Rec	Recommendations	Priority	Responsible Person	Dates Due	Position/Progress to date
2010/ 2011	Tranman Application	R1	Password parameters on the application should be configured to enforce the following password controls: • Minimum password length of 8 characters is enforced , • Passwords should be constructed of a combination of alphanumeric characters and/or symbols, • Default passwords should be force changed upon first access to the system or following password reset, • The minimum password age and password history parameters should be set so it prevents users from using their previous passwords within a predefined period; and • User accounts should be locked following three unsuccessful attempts at system access. Following user account lock out, system access should only be reinstated by the Systems Administrator.	H	Passenger Transport Services Admin Manager	Original - Jan 2011. Revised - Nov 2012.	The software supplier has confirmed that the security module is standard to all users. It does not have the facility to check that new passwords are alphanumeric & 8 characters in length. It cannot check the number of login attempts. An enhancement is however being made so force passwords to be renewed after a predefined period . The user will have to enter a different password before being allowed into the system. The system will automatically expire the password again after 3 months.
2010/ 2011	Tranman Application	R2	The control total for the text file created from Time Plan should be received and reconciled against the total number of records imported into Tranman when the Read FUEL Records" process is run to ensure all records have been imported successfully. If any records have been rejected, the program should be investigated and re-run to correct any errors identified	H	Passenger Transport Services Admin Manager	Original - Jan 2011. Revised - Oct 2012.	The number of records transferred into Tranman can now be reported upon and a report is generated from Time plan that can be checked against the Tranman figure.
2010/ 2011	Tranman Application	R7	Management should consider implementing the following data input controls on the Tranman application • Validation or check digit to be implemented for the Order Numbers field • Restrict the creation of duplicate order numbers on the system • Restrict amendments of the unit price for a stock items when creating the order; • Mandatory data fields to be reviewed to incorporate cost centre and progress status field for a job raised; and • Dependency checks to be implemented between supplier codes and creditor codes The process for the input of invoices onto the system should be reviewed to ensure that these are authorised or reviewed by senior management following data input to ensure the segregation of duties.	M	Fleet Engineer	Original - Jul 2011. Revised - Oct 2012.	We will investigate the possibility of including the cost centre field as this is something Tranman may be able to link to in existing data. Jobs do have a progress field available. We could produce a report of latest invoices raised to be presented to managers on a weekly basis. Will investigate further and produce examples by 30/09/12.

Year	Name of Audit	Rec	Recommendations	Priority	Responsible Person	Dates Due	Position/Progress to date
2010/ 2011	Payroll	R1	Guidance to be created for the document storage system Comino to clarify where individual forms are to be saved, and allow for ease of searching.	L	Payroll Manager/ Business Systems	Original - Apr 2012. Revised - Mar 2013.	There is a project to look at electronic document management and solutions reviewed to date have not met the Council's requirements. Further work is planned. Business Systems are leading this project. Audit work is planned in this area in 2012/13 and will pick up this risk area.
2010/ 2011	Pensions	R1	Guidance to be created for the document storage system Comino to clarify where individual forms are to be saved, and allow for ease of searching.	L	Pensions Manager/ Business Systems	Original - Apr 2012. Revised - Oct 2012.	As for Payroll recommendation.
2010/ 2011	IT Disaster Recovery	R2	Management should ensure that technical recovery plans are documented for all of the servers and infrastructure that are within the remit of the Business Systems service. These plans should provide sufficient detail to enable recovery in the absence of key staff. As with the Disaster Recovery Plan, these plans should be available at an off-site location and maintained to help ensure that they remain up-to-date. Specifically, the technical recovery plans should be updated in line with any changes that are made to the technical configurations. Furthermore, arrangements should be in place for the ongoing management and update of technical recovery plans for the servers hosted by ACS.	M	Julia Blow - Programme Manager	Original - July 2011 for current applications and 4 weeks post migration for the remainder. Expected completion date November 2012.	Applications are still being migrated to the ACS data centre and Disaster Recovery is a key part of the migration activity. Disaster Recovery plans are maturing with ACS (the third party data centre provider) and a Disaster Recovery test is planned. The Terms of reference for the Disaster Recovery test have been drafted and a meeting is scheduled with ACS to agree the Terms of Reference and set a date. The Disaster Recovery test will be carried out with in the next 3 months.
2010/ 2011	IT Security	R2	Password complexity should enabled on the network to ensure that user accounts have strong passwords enforced comprising alpha and numeric characters.	M	Information Security Officer	Original - Sept 2011. Revised - Dec 2012.	The Novell e-directory is being decommissioned which has impeded the ability to deploy complex passwords at the network level. Scheduled to complete in October with complex passwords being implemented in December 12. For core systems such as Oracle complex passwords have been implemented.

Year	Name of Audit	Rec	Recommendations	Priority	Responsible Person	Dates Due	Position/Progress to date
2010/ 2011	IT Security	R5	The Council should undertake a data classification exercise to help ensure that all sensitive IT Data is identified and that appropriate access rights can be assigned for then data. Consideration when undertaking the exercise should be given to the following elements. assigning ownership of the data asset. Processes for allocating access to the data. the Required processes for the retention, storage and disposal arrangements for different classification levels. This process should be undertaken alongside a corporate approach to classify data according to its sensitivity.	M	ACE - Legal & Democratic Services	Original - Mar 2012. Revised - Mar 2013.	The Information Governance Group has considered this recommendation along with other risk areas to the organisation. The recommendation is accepted and included in the improvement plan. Responsibility for implementing will require significant resources across the whole organisation and other actions are of higher priority currently. The Group meets quarterly and reports to the Corporate Governance Group on progress with the action plan.
2010/ 2011	IT Security	R6	The Council should review the processes that it has in place for sharing data with third party organisations to ensure that appropriate safeguards are put in place so that data can be shared securely. This should form part of a wider information Security protocol that is agreed with the organisation that the Council shares its data with.	M	ACE - Legal & Democratic Services	Original - Mar 2012. Revised - Mar 2013.	As above.
2010/ 2011	IT Security	R8	We recommend that the data retention schedule is reviewed and updated as necessary with reference to legal requirements such as Data Protection Act 1998 and the Freedom of Information Act 2000. Procedures should also be in place to delete or depersonalise data after its retention can no longer be justified.	M	ACE - Legal & Democratic Services	Original - Mar 2012. Revised - Mar 2013.	As above.
2011/ 2012	Microsoft Exchange Server and Outlook Email	R1	ICT Management should implement effective mailbox ownership and email governance rules at the Council by establishing and applying an appropriate mailbox size capacity. e.g. If users are set a 200MB mailbox size limit, then they have to clear out unnecessary email records and store old emails to folders before the user can continue to send emails.	M	Network and Server Manager	Original - Apr 2012. Revised - Nov 2012.	This is not a technical issue. Awaiting a policy decision.

Year	Name of Audit	Rec	Recommendations	Priority	Responsible Person	Dates Due	Position/Progress to date
2011/ 2012	Disabled Facilities Grants	R2	Local timescales should be implemented. These should be formally monitored through regular case load meetings between both departments.	M	Housing Partnership & Development Manager. Preventative Team Manager	Original - Jan 2012. Revised - Oct 2012.	A proposed methodology to implement this recommendation has been submitted for audit approval on 21 August 2012.
2011/ 2012	Remote Working	R5	Laptops should be configured to receive patch updates as soon as possible and any laptop returned to ICT should have patches updated as part of a standard process.	M	ICT Projects, Partnership & Policy Manager	Original - Feb 2012. Revised - Dec 2012.	SCCM has been deployed to laptops, this will enable patches to be deployed. ICT are reviewing the desktop and laptop patching policy at the moment with LB Newham.
2011/ 2012	Oracle Financials	R7	The Council should identify the available capability for Oracle systems auditing and monitoring to identify auditing at user activity and database row change level. This should look to identify which fields would be beneficial to establish auditing of user activity on the system.	M	Systems Accountant, Financial Systems Control Team	Original - Mar 2012. Revised - Aug 2013.	Part of the London Wide Oracle project.
2011/ 2012	Oracle Financials	R15	Data input screens across the Oracle on Demand system should be reviewed to establish:· Whether superfluous options/screens can be removed; and · Where, in some cases, failure to complete fields which are not mandatory can lead to later errors. e.g. Accounts Receivable where the profile field is not mandatory and where failure to populate this field leads to payment rejections. This should be completed with a view to making some system input fields mandatory for completion to enhance data quality.	M	Transactional Services Manager	Original - Mar 2012. Revised - Dec 2012.	Review process has focussed on key screens first. Update July 2012 System change for profile class is with Business Systems; it has been implemented in the test environment, but failed testing. The original developer has left Havering, but a new developer has taken over the call and is progressing the matter with the team lead for transactional team 2 in ISS.
2011/ 2012	Oracle Financials	R17	The Council should identify if address validation and postcode look up can be implemented within the system to improve the quality of address information that can be input into the Oracle on Demand system.	M	Transactional Services Manager Corporate & Business Applications Manager	Original - Mar 2012. Revised - Aug 2013.	This will be ongoing as part of the London Wide project

Year	Name of Audit	Rec	Recommendations	Priority	Responsible Person	Dates Due	Position/Progress to date
2011/ 2012	Oracle Financials	R24	A schedule of Disaster Recovery test exercises should be developed, as well as a backup restore schedule to confirm the integrity of backups taken and to prove that the system can be recovered on a periodic basis and in a timescale in line with the relevant ISS Business Continuity Plan.	M	Corporate & Business Applications Manager/Business Systems	Original - Mar 2012. Revised - June 2012.	A DR test should be carried out without further slippage to ensure that the data being backed up is complete and useable and to test the process works as expected. No revised deadline provided by the service.
2011/ 2012	Crematorium - Grave Allocations & Record Keeping	R6	A more robust process for recording permit inspections due and completed should be implemented including where inspections identify that no memorial is in place.	M	Bereavement Services Manager	Original - Apr 2012. Revised - Sept 2013.	This review will be carried out as part of the review of working practices for the introduction of the upgrade of the EPILOG system to Sequel which is expected to be implemented by September 2013 (pending further discussions). A temporary resolution to the original issues is currently being implemented.
2011/ 2012	Jacobs Contract Follow Up	R1	It was agreed that when the draft structure is out for consultation a workshop with Internal Audit should be convened to discuss the proposed working procedures and control environment.	M	Head of Asset Management	Original - Mar 2012 Revised Dec 2012.	Restructure is now complete, creating Business Support function which now administers the Jacobs contract
2011/ 2012	Educational Computer Centre	R7	Local performance indicators should be established and monitored on a regular basis to ensure poor performance does not go undetected. Performance should be monitored through regular one to ones.	M	Educational Computer Centre Manager	Original - Jun 2012. Revised - Sept 2012.	Performance Indicators are in development
2011/ 2012	Appointeeship & Deputyship	R8	All accounts held with AIB should be transferred to Nat West. The Client Finance Manager should supply assurance to the Head of Finance and Procurement that the process has taken place and provide details of the reconciliation to the Treasury Manager & Capital Accountant.	H	Client Finance Manager	Original - Mar 2012. Revised - September 2012.	Target date has been revised as although the process for arranging transfer is underway it has not yet been completed. Completion of this remains in control of RBS - Natwest Bank, but also dependent on provision of information and actions from other parties - e.g. Department of Work and Pensions and Insurance Companies. Latest estimate indicates that revised date may be viable. No identified risk to Clients or Council during this process.
2011/ 2012	Network Infrastructure	R1	The Council should review the current network with a view to removing or minimising all single points of failure in the Council's network infrastructure design to ensure that operations are not impacted by weaknesses in the infrastructure.	H	Technical Consultant	Original - Feb 2012. Revised - Dec 2102.	An active programme of work is in place to do this for all core connections.

Year	Name of Audit	Rec	Recommendations	Priority	Responsible Person	Dates Due	Position/Progress to date
2011/ 2012	Network Infrastructure	R3	Management should urgently consider renewing or updating its corporate Firewalls.	H	Gary Griffin – Corporate Business Applications Manager	Original - Mar 2012. Revised - Nov 2012.	Waiting migration to new firewalls which is imminent.
2011/ 2012	Network Infrastructure	R7	Where SNMP is used, consideration should be given to the use of either SSH or TACACS+ to provide the strongest possible security controls and that that the following additional configuration is implemented: • the use of Radius or TACACS+; • either the 'enable password' type 7 is enhanced to type 5 or removed if not required; • TTL (Time to Live) setting is configured; • Router banner and enumeration counter measures are applied; and • Use of ACL is made.	M	Gary Griffin – Corporate Business Applications Manager	Original - Mar 2012.	**Update August 2012** - Awaiting a response as some more technical information is needed to update the status. *No further update or revised deadline received.*
2011/ 2012	Network Infrastructure	R8	A hardware replacement policy should be developed that ensures the hardware in use within the network infrastructure is supported, maintainable and that its use provides effective and efficient service, and that it provides enhanced security features and is capable of providing functionality in line with changes in technology.	M	Gary Griffin – Corporate Business Applications Manager	Original - Feb 2012.	**Update August 2012** - Awaiting a response as some more technical information is needed to update the status. *No further update or revised deadline received.*
2011/ 2012	Pensions	R1	Starters and leavers reports should be amended to allow easy identification of LGPS members.	M	Pensions Manager	Original - Jun 2012. Revised - Sept 2012.	Pensions reports being progressed to be delivered by 30th Sept. Business Systems are currently working on the reports with ISS. The reports produced are currently being reviewed and further work will be required to develop the reports to meet the specification requirements.

Year	Name of Audit	Rec	Recommendations	Priority	Responsible Person	Dates Due	Position/Progress to date
2011/ 2012	Main Accounting	R1	It is recommended that the requirements of ISS are clearly communicated and included in the Service Level Agreement (SLA). Compliance in this area must be monitored as for other areas of the SLA. All reconciliations: - have an agreed timetable that identifies appropriate intervals; - are identified against balance sheet codes, - are properly & fully documented, have a responsible owner, - are progressed to timetable in line with formal written procedures; - controls and monitoring are treated as part of their core business function; - balances confirmed and reported to management and Corporate Finance; and - issues must be reported to Corporate Finance.	M	Corporate Finance & Strategy Manager / Internal Shared Service	Original - Jun 2012. Revised - Aug 2012 Revised - Dec 2012.	Corporate Finance's requirements have been communicated routinely as part of the closedown process 2011/12 and have subsequently been summarised and notified to Shared Services. These will be reflected in the development of the 2012/13 closure programme but the key requirements relating to reconciliations are being actioned by ISS and will need to be monitored. In the long run the SLA to be developed by Shared Services will need to reflect these and other requirements through regular dialogue with Corporate finance.

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Havering
LONDON BOROUGH

AUDIT COMMITTEE

25 September 2012

Subject Heading:	Fraud Progress Report
Report Author and contact details:	Vanessa Bateman – Internal Audit & Corporate Risk Manager ext: 3733 email: vanessa.bateman@havering.gov.uk
Policy context:	To advise the Committee of the work and performance of the Council's anti fraud and corruption resources.
Financial summary:	This report details information relating to fraud investigations.

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

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

SUMMARY

This report advises the Committee of the work of the Investigations Team and the Internal Audit Fraud Team from 2nd April 2012 to 29th June 2012.

RECOMMENDATIONS

1. To note the contents of the report.

2. To raise any issues of concern and ask specific questions of the officers where required, either with regards the cases highlighted or the performance of the respective teams.

REPORT DETAIL

This report contains two sections; the content of each section is outlined below:

Section 1. Resources & Direction of Travel

Section 2. HB/CTB Fraud Work, Housing Tenancy & Internal Audit Fraud Work
- A) Case Load
- B) Referrals & Fraud Reports
- C) Current Case Load
- D) Outcomes
- E) Case Studies and Proactive Work
- F) HB/CTB fraud overpayments
- G) Savings & Losses

IMPLICATIONS AND RISKS

Financial implications and risks:

Fraud and corruption will often lead to financial loss to the authority. By maintaining robust anti fraud and corruption arrangements and a clear strategy in this area, the risk of such losses will be reduced. Arrangements must be sufficient to ensure that controls are implemented, based on risk, to prevent, deter and detect fraud. The work of the fraud team often identifies losses which may be recouped by the Council. The work of the Benefit Investigation Team regularly identifies benefit to which claimants are not entitled which are to be recovered by the Council. There are however, no direct financial implications or risks arising directly from this report.

Legal implications and risks:

There are no legal implications from noting the contents of this Report.

Human Resources implications and risks:

There are no HR implications from noting the contents of this Report.

Equalities implications and risks:

There are no Equalities implications from noting the contents of this Report.

BACKGROUND PAPERS

None.

Section 1 Resources & Direction of Travel

1.1 A restructure of the Investigations Team was launched in June 2012. The proposed structure focuses on the next two financial years while the detailed plans for the Single Fraud Investigation Service are drawn up and communicated by Department of Work and Pensions. It is proposed that an additional Senior Investigator Post is included in the team to strengthen the structure and ensure sufficient resources are available to continue to deliver and improve a Housing Fraud Service whilst also implementing any changes resulting from the introduction of the universal credit or the changes regarding Council Tax Benefits. On approval at the end of the consultation period the established structure will contain nine full time equivalent (FTE) posts.

1.2 The table below includes budget information. Income is generated when administrative penalties are used as a sanction and as a result of the proceeds of crime investigations. The income target for the team has been increased to fund the new structure.

REVENUE BUDGET FOR 2012/13				
Controllable costs	**Non-controllable recharges in**	**Controllable income**	**Non-controllable recharges out**	**Net cost (or income)**
484,140	44,290	-51,740	0	476,690

1.3 As no further grant funding has been announced to tackle Housing Fraud, £100k was received in 2012/13, it has been agreed that for the next two financial years (2013-15) a contribution to the cost of the team will be made from the Housing Revenue Account to ensure that there is sufficient capacity to deal with all referrals for Housing Fraud and continue to conduct the proactive activities undertaken in the last 12 months.

1.4 This report includes the activity of the fraud resources within the Internal Audit Team (3 FTEs). The new Principal Auditor post within Internal Audit was filled from June 2012.

1.5 The forecast outturn for 2012/13 is within the allocated budget.

Section 2 Fraud Cases April to June

A) Case Load

2.1 The table at para. 2.2 provides the total cases at the start and end of the period and referrals, cases closed and cases completed.

2.2

Caseload Quarter 1 2012/13						
Team	**Cases At start of period**	**Referrals received**	**Referrals rejected/ overloaded**	**Cases Fraud not Proven**	**Cases Successful**	**Cases at end of period**
HB/CTB	504	124	48	66	28	486
HT	106	26	2	20	10	100
Corporate	8	19	-	5	4	18
TOTAL	**618**	**169**	**50**	**91**	**42**	**606**

B) Referrals & Fraud Reports

2.3 The table 2.4 provides the sources of fraud referrals for the respective sections.

2.4

Source of Referrals & Fraud Reports Quarter 1 2012/13				
Number of Referrals/ Type	**HB/CTB Referrals Q1 12/13**	**HT Referrals Q1 12/13**	**IA Fraud Reports Q1 12/13**	**Overall Total Q1 12/13**
Anonymous	38	3	0	41
External Organisations / Members of the Public	12	1	4	17
Internal Departments Whistleblowers	39	5	14	58
Social Landlords (inc HiH)	16	6	0	22
Data Matching / Proactive initiative	19	11	1	31
Total	**124**	**26**	**19**	**169**

2.5 The table at para. 2.6 shows the categories of the potential Housing Benefit/Council Tax Benefit fraud referrals from April 2012 to June 2012.

2.6

Referrals by Category	
Potential Fraud	**Quarter 1 12/13**
Capital	4
Contrived Tenancy	4
Income from Other Sources	8
Living Together	58
Non-Dependant	6
Non-Resident/vacated	3
Other welfare benefits	-
Working	14
Non Commercial Tenancy	1
Other	-
Single Person Discount	-
Tenancy Fraud	26
Total	**124**

2.7 The table at para. 2.8 shows the categories of the potential Corporate Fraud reports from April 2012 to June 2012.

2.8

Reports by Category	
Potential Fraud	**Quarter 1 12/13**
PC – misuse and Abuse	3
Misuse of Council Time	3
Misuse of Council Asset	5
Misuse of Council Vehicle	1
Breach of Code of Conduct	0
Breach of Council Procedures	2
Falsification of Records	1
Direct Payment Fraud	1
Overcharging by Supplier	0
Fraudulent use of Credit Card	1
Overpayment Recovery	2
Total	**19**

2.9 The table at para. 2.10 shows the categories of the potential Housing Fraud reports from April to June 2012.

2.10

Referrals by Category	
Potential Fraud	**Quarter 1 12/13**
Subletting	15
Not main/principal home	11
Obtained tenancy by deception	-
False claim for Succession	-
Fraudulent assignment	-
Fraudulent RTB	-
Unlawful Mutual Exchange	-
Fraudulent Housing Register Application	-
Fraudulent Homeless Application	-
Total	**26**

C) Current Caseload

2.11 The table at para. 2.12 shows the current caseload by category.

2.12

Current Cases by Category	
Potential Fraud	**As at end of June 2012**
Capital	37
Contrived Tenancy	10
Income from Other Sources	31
Living Together	159
Non-Dependant	20
Non-Resident/vacated	74
Other welfare benefits	-
Working	38
Non Commercial Tenancy	6
Other	17
Single Person Discount	50
Tenancy Fraud	44
Total	**486**

2.13 The table at para. 2.14 shows the current caseload by category.

2.14

Current Cases by Category	
Potential Fraud	**As at end of June 2012**
PC – misuse and Abuse	2
Misuse of Council Time	2
Misuse of Council Asset	5
Breach of Code of Conduct	-
Breach of Council Procedures	4
Falsification of Records	1
Overcharging by Supplier	-
Credit Card Fraud	1
Overpayment Recovery	3
Total	**18**

D) Outcomes

2.15 The number of successful outcomes for the benefits investigations team from April 2012 to June 2012 is detailed in Table 2.16 below.

2.16

Successful Outcomes			
Sanction/ Offence Type	**Administrative Penalties**	**Cautions**	**Prosecutions**
Capital	3	1	2
Working and Claiming	-	-	-
Contrived Tenancies	1	-	-
Living Together	-	2	3
Income from other sources	-	-	3
Vacated	-	1	-
Non Dependants	1	1	-
Total	**5**	**4**	**8**

2.17 The financial investigator has been in post for around 18 months. She currently has seven open cases which have resulted in nine properties, eight vehicles, two speedboats and three banks accounts being restrained. One of these cases has an imminent confiscation hearing. The Council considers the benefit of the fraud has been £480,959.83 and that the defendant has realisable assets of £267,473.55 although this has been challenged. If a figure cannot be agreed between the two parties the Judge will make the decision. It is hoped that, provided the defendant pays, the Council will receive at least £100,000.00. Failure to pay the sum ordered within the time specified by the court is likely to result in a prison sentence for the defendant (and she will still owe the money, plus interest on her release).

2.18 The following are two case summaries from cases successfully prosecuted within the period of the report.

2.19 Miss G had claimed benefit as a lone parent since 1991. The case was investigated jointly with the DWP and enquiries established that Miss G had actually married and become Mrs K in 1992. The couple had two children and Mr K was a black cab driver. A search of the property was conducted with the police and the couple arrested. The property was decorated to a very high standard with expensive fixtures and fittings and the couple admitted to taking numerous holidays abroad. Mrs K pleaded guilty to fraudulently obtaining benefits in excess of £165,000 and received a custodial sentence of 15 months. Since the overpayment was created on 21st June 2011 £1,842.00 has been paid off the Council Tax arrears and the current years have been kept up to date. £3,050.00 has been paid off the Housing Benefit overpayment. She will begin to repay her overpayment on release.

An investigation into Miss F's benefit claim commenced following the receipt of a copy of her wedding invitation from an anonymous source. The wedding was due to take place in July 2010 and in March 2010 Miss F advised that her partner, Mr R, had moved in with her. Mr R had used his parents' address for employers and other agencies. However, bank statements showed that Mr R's wages were paid into their joint accounts and the money was used to pay household bills and expenses, including the forthcoming wedding. Miss F was interviewed just before her wedding and her husband interviewed after. Although they initially denied the allegation, they eventually admitted living together from 2002 and incurred a total overpayment of £97,695.69. Mrs R received an 8 month custodial sentence and Mr R received an 18 month community order and to carry out 100 hours unpaid work.

2.20 The case outcomes for the Internal Audit Fraud Team from April to June are detailed in table 2.21 below.

2.21

Case Outcomes	
Outcome	**Qtr 1**
Management Action Plan	1
Disciplinary	0
Dismissed	0
Resigned	3
Contract ended	0
Insufficient Evidence	2
No case to answer	3
Refund received	0
Property Recovered	0
Total	**9**

2.22 The case outcomes for the Housing investigations from April to June are detailed in table 2.23 below.

2.23

Successful Outcomes (Note: Cases may have multiple outcomes)	
Outcome Type	**Q1 12-13**
Tenancy Relinquished voluntarily (keys handed in)	10
Property recovered via court action	-
Succession / assignment / Mutual Exchange prevented	2
RTB stopped	1
Homeless Duty discharged	-
Housing Register application withdrawn	-
Temporary accommodation withdrawn	-
Prosecution	-
Total	**13**

E) Case Studies and Proactive Work

2.24 A recent investigation for Old Ford Housing established that their tenant Mrs A owned her own property outright and sub-let the Old Ford property. In addition to the rent she received from her subletting, she also obtained an amount in excess of £5,000 from decant funds. Discussions are currently underway with our legal team and Old Ford Housing to prosecute Mrs A for her fraudulent activities.

2.25 <u>Successful cases</u>

Following a complaint that Mr C did not reside at his property, initial enquiries established links to a partner who resided in Chelmsford and claimed benefit as a lone parent. Financial links led the investigator to the previous sub tenants and a statement was obtained. A joint visit with Chelmsford's Fraud Department found Mr C at the partner's property in Chelmsford. At interview the couple denied living together but were unable to dispute the evidence obtained. Mr C handed back the key to his property and he and his partner were obliged to advise Chelmsford Council of their true circumstances.

Following a query from a tenancy officer, an investigation began into the whereabouts of Mr W who had been in rehabilitation in Bournemouth. He had made a right to buy application for his property in Harold Hill. Although Mr W's mother claimed that he was due to return from rehab but was waiting for the flat to be decorated. Enquiries established that Mr W did not intend to return and had in fact signed a tenancy agreement for a new address Bournemouth. It was also identified that it was the mother who had paid the deposit on the property in Bournemouth. Following the investigation Mr W returned the keys and withdrew his right to buy application.

A data match revealed that a tenant, Mr M was not residing at his council property even though he had applied to assign the tenancy to his sister. Further enquiries revealed that Mr M had actually purchased a property in Aveley and had moved away leaving his sister in the property. Mr M was approached at his new address and informed that his sister could not be granted an assignment when he did not live in the property. He refused to attend an interview but did hand back the keys.

F) HB/CTB Fraud Overpayments

2.26 The value of fraudulent housing benefit overpayments generated by the team for the first quarter of the 2012/13 year are contained in table 2.27.

2.27

Fraudulent Overpayment	
Type	**Qtr 1**
Rent Rebate	£127,234.21
Rent Allowance	£40,234.55
Council Tax Benefit	£34,285.62
Total	**£201,754.38**

G) Savings and Losses

2.28 When a fraud is committed there may be two elements to the financial consequences. There were no savings or losses identified for completed Internal Audit jobs in the period 1st April 2012 to 29th June 2012.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 14

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