London Borough of Havering

Statement of accounts

For the financial year

2015/16

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Narrative Report

Introduction

I am pleased to introduce the Authority's Statement of Accounts for 2015/16.

The purpose of the Statement of Accounts is to summarise the financial performance for the financial year 2015/16 and the overall financial position of the Authority. The Narrative Report aims to give a general guide to the main features of the information reported within the rest of the accounts, to provide a summary of the Authority's overall financial position, and to report on the procedures the Authority takes to secure economy, efficiency and effectiveness in its use of resources.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), and the *Service Reporting Code of Practice (SeRCOP) 2015/16* published by the Chartered Institute of Public Finance and Accountancy (CIPFA), as supported by International Financial Reporting Standards (IFRS) and the Accounts and Audit Regulations 2015 issued under sections 32, 43(2) and 46 of the Local Audit and Accountability Act 2014(a).

Whilst these accounts are presented as simply as possible, the use of some technical terminology cannot be avoided. To aid a better understanding of the terminology used a glossary of the terms is set out on pages 129 to 132 at the end of the document.

The key financial statements set out within this document include:

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

- **Comprehensive Income and Expenditure Statement (CIES) –** This statement brings together all of the functions of the Authority and summarises all the resources that the Authority has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Authority, before allowing for the concessions provided by statute to raise council tax according to different rules and the ability to divert particular expenditure to be met from capital resources;

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

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

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

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

- **Collection Fund –** The Authority is responsible for collecting council tax and non-domestic rates; and

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

Review of the Year 2015/16

Having successfully delivered an initial programme of organisational change, in 2015/16 the Authority commenced a new four-year programme of savings and efficiencies to balance the budget. The need for savings was driven largely by the implications of the Local Government Financial Settlement for 2016/17 and the forecast of further cuts in funding as indicated in the Governments Autumn Statement and by the budget forecasts of the Office of Budget Responsibility.

Despite increasing financial pressures and growing demand for its services, the Council successfully delivered its out-turn within budget during 2015/16. In doing so the following issues are particularly worthy of note:

- Despite significant reductions in grant funding from Central Government the Authority has continued to manage its service delivery objectives whilst facing growing demand for its services. In particular, the Authority faces demographic pressures in relation to delivering Childrens and Adults services.
- The Authority entered into a ground breaking partnership with the London Borough of Newham in April 2013 to create oneSource – a joint arrangement which is delivering efficiencies and savings by sharing back-office functions across both authorities. During the year an agreement was reached for the London borough of Bexley to join the partnership from April 2016.
- The Authority agreed to create a wholly owned subsidiary, Mercury Land Holdings, with a view to making a significant investment in housing development in the borough whilst achieving a return on investment, benefiting council tax payers in general. These developments are expected to commence in 2016/17.

Overall Policy Direction and Strategy

The Authority's budget reflects its Strategy, governed by the main priorities of residents as expressed in successive consultation exercises – principally, keeping the Borough clean and safe, and promoting a high quality of life for local people. The budget also reflects the level of funding allocated to it by the Government, and is in line with the Authority's long term financial strategy to manage the implications of funding reductions and cost pressures. The budget is balanced in the medium term, but further action will be required to close the remaining funding gap in 2018/19.

The Authority's financial strategy and budget takes into account:

- Responding to the difficult and fluid financial climate;
- Ensuring that the Authority's policy priorities drive resource allocations;
- Ensuring there remain clear links between revenue and capital budgets;
- Continuing to ensure that all budgets have defined outputs;
- Continuing to seek greater efficiencies – including through working in partnership and prioritising effectively;
- Seeking funding from external agencies and/or partners;
- Continuing to benchmark and deliver value for money.

The Authority's financial strategy has to:

- Reflect the economic climate and the need for financial prudence;
- Ensure the level of reserves are appropriate;
- Link service planning with financial planning;
- Identify service delivery trends, changes in legislation etc. that will have a financial impact;
- Accurately predict levels of spend in the future to avoid further overspends;
- Identify revenue costs resulting from capital expenditure,
- Match resources to priorities;
- Cost areas of new or increased priority;
- Provide savings to balance the books;
- Provide savings to fund new investment and areas of increased priority;
- Cost new investment and estimates any subsequent payback;
- Increase value for money;
- Manage risk and uses risk assessment to inform decision making;
- Ensure all projects are adequately funded and resourced

Revenue Outturn

The revenue outturn for 2015-16, as reported to the Senior Leadership Team on 7 June 2016, was balanced after accounting for transfers to earmarked reserves.

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

	2015/16 Budget £000	2015/16 Actual £000	2015/16 Variance £000
Community and Resources	77,612	73,442	(4,170)
Public Health	189	189	-
Children's Adults and Housing	83,720	90,367	6,647
oneSource non-shared	(2,905)	(4,107)	(1,202)
Contingency	1,274	-	(1,274)
oneSource shared	4,725	4,724	(1)
Total Operating Expenses	**164,615**	**164,615**	**-**
Levies	13,783	13,783	-
Total Expenditure	**178,398**	**178,398**	**-**
Financed by:			
Government grants and contributions	(44,300)	(44,300)	-
Business Rates	(29,247)	(29,247)	-
Council Tax	(104,851)	(104,851)	-
Net Underspend	**-**	**-**	**-**

The major outturn variances affected the Children, Adults & Housing Directorate:

- There has been an increase in Looked After Children, Children with Disabilities placements, and Special Educational Needs; and complexities of families moving into the Borough. This has led to expensive placement packages, and pressures relating to recruitment and retention of permanent staff.
- Adults Social Care service has seen an increase in 'Deprivation of Liberty Safeguards' (DOLS) assessments ranging from 30 in 2013/14 to 725 plus in 2015/16. There has also been an increase in demand for services with an aging population presenting with complex needs, and an increase in referrals from hospital.

The pressures In Learning & Achievement will continue into 2016/17 due to new inspection regimes around special educational needs and disability, which will have resource impacts alongside those of the Single Inspection Framework inspection for children's social care and Joint Targeted Inspection for all Children's Services with our partner agencies.

The additional financial pressures faced by Children’s and Adult Services in 2015/16 were met by various corporate budgets and contingencies held within the Communities & Resources Directorate. This enabled the Authority to balance its budget for 2015/16 and make a contribution to Earmarked Reserves.

The General Fund working balance remains at £11.8m, whilst General Fund earmarked reserves increased in 2015/16 from £48.6m to £54.1m, reflecting the net movement in funds over the year to support key projects. These sums will be released in future years to fund key work streams; in particular the costs associated with transforming the Authority. Further details are included at note 8 to the accounts.

The service expenditure headings and figures reported in the above table reflect the Authority’s organisational and management structure. The financing and surplus figures reported above are not the same as those reported in the Comprehensive Income and Expenditure Statement on page 16; this is because of a number of accounting adjustments that are required to be reflected in the Comprehensive Income and Expenditure Statement to comply with preparing the Authority’s accounts in accordance with SeRCOP, as prescribed by accounting standards. Note 27 provides a reconciliation between the Authority’s management structure and the published Comprehensive Income and Expenditure Statement.

Schools Accounting

Academies are state maintained independent schools set up, usually, with help from outside sponsors and Government contributions. The schools are run outside of the local authority’s funding control and are not included in the Authority’s accounts; although still operate within all the national requirements for curriculum and standards. As at 31 March 2016, there were 58 maintained schools (59 at 31 March 2015) on the balance sheet, and 24 academies within the Borough (23 at 31 March 2015).

Housing Revenue Account

The Statement of Accounts also includes the Housing Revenue Account (HRA), a ring-fenced account to which expenditure incurred and income received in relation to the Authority’s housing stock is charged. The HRA made a deficit of £1.5m and reduced its working balance to £7.2m. The full details of the Housing Revenue Account and the movements on that account are set out on pages 91 to 95.

Capital Outturn

Capital expenditure is expenditure on acquiring or enhancing tangible or intangible fixed assets. This is usually land or buildings, but can be equipment in some instances.

Capital Budget Strategy

The Asset Management Plan detail the Authority’s approach to capital investment. These documents set out the use of capital resources and areas of funding, and discuss how this investment has contributed to the achievement of the Authority’s goals and vision and how this is planned to develop over the medium term. Among these key activities is the management of existing assets. Without this it is likely that revenue maintenance costs would increase as assets deteriorate. Capital resources are also required to facilitate investment in projects seen to be a priority by our local community, e.g. Streetcare.

The capital budget strategy sets out the Authority's approach to capital investment over the medium term. It has been developed in consultation between senior officers, Members and the Authority's key strategic partners and is integrated with Havering's *Living Ambition*, set out in the Authority's Corporate Plan.

The Authority seeks to continue to improve efficiency and value for money, in particular to:

- maximise asset utilisation;
- ensure assets are fit for purpose and health and safety compliant;
- facilitate and promote community use;
- explore alternative management arrangements e.g. leases to community groups;
- explore opportunities for innovative ways to procure and deliver capital projects to maximise the resources available;
- consider the wider aspects of capital projects, for example whole life asset costs, equality and diversity, and environmental implications;
- investigate shared usage/ownership arrangement with other local authorities, partners and stakeholders.

The capital programme is reviewed on an annual basis, taking into consideration new funding opportunities and Member priorities. In year changes e.g. the availability of additional external funding, are made on an on-going basis as part of routine programme management and implemented with regard to the Authority's Constitution and agreed procedures.

Capital Expenditure 2015/16

Given the pressures on the Authority's financial resources, only essential items were agreed as part of the core programme. The most significant areas of expenditure in 2015/16 included that for schools (increasing the number of pupil places within the Borough's schools and condition and suitability of existing schools buildings infrastructure). The substantial level of expenditure on council housing is supported by Decent Homes Grant and HRA revenue contributions.

Capital expenditure for the year can be analysed as follows:

Service	**2015/16** **£'000**
Culture & Leisure	5,176
Economic Development	1,866
Regulatory Services	4,038
Streetcare	5,916
Communities & Resources	**16,996**
Adult Services	228
Children Services	242
Learning & Achievement	83
Schools	2,842
Housing Services	22,375
Children, Adults & Housing	**25,770**
ICT Services	25
Asset Management	16,671
Capital Contingency	0
One Source	**16,696**
Total	**59,462**

Financed by:

Service	**2015/16** **£000**
Capital Receipts	12,614
Major Repairs Reserve	20
Revenue Funds	21,928
Grants and Contributions	24,900
Total	**59,462**

For 2016/17, the core programme remains reliant on funding through the generation of capital receipts, although a gradual move towards the use of prudential borrowing will be required to meet the investment requirements associated with potential developments aimed at generating income and improving infrastructure in the borough. These investments include the housing development company, Mercury Land Holdings Limited, and the Solar Energy project included in the draft revenue budget proposals.

The internally funded core programme for 2016/17 consists of £8.4m split between the following block allocations:

Parks, Libraries, Leisure and Cemeteries	£1.5m
Street Environment	£2.0m
Protection of Assets and Health and Safety	£0.5m
IT Infrastructure	£1.0m
Regeneration	£0.1m
Disabled Facilities Grant (Council element)	£0.3m
Capital Contingency	£3.0m
Sub-total	**£8.4m**
Regeneration and Development	£100.0m
Total	**£108.4m**

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

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

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

Treasury Management

The Authority held approximately £208 million in cash on average during the course of the year. This represents the value of the Authority's revenue reserves, net current assets, unapplied grants and unapplied capital reserves. Other than reserves, this is committed money being held pending such expenditure. With gross expenditure being in the region of £600 million, this represents around four months of expenditure.

The Authority's Treasury Management Policy helps it to manage its investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code), and approves an investment strategy before the start of each financial year.

The primary objective of the Authority's investment strategy is to minimise risk. The credit ratings of the banks and market information are monitored regularly by officers who are involved in the investment process. Performance is reported regularly to the Cabinet Member for Value, and to the Audit Committee. In 2015/16 deposits were restricted to a limited number of institutions meeting the Authority's lending criteria.

Total cash, cash equivalents and deposits held by the Authority at 31 March 2016 amounted to £216m (£175m at 31 March 2015).. The average yield from the Authority's cash investments for 2015/16 was 0.69 per cent (0.67 per cent for 2014/15). This reflects the conservative nature of the Authority's investment strategy and historically low interest rates.

Long-term borrowing stood at £212m as at 31 March 2016 (£211m as at 31 March 2015). Further details are shown in Financial Instruments note to the accounts (Note 16).

Pension Fund

The Pension Fund's net assets fell by £1.8m in 2015/16. Asset values now stand at £572.9m as compared with £574.70m as at 31 March 2015. This reflect the volatility in market conditions and the continuing pressure on longer term pension fund liabilities.

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

The Authority's current share of the net pension fund liability is disclosed in the accounts at a higher level of £388m (£421m at 31 March 2015) based on the requirements of IAS19 rather than on the triennial valuation. The reduction in the net liability over the year has been caused by a change in actuarial assumptions: principally the discount rate used in the valuation process. However, interest rates remain at historically low levels and represent a significant influence of the valuation of pension fund liabilities. Further information on the basis of the IAS19 disclosure is included at note 41.

Prospects and Outlook

The Authority has faced an extremely challenging financial environment over recent years. It has successfully implemented a series of initiatives focused on increased efficiencies whilst minimising the impact on service delivery. A new three year financial strategy was introduced 2015, which was updated in 2016 in order to respond to changes in the Local Government Financial Settlement in 2016/17.

Havering's draft financial strategy had included provision for an expected reduction in Revenue Support Grant (RSG) over the next three years; however, the proposed reductions in Havering's grant settlement proved to be much deeper than expected. The estimated shortfall in the three year financial strategy was increased from £2.4m to approximately £12.5m.

The Council agreed a further range of savings and income generation proposals in February 2016. These proposals had previously been the subject to a budget consultation exercise which concluded at the end of

January 2016. Initial results were reported to Cabinet on 20th January and the affirmative response to the implementation of a 2% Adult Social Care precept was considered and approved in the February report. As such the approved budget continues to reflect the local priorities as defined by the Administration in the light of a range of factors, including the results of recent public consultation exercises (notably nearly 12,000 responses to 2011's Your Council Your Say survey, 7,500 responses to 2012's Spring Clean survey and over 4,000 responses to the 2014 iteration of the Your Council, Your Say survey); the general economic climate; the outcome of the Comprehensive Spending Review (CSR); successive Autumn Budget Statements (ABS); the Local Government Financial Settlement (LGFS); and the future prospects for public sector funding.

The Council agreed a Council Tax increase of 3.99% (including the 2% Adult Social Care precept) in order to set a balanced budget for 2016/17. Further steps will be required to balance the budget in 2017/18 and future years and it is expected that Cabinet will consider this matter in August 2016 in advance of the Local Government financial settlement for 2017/18.

Further information

Further information about the accounts is available from:

Group Director of Communities and Resources

Town Hall

Romford

RM1 3BD

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. For 2015/16 the inspection period takes place between 30 June 2016 and 29 July 2016. These dates are advertised on the London Borough of Havering's website.

Andrew Blake-Herbert, CPFA

CHIEF EXECUTIVE

27 June 2016

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

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

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

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

- Approve the statement of accounts.

The Chief Executive's Responsibilities

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

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

- Selected suitable accounting policies and then applied them consistently.

- Made judgements and estimates that were reasonable and prudent.

- Complied with the Code.

The Section 151 Officer has also:

- Kept proper accounting records which were up to date.

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

I certify that the statement of accounts presents a true and fair view of the financial position of the Council as at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

Councillor Viddy Persaud
CHAIRMAN, AUDIT COMMITTEE
27 September 2016

Andrew Blake-Herbert
Chief Executive
27 June 2016

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

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Movement in Reserves Statement 2015/16

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 ‘unusable reserves’. The (deficit)/surplus on 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 (decrease)/increase before transfers to earmarked reserves line shows the statutory General Fund Balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

	General Fund Balance £000	**Earmarked General Fund Reserves £000**	**Housing Revenue Account £000**	**Capital Receipts Reserve £000**	**Major Repairs Reserve £000**	**Capital Grants Unapplied Account £000**	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Authority Reserves £000**
Balance at 31 March 2014 (restated)	**11,766**	**60,769**	**6,953**	**36,675**	**9,742**	**17,358**	**143,263**	**161,921**	**305,184**
<u>Movement in reserves during 2014/15</u>									
(Deficit)/surplus on provision of services	(32,199)	-	11,242	-	-	-	(20,957)	-	(20,957)
Other comprehensive expenditure and income	-	-	-	-	-	-	-	41,208	41,208
Total comprehensive expenditure and income	**(32,199)**	**-**	**11,242**	**-**	**-**	**-**	**(20,957)**	**41,208**	**20,251**
Adjustments between accounting basis and funding basis under regulations (Note 7)	34,502	-	(9,358)	18,528	7,525	(2,047)	49,150	(49,150)	-
Net (decrease)/increase before transfers to earmarked reserves	**2,303**	**-**	**1,884**	**18,528**	**7,525**	**(2,047)**	**28,193**	**(7,942)**	**20,251**
Transfers to/(from) Earmarked Reserves (Note 8)	(2,303)	2,470	(167)	-	-	-	-	-	-
(Decrease)/increase in Year	**-**	**2,470**	**1,717**	**18,528**	**7,525**	**(2,047)**	**28,193**	**(7,942)**	**20,251**
Balance at 31 March 2015	**11,766**	**63,239**	**8,670**	**55,203**	**17,267**	**15,311**	**171,456**	**153,979**	**325,435**
<u>Movement in reserves during 2015/16</u>									
(Deficit)/surplus on provision of services	48,827	-	3,154	-	-	-	51,981	-	51,981
Other comprehensive expenditure and income	-	-	-	-	-	-	-	210,863	210,863
Total comprehensive expenditure and income	**48,827**	**-**	**3,154**	**-**	**-**	**-**	**51,981**	**210,863**	**262,844**
Adjustments between accounting basis and funding basis under regulations (Note 7)	(45,787)	-	(4,669)	18,071	7,304	8,473	(16,608)	16,608	-
Net (decrease)/increase before transfers to earmarked reserves	**3,040**	**-**	**(1,515)**	**18,071**	**7,304**	**8,473**	**35,373**	**227,471**	**262,844**
Transfers to/(from) Earmarked Reserves (Note 8)	(3,040)	3,040	-	-	-	-	-	-	-
(Decrease)increase in Year	**-**	**3,040**	**(1,515)**	**18,071**	**7,304**	**8,473**	**35,373**	**227,471**	**262,844**
Balance at 31 March 2016	**11,766**	**66,279**	**7,155**	**73,274**	**24,571**	**23,784**	**206,829**	**381,450**	**588,279**

The 2015/16 Movement in Reserves Statement has been restated to include schools balances as Earmarked General Fund Reserves rather than including them in the General Fund Balance; the General Balances have also been included in Earmarked General Fund Reserves. These cosmetic changes were made to comply with the CIPFA Code of Practice on Local Authority Accounting 2015/16.

The impact on the restated figures are shown in the following table; earmarked reserves are shown in detail at Note 8.

	General Fund Balance £000	School Balances (included under General Fund Balances in the 2014/15 Accounts) £000	General Balances (as stated in the 2014/15 Accounts) £000	Earmarked General Fund Reserves (as stated in the 2014/15 Accounts) £000	Earmarked General Fund Reserves (as stated in the 2015/16 Accounts) £000
Balance at 31 March 2014)	**11,766**	**12,853**	**2,847**	**45,069**	**60,769**
Movement in reserves during 2014/15					
(Deficit)/surplus on provision of services	(32,199)	*	-	-	-
Total comprehensive expenditure and income	**(32,199)**	**-**	**-**	**-**	**-**
Adjustments between accounting basis and funding basis under regulations (Note 7)	34,502	-	-	-	-
Net (decrease)/increase before transfers to earmarked reserves	**2,303**	**-**	**-**	**-**	**-**
Transfers to/(from) Earmarked Reserves (Note 8)	(2,303)	(975)	(99)	3,544	2,470
(Decrease)increase in Year	**-**	**(975)**	**(99)**	**3,544**	**2,470**
Balance at 31 March 2015	**11,766**	**11,878**	**2,748**	**48,613**	**63,239**
Movement in reserves during 2015/16					
(Deficit)/surplus on provision of services	50,248	*	-	-	-
Total comprehensive expenditure and income	**50,248**	**-**	**-**	**-**	**-**
Adjustments between accounting basis and funding basis under regulations (Note 7)	(47,208)	-	-	-	-
Net (decrease)/increase before transfers to earmarked reserves	**3,040**	**-**	**-**	**-**	**-**
Transfers to/(from) Earmarked Reserves (Note 8)	(3,040)	(2,586)	163	5,463	3,040
(Decrease)increase in Year	**-**	**(2,586)**	**163**	**5,463**	**3,040**
Balance at 31 March 2016	**11,766**	**9,292**	**2,911**	**54,076**	**66,279**

* Deficits and surpluses for the year are included in the General Fund Balance

Comprehensive Income and Expenditure Statement 2015/16

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

1 April 2014 – 31 March 2015					1 April 2015 – 31 March 2016		
£000 Gross Expenditure	£000 Gross Income	£000 Net		Notes	£000 Gross Expenditure	£000 Gross Income	£000 Net
			Gross expenditure, gross income and net expenditure of continuing operations				
11,233	(2,353)	8,880	Central Services to the Public		9,315	(3,544)	5,771
15,997	(1,233)	14,764	Cultural and Related Services		13,520	(1,426)	12,094
19,943	(7,108)	12,835	Environment and Regulatory Services		18,453	(6,748)	11,705
8,869	(3,272)	5,597	Planning Services		9,082	(3,414)	5,668
220,593	(148,988)	71,605	Children's and Education Services		179,643	(147,755)	31,888
24,453	(6,054)	18,399	Highways, Roads and Transport Services		24,183	(7,682)	16,501
71,724	(78,067)	(6,343)	Local Authority Housing (HRA)		55,492	(58,642)	(3,150)
105,241	(102,899)	2,342	Other Housing Services		111,612	(108,003)	3,609
80,601	(16,815)	63,786	Adult Social Care Services		78,646	(16,936)	61,710
9,344	(9,783)	(439)	Public Health		12,057	(10,402)	1,655
5,006	(290)	4,716	Corporate and Democratic Core		4,567	(399)	4,168
-	(695)	(695)	Non Distributed Costs		-	(415)	(415)
573,004	**(377,557)**	**195,447**	**Cost of services**		**516,570**	**(365,366)**	**151,204**
		10,719	Other operating expenditure	9			(3,575)
		18,338	Financing and investment income and expenditure	10			12,160
		(203,547)	Taxation and non specific grant income	11			(211,770)
		20,957	**Deficit on provision of services**				**(51,981)**
		(68,627)	Surplus on revaluation of property, plant and equipment assets	23a			(170,984)
		27,419	Actuarial losses/(gains) on pension assets / liabilities	23e			(39,879)
		(41,208)	**Other comprehensive income and expenditure**				**(210,863)**
		(20,251)	**Total comprehensive income and expenditure**				**(262,844)**

Balance Sheet as at 31 March 2016

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'.

31 March 2015 £000		Notes	31 March 2016 £000
772,450	**Property, plant and equipment**	12	962,666
105	**Heritage assets**	13	105
37,581	**Investment property**	14b	38,596
1,533	**Intangible assets**	15	1,413
6,000	**Long Term Investments**	16	10,000
607	**Long Term debtors**	16	457
818,276	**Long-term assets**		**1,013,237**
138,500	**Short-term investments**	16	152,399
268	**Inventories**		308
49,352	**Short-term debtors**	17	40,128
30,441	**Cash and cash equivalents**	18	53,511
1,508	**Assets held for sale**	19	3,833
220,069	**Current assets**		**250,179**
(271)	**Short-term borrowing**	16	(694)
(64,724)	**Short-term creditors**	20	(61,046)
(64,995)	**Current liabilities**		**(61,740)**
(515)	**Long-term creditors**		(386)
(5,612)	**Provisions**	21	(5,086)
(211,410)	**Long-term borrowing**	16	(212,116)
(421,209)	**Other long-term liabilities**	41	(388,109)
(9,169)	**Capital grants receipts in advance**	34b	(7,700)
(647,915)	**Long-term liabilities**		**(613,397)**
325,435	**Net assets**		**588,279**
171,456	**Usable reserves**	22	206,829
153,979	**Unusable reserves**	23	381,450
325,435	**Total Reserves**		**588,279**

I certify that the statement of accounts gives a true and fair view of the financial position of the authority at 31 March 2016 and its income and expenditure for the year ended 31March 2016. These financial statements replace the unaudited financial statements signed by the Chief Executive on 27 June 2016.

Cash Flow Statement as at 31 March 2016

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

2014/15 £000		Note	2015/16 £000
20,957	Net deficit on the provision of services		(51,981)
(128,528)	Adjust net surplus or deficit on the provision of services for non-cash movements	24	(40,673)
67,623	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	65,160
(39,948)	Net cash flows from Operating Activities		(27,494)
52,172	Investing activities	25	5,553
(1,000)	Financing activities	26	(1,129)
11,224	Net (increase) /decrease in cash and cash equivalents		(23,070)
(41,665)	Cash and cash equivalents at the beginning of the reporting period	18	(30,441)
(30,441)	**Cash and cash equivalents at the end of the reporting period**	**18**	**(53,511)**

Notes to the Core Financial Statements

1. Accounting Policies

Going Concern

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

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

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by 30 June 2015, which the Accounts and Audit (England) Regulations 2015 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* and the *Service Reporting Code of Practice 2015/16*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

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

ii. Accruals of Income and Expenditure

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

- revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- expenses in relation to services received (including services provided by employees) are recorded as

expenditure when the services are received rather than when payments are made. Outstanding creditors are written out of the accounts if they have not been billed for by the supplier after a period of two years;

- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected; and
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. Following a review of accruals raised over the past three years, the de minimis was raised from £25,000 for 2014/15 to £50,000 for 2015/16.

iii. Cash and Cash Equivalents

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

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

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

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

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

v. Charges to Revenue for Non-Current Assets

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

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

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

vi. Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

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

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

Post-Employment Benefits

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

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

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

The Local Government Pension Scheme

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

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

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

- Service cost comprising:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
    - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
    - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Re-measurements comprising:
    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as other comprehensive income and expenditure;
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as other comprehensive income and expenditure;
    - contributions paid to the London Borough of Havering pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

vii. Events After the Reporting Period

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

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

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

viii. Financial Instruments

Financial Liabilities

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

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

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

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

Loans and Receivables

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

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

ix. Foreign Currency Translation

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

x. Government Grants and Contributions

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

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

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

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

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

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

Non Ring-fenced Grants

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

Business Improvement Districts

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

xi. Heritage Assets

The Authority's Heritage Assets are split into two categories

- Civic Regalia; and
- Heritage Buildings.

Civic Regalia

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

Heritage Buildings

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

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

xii. Intangible Assets

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

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

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

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

xiii. Inventories

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

xiv. Investment Property

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

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

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

xv. Leases

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

The Authority as Lessee

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

The Authority as Lessor

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

xvi. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA SeRCOP 2015/16. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

xvii. Interest in Joint Committee

oneSource is a participative arrangement created by the Authority and the London Borough of Newham (and, from 1 April, the London Borough of Bexley) to share back office operations. It is governed by a joint committee and is not deemed to meet the definition of joint control; hence the assets, liabilities, income, expenditure and cash flows of the joint committee are not consolidated into the Authority's group accounts. Instead, the Authority accounts for its own transactions arising within the agreement, including the assets, liabilities, income, expenditure and cash flows, in its single entity financial statements. Cost savings are shared between the two authorities on the basis of an agreed formula and are allocated on an annual basis.

xviii. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of

operating in the manner intended by management

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Finance costs are excluded in valuations for all assets.

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

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

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

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

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

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

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

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

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and

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

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

Impairment

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;

- vehicles, plant, furniture and equipment – straight-line allocation over a five year period unless a suitably qualified officer determines a more appropriate period; and

- infrastructure – straight-line allocation over 20 years.

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

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

- new capital expenditure as it arises; and

- existing assets as they become subject to revaluation.

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

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

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

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

xix. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Contingent Liabilities

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

Contingent Assets

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

xx. Reserves

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

xxi. Revenue Expenditure Funded from Capital under Statute

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

xxii. Schools

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

xxii. VAT

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

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

The Authority is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. For 2015/16, the following accounting policy changes that need to be reported relate to:

(a) Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)

(b) Annual Improvements to IFRSs 2010–2012 Cycle

(c) Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)

(d) Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)

(e) Annual Improvements to IFRSs 2012–2014 Cycle

(f) Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)

(g) Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

(h) Changes to the format of the Fund Account and the Net Assets Statement.

It is anticipated that amendments to a) to h) above will not have a material impact on the information provided in the 2015/16 financial statements. But, for 2016/17, the adoption of:

(a) to (c) are unlikely to be a change of accounting policy that will require the publication of a third Balance Sheet.

(d) will not be a change of accounting policy that will require the publication of a third Balance Sheet.

(g) represents a change of accounting policy that will require the publication of a restated Balance Sheet as at the beginning of the preceding period (i.e. a third Balance Sheet) in the 2016/17 financial statements.

(f) and h) represents a change of accounting policy that may require the publication of a restated Balance Sheet as at the beginning of the preceding period (i.e. a third Balance Sheet) in the 2016/17 financial statements where the changes brought about by the amendments to these standards are material.

In addition to the presentation of the third Balance Sheet, the Authority will:

a) include narrative description that the change in accounting policy is as a result of the Code's adoption of the amendments to the standards in question

b) set out the nature of the change of the accounting policy

c) disclose, for the current period and the previous period, the amount of the adjustment to each line item in the financial statements affected, to the extent practicable, and

d) disclose the amount of the adjustments relating to the prior period before the periods presented, to the extent practicable.

Disclosure of a Change of Accounting Policy for the Highways Network Asset in the 2015/16 and 2016/17 Financial Years

For 2015/16, the requirements to restate opening balances at 1 April 2015 and preceding year information in the 2016/17 financial statements (for the Highways Network Asset) have now been removed under an exceptional adaptation to IAS 1 Presentation of Financial Statements and, therefore, there are no reporting requirements for the Authority in the 2015/16 financial statements.

For 2016/17, as the Code has introduced the changes for the Highways Network Asset that require restatement only at 1 April 2016 there will not be a requirement to provide a third Balance Sheet. However, the Authority will

a) include narrative description that the change in accounting policy is as a result of the Code's adoption of the new measurement requirements for the Highways Network Asset

b) set out the nature of the change of the accounting policy, and

c) for the current period disclose the amount of the adjustment to each line item in the financial statements affected, to the extent practicable.

3. Critical Judgements in Applying Accounting Policies

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

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

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

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

The items in the Authority's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	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 £583k for every year that useful lives had to be reduced.
	Assets have been valued by the Authority's external valuers on the basis of a five year rolling valuation programme. In the current economic climate, the Balance Sheet valuation of £963m may be subject to fluctuations.	If the asset valuation of all property plant and equipment were to fall by 1% a reduction in value of £9.63m would arise. This would normally be reversed to the Revaluation Reserve. Where revaluation losses exceed unrealised gains, the net loss would be charged to the Consolidated Income and Expenditure Statement and subsequently written off to the Capital Adjustment Account.
Provisions	The Authority has made a provision of £2.8m 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 £0.3m to the provision required.
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £82.1m. However, the assumptions interact in complex ways. During 2015/16, the Authority's actuary advised that changes in actuarial assumptions gave rise to a gain of £44.2m (as compared to a loss of £78.8m in 2014/15) to the Consolidated Income and Expenditure Statement.
Arrears	At 31 March 2016, the Authority had a gross debtors balance of £63.9m. A review of significant balances suggested that an impairment of doubtful debts of 37% (£23.8m) was appropriate. However, in the current economic climate it may not be certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a 50% increase in the amount of the impairment of doubtful debts would require an additional £11.9m to be set aside as an allowance.

Item	Uncertainties	Effect if actual results differ from assumptions
NNDR Appeals	At 31 March 2016, the Authority made a provision for £2.3m in respect of appeals which are still outstanding, based on the previous success rate on appeals.	In the event that the amount of successful appeals increase from 25% to 50% (for those appeals not provided for in full), this would require an additional provision of £1.7m.

5. Material Items of Income and Expense

Exceptionally, a net revaluation gain of £24.3m has been credited to the Consolidated Income and Expenditure Account (CI&ES) in 2015/16. Revaluation gains are normally credited to the Revaluation Reserve except where, as in this case, the revaluation gain reverses a previous loss charged to the CI&ES. By way of comparison, the impairment loss charged to the CI&ES in 2014/15 was £23.9m. Further information is provided at note 38.

6. Events after the Balance Sheet Date

Mercury Land Holdings

The Authority agreed to create a wholly owned subsidiary, Mercury Land Holdings, with a view to making a significant investment in housing development in the borough whilst achieving a return on investment, benefiting council tax payers in general. These developments are expected to commence in 2016/17.

oneSource

The Authority entered into a partnership with the London Borough of Newham in April 2013 to create oneSource – a joint arrangement sharing back-office functions across both authorities to deliver efficiencies and savings. During 2015/16, an agreement was reached for the London Borough of Bexley to join the partnership from April 2016.

Academies

Ravensbourne Community School adopted sponsored academy status from 1 April 2016. Brookside Infant Community School and Manor Green College (previously, Havering Pupil Referral Service became academies from 1 September 2016.

Benhurst Primary School is pursing sponsored academy status with a proposed date of conversion of 1 Octobr 2016.

Ending of the UK's Membership of the European Union

Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. The Treasury Strategy, as outlined in note 16, means the Authority's surplus and net assets have little exposure to currency fluctuations in the short to medium term and we have no short-term debt maturities. There is likely to be an impact on our property valuations if confidence in the wider UK property market falls; and the valuation of the Authority's net defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations. For the purposes of these financial statements, the Referendum is considered a non-adjusting event. There have been no other events occurring after the reporting date that would have a material impact on these financial statements.

Authorisation of Accounts for Issue

The Accounts were authorised for issue by Andrew Blake-Herbert, Chief Executive on 27 September 2016. 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 Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. The following sets out a description of the reserves against which the adjustments are made.

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

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

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

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

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

	Usable Reserves					
2015/16	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred from the Pensions Reserve)	(6,534)	(245)	-	-	-	6,779
Financial instruments (transferred to the Financial Instruments Adjustments Account)	97	-	-	-	-	(97)
Available for sale financial instruments (transferred to the Available for Sale Financial Instruments Account)	22	-	-	-	-	(22)
Council tax and NNDR (transfers to or from Collection Fund)	(1,302)	-	-	-	-	1,302
Holiday pay (transferred to the Accumulated Absences Reserve)	792	16	-	-	-	(808)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	24,612	(30,894)	-	-	(30,593)	36,875
Total Adjustments to Revenue Resources	**17,687**	**(31,123)**	**-**	**-**	**(30,593)**	**44,029**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	22,157	10,054	(32,211)	-	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	(305)	305	-	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,221)	-	1,221	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	7,324	-	(7,324)	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,293	-	-	-	-	(1,293)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	3,209	18,719	-	-	-	(21,928)
Total Adjustments between Revenue and Capital Resources	**25,438**	**35,792**	**(30,685)**	**(7,324)**	**-**	**(23,221)**
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	12,614	-	-	(12,614)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	20	-	(20)
Application of capital grants to finance capital expenditure	2,780	-	-	-	22,120	(24,900)
Cash payments in relation to deferred capital receipts	(118)	-	-	-	-	118
Total Adjustments to Capital Resources	**2,662**	**-**	**12,614**	**20**	**22,120**	**(37,416)**
Total Adjustments	**45,787**	**4,669**	**(18,071)**	**(7,304)**	**(8,473)**	**(16,608)**

Comparative figures for 2014/15 are as follows:

	Usable Reserves					
2014/15	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to (or from) the Pensions Reserve)	(11,236)	(115)	-	-	-	11,351
Financial instruments (transferred to the Financial Instruments Adjustments Account)	97	-	-	-	-	(97)
Council tax and NNDR (transfers to or from Collection Fund)	3,547	-	-	-	-	(3,547)
Holiday pay (transferred to the Accumulated Absences Reserve)	710	3	-	-	-	(713)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	(59,119)	(9,140)	-	-	(44,095)	112,354
Total Adjustments to Revenue Resources	**(66,001)**	**(9,252)**	**-**	**-**	**(44,095)**	**119,348**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	24,271	-	(24,271)	-	-	
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,048)	-	1,048	-	-	
Posting of HRA resources from revenue to the Major Repairs Reserve	-	7,525	-	(7,525)	-	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,489	-	-	-	-	(1,489)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	7,531	11,085	-	-	-	(18,616)
Total Adjustments between Revenue and Capital Resources	**32,243**	**18,610**	**(23,223)**	**(7,525)**	**-**	**(20,105)**
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	4,695	-	-	(4,695)
Application of capital grants to finance capital expenditure	-	-	-	-	46,142	(46,142)
Cash payments in relation to deferred capital receipts	(744)	-	-	-	-	744
Total Adjustments to Capital Resources	**(744)**	**-**	**4,695**	**-**	**46,142**	**(50,093)**
Total Adjustments	**(34,502)**	**9,358**	**(18,528)**	**(7,525)**	**2,047**	**49,150**

8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance as earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

	Balance as at 31 3 2014 £000	Transfers (from)/to Revenue £000	Transfers between reserves £000	Balance as at 31 3 2015 £000	Transfers (from)/to Revenue £000	Transfers between reserves £000	Balance as at 31 3 2016 £000
General Fund Earmarked Reserves							
Corporate Transformation (including Plusage) reserve	**15,926**	7,314	-	**23,240**	3,324	1,000	**27,564**
oneSource	**750**	507	-	**1,257**	(61)	-	**1,196**
Insurance reserve	**4,383**	353	-	**4,736**	2,196	-	**6,932**
Reserves for future capital schemes	**8,581**	349	-	**8,930**	1,353	-	**10,283**
Legal reserve	**-**	256	-	**256**	-	-	**256**
Crematorium and Cemetery funds	**332**	99	-	**431**	109	-	**540**
Social Care funding	**8,670**	(2,937)	-	**5,733**	(2,425)	(1,000)	**2,308**
Public Health reserve	**1,302**	459	-	**1,761**	(1,471)	-	**290**
Whole life costing Transport Fleet reserve	**441**	(7)	-	**434**	128	-	**562**
Ordinary Place of Residence	**-**	-	-	**-**	1,400	-	**1,400**
Other reserves	**4,684**	(2,849)	-	**1,835**	910	-	**2,745**
Total General Fund Earmarked Reserves	**45,069**	**3,544**	**-**	**48,613**	**5,463**	**-**	**54,076**
Schools Balances							
General Balances	2,847	(99)	-	**2,748**	163	-	**2,911**
Schools Balances	11,164	(950)	-	**10,214**	(3,046)	-	**7,168**
Centrally held schools balances (Note 33)	1,689	(25)	-	**1,664**	460	-	**2,124**
Total Schools Balances	**15,700**	**(1,074)**	**-**	**14,626**	**(2,423)**	**-**	**12,203**
Total Earmarked Reserves	**60,769**	**2,470**	**-**	**63,239**	**3,040**	**-**	**66,279**

General Fund Earmarked Reserves

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

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

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

Legal Reserve – This reserve provides funding for legal cases.

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

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

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

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

Ordinary Place of Residence Reserve – This reserve is set aside to fund potential liability that may arise in regards to the Secretary of State determination in respect of the challenge around ordinary residence of an Adult Social Services client. The outcome of one case was not in favour of this Authority, and therefore the liability has been realised. The liability is higher than initially projected, as the other local authority is claiming backdated fees to the date the client moved to the borough rather than when this local authority was notified. The matter is currently being reviewed by Legal Services. Depending on the outcome, there is a potential of being charged by other authorities as well.

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

Schools Balances

In the 2014/15 accounts, General Balances, Schools Balances and centrally held schools balances were included as part of the General Fund Balance rather than as earmarked reserves. For 2015/16, these items have been re-categorised as earmarked reserves.

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

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

Centrally Held Schools Balances – The Authority's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). Details of the deployment of DSG receivable for 2015/16 are shown at Note 33.

9. Other Operating Expenditure

2014/15 £000		2015/16 £000
12,746	Levies	13,783
1,048	Payments to the Government Housing Capital Receipts Pool	1,221
(3,075)	Gains on the disposal of non-current assets	(18,579)
10,719	**Total**	**(3,575)**

10. Financing and Investment Income and Expenditure

2014/15 £000		2015/16 £000
7,537	Interest payable and similar charges	7,710
15,584	Pensions Net interest on the net defined benefit liability (asset)	12,961
(1,256)	Interest receivable and similar income	(2,051)
(2,407)	Income and expenditure in relation to investment properties	(2,701)
(1,120)	Changes in the fair value of investment properties	(3,737)
-	Other investment income	(22)
18,338	**Total**	**12,160**

11. Taxation and Non Specific Grant Income

2014/15 £000		2015/16 £000
(99,119)	Council tax income	(104,851)
(31,094)	National non-domestic rates income	(29,247)
(53,422)	Non ring-fenced government grants	(44,300)
(19,912)	Capital grants and contributions	(33,372)
(203,547)	**Total**	**(211,770)**

12. Property, Plant and Equipment

Movements in Balances 2015/16

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
Gross Book Value	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 31 March 2015	**387,197**	**309,120**	**38,714**	**140,739**	**4,245**	**6,804**	**886,819**
Reclassifications	-	6,783	-	-	(982)	(3,187)	**2,614**
Additions	20,557	16,288	1,294	11,956	-	6,663	**56,758**
Revaluation increases/(decreases) to:							
Revaluation Reserve	105,250	43,285	-	-	-	-	**148,535**
Revaluation gains to the CI&ES	-	3,183	-	-	-	-	**3,183**
De-recognition – disposals	(4,146)	(9,484)	-	-	-	-	**(13,630)**
De-recognition – other	(20,557)	(3,728)	-	-	-	-	**(24,285)**
At 31 March 2016	**488,301**	**365,447**	**40,008**	**152,695**	**3,263**	**10,280**	**1,059,994**
Accumulated Depreciation and Impairment							
At 31 March 2015	**6,572**	**20,650**	**30,415**	**56,406**	**326**	**-**	**114,369**
Adjustments to opening balance		(3)					**(3)**
Reclassifications	-	(15)	-	-	(6)	-	**(21)**
Depreciation charge	6,423	6,307	2,296	5,999	58	-	**21,083**
Depreciation written out upon Revaluation:							
Revaluation Reserve	(8,008)	(12,202)	-	-	-	-	**(20,210)**
CI&ES	(4,987)	(12,482)	-	-	-	-	**(17,469)**
De-recognition – disposals	-	(421)	-	-	-	-	**(421)**
At 31 March 2016	**-**	**1,834**	**32,711**	**62,405**	**378**	**-**	**97,328**
Net book value at 31 March 2016	**488,301**	**363,613**	**7,297**	**90,290**	**2,885**	**10,280**	**962,666**
Net book value at 31 March 2015	**380,625**	**288,470**	**8,299**	**84,333**	**3,919**	**6,804**	**772,450**

Movements in Balances 2014/15

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation							
At 31 March 2014	**343,455**	**331,243**	**35,787**	**129,870**	**3,980**	**6,781**	**851,116**
Reclassifications	-	661	-	-	224	(3,889)	**(3,004)**
Additions	36,189	13,518	2,927	10,869	-	3,912	**67,415**
Revaluation increases/(decreases) to:							
Revaluation Reserve	47,502	4,712	-	-	41	-	**52,255**
CI&ES	(156)	(21,517)	-	-	-	-	**(21,673)**
De-recognition – disposals	(3,604)	(10,375)	-	-	-	-	**(13,979)**
De-recognition – other	(36,189)	(9,122)	-				**(45,311)**
At 31 March 2015	**387,197**	**309,120**	**38,714**	**140,739**	**4,245**	**6,804**	**886,819**
Accumulated Depreciation and Impairment							
At 31 March 2014	**5,848**	**23,532**	**28,682**	**50,694**	**195**	**-**	**108,951**
Reclassifications	-	(231)	22	-	73	-	**(136)**
Depreciation charge	6,572	6,492	1,711	5,712	58	-	**20,545**
Depreciation written out upon Revaluation:							
Revaluation Reserve	(5,848)	(8,822)	-	-	-	-	**(14,670)**
CI&ES	-	(112)	-	-	-	-	**(112)**
De-recognition – disposals	**-**	(209)	-	**-**	**-**	**-**	**(209)**
At 31 March 2015	**6,572**	**20,650**	**30,415**	**56,406**	**326**	**-**	**114,369**
Net book value at 31 March 2015	**380,625**	**288,470**	**8,299**	**84,333**	**3,919**	**6,804**	**772,450**
Net book value at 31 March 2014	**337,607**	**307,711**	**7,105**	**79,176**	**3,785**	**6,781**	**742,165**

Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in 2016/17.

31 March 2015 £000		31 March 2016 £000
	General Fund	
17,686	Arts, culture, sport and leisure	15,565
2,102	Roads, footways and bridges	570
23,702	Education capital schemes	30,049
288	Town centre and environmental Improvements	2,029
1,434	Office accommodation, equipment, ICT and vehicles	2,394
1,419	Other smaller General Fund schemes	817
46,631	**Total General Fund commitments**	**51,424**
20,207	Housing HRA	19,273
66,838	**Total commitments**	**70,697**

Revaluations

The following statement shows the progress of the Authority's rolling programme for the revaluation of fixed assets. The valuations are certified by G.K. Green, FRICS, the Authority's Property Strategy Manager, in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Assets Valuation Standards Committee of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies. Valuations are carried out by our external valuers, Wilks Head and Eve, and by the Authority's Property Strategy Manager on the basis of a five year rolling programme; the most recent of which was carried out on 31 March 2016.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Carried at historical cost	-	-	7,297	90,290	2,217	10,280	**110,084**
Valued at fair value as at:							
31 March 2016	488,301	324,109	-	-	-	-	**812,410**
31 March 2015	-	28,468	-	-	394	-	**28,862**

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
31 March 2014	-	1,693	-	-	-	-	**1,693**
31 March 2013	-	6,661	-	-	-	-	**6,661**
31 March 2012	-	2,682	-	-	274	-	**2,956**
Total cost or valuation	**488,301**	**363,613**	**7,297**	**90,290**	**2,885**	**10,280**	**962,666**

13. Heritage Assets

Carrying value of heritage assets held by the Authority:

Cost or Valuation	Civic Regalia £000	Heritage Buildings £000	Total Assets £000
31 March 2014	**80**	**26**	**106**
Depreciation	-	(1)	(1)
31 March 2015	**80**	**25**	**105**
Depreciation	-	-	-
31 March 2016	**80**	**25**	**105**

14. Investment Properties

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

2014/15 £000		2015/16 £000
2,743	Rental income from investment property	2,966
(336)	Direct operating expenses arising from investment property	(264)
2,407	**Net gain**	**2,702**

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

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

2014/15 £000		2015/16 £000
34,619	**Opening Balance**	**37,581**
1,120	Revaluation gains from fair value adjustments	3,737
419	Additions	-
1,806	Assets reclassified	(2,722)
(383)	Disposal of investment properties	-
37,581	**Balance at end of the year**	**38,596**

15. Intangible Assets

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £1.072m charged to revenue in 2015/16 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:

2014/15 £000	Intangible fixed assets software and system development	2015/16 £000
13,474	Gross carrying amounts	13,685
(10,254)	Less accumulated amortisation	(12,152)
3,220	**Net carrying amount at start of year**	**1,533**
211	Additions – purchases	952
(1,898)	Less amortisation for the period	(1,072)
1,533	**Net carrying amount at end of year**	**1,413**
	Comprising:	
13,685	Gross carrying amounts	14,637
(12,152)	Less accumulated amortisation	(13,224)

16. Financial Instruments

(a) Financial Instruments - Classifications

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

Financial Liabilities

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

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

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

Financial Assets

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

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

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

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

- covered bonds issued by banks and building societies

(b) Financial Instruments - Balances

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

31 March 2015		Financial Liabilities	31 March 2016	
Long-Term £000	Short-Term £000		Long-Term £000	Short-Term £000
		Loans at amortised cost:		
		PWLB		
203,234	-	- Principal borrowed	203,234	-
-	332	- Accrued interest	-	439
		Market Loan		
7,000	-	- Principal borrowed	7,000	-
-	92	- Accrued interest	-	93
		Other Loans		
752	270	- Principal borrowed	1,882	161
-	1	- Accrued interest	-	1
210,986	**695**	**Total borrowing ***	**212,116**	**694**
		Liabilities at amortised cost:		
		Trade payables		
449	39,921	- Trade Creditors	306	31,771
449	**39,921**	**Included in creditors ****	**306**	**31,771**
211,435	**40,616**	**Total financial liabilities**	**212,422**	**32,465**

* The total short-term borrowing includes £532k (2015: £423k) representing the short-term portion of long-term borrowing.

** The creditors lines on the Balance Sheet include £29,275k (2015: £24,803k) short-term and £80k (2015: £66k) long-term creditors that do not meet the definition of a financial liability. See note 20 for further information on short-term creditors; the long-term creditors consist of £80k for the Mayoral Community Infrastructure Levy for Crossrail.

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

31 March 2015		Fixed Assets	31 March 2016	
Long-Term £000	Short-Term £000		Long-Term £000	Short-Term £000
		Loans and receivables:		
6,000	138,500	- Principal at amortised cost	10,000	152,000
-	488	- Accrued interest	-	399
6,000	**138,988**	**Total investments**	**10,000**	**152,399**
		Loans and receivables:		
-	15,852	- Cash (including bank accounts)	-	12,550
-	14,589	- Cash equivalents at amortised cost	-	35,328
-	-	- Accrued interest	-	7
		Available for sale investments		
-	-	- Cash equivalents at fair value	-	5,596
-	-	- Accrued interest	-	30
-	**30,441**	**Total cash and cash equivalents**	**-**	**53,511**
		Loans and receivables		
607	30,639	- Trade receivables	457	24,455
607	**30,639**	**Included in debtors**	**457**	**24,455**
6,607	**200,068**	**Total financial assets**	**10,457**	**230,365**

* The total short-term investments includes £55k representing the short-term portion of long-term investments.

** The debtors lines on the Balance Sheet include £15,673k (2015: £18,713k) short-term that do not meet the definition of a financial asset. See note 17 for further information.

(c) Financial Instruments - Gains and Losses

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

	Financial Liabilities		Financial Assets				2015/16
	Amortised Cost	Fair Value though CI&ES	Loans and Receivables	Available for Sale Assets	Fair Value though CI&ES	Unquoted Equity at Cost	Total
	£000	£000	£000	£000	£000	£000	£000
Interest expense	7,710	-	-	-	-	-	7,710
Interest payable and similar charges	**7,710**	**-**	**-**	**-**	**-**	**-**	**7,710**
Interest income	-	-	(1,988)	(63)	-	-	(2,051)
Increases in fair value	-	-	-	(22)	-	-	(22)
Interest and investment income	**-**	**-**	**(1,988)**	**(85)**	**-**	**-**	**(2,073)**
Changes in value of investment properties	-	-	-	-	(3,737)	-	(3,737)
Income and expenditure relating to investment properties	-	-	-	-	(2,701)	-	(2,701)
Pensions Net Interest	-	12,961	-	-	-	-	12,961
Impact in Other Comprehensive Income	**-**	**12,961**	**-**	**-**	**(6,438)**	**-**	**6,523**
Net gain (loss) for the year	**7,710**	**12,961**	**(1,988)**	**(85)**	**(6,438)**	**-**	**12,160**

(d) Financial Instruments - Fair Values

Financial assets classified as available for use are carried in the Balance Sheet at fair value. For most assets, including bonds the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows as at 31 March 2016.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2016, using the following methods and assumptions:

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

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

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

31 March 2015			Fair Value Level	31 March 2016	
Balance Sheet £000	**Fair Value £000**			**Balance Sheet £000**	**Fair Value £000**
		Financial liabilities held at amortised cost:			
203,234	263,879	- Long-term loans from PWLB	2	203,234	265,928
7,000	8,215	- Long-term LOBO loans	2	7,000	10,238
752	752	- Other long-term loans	2	1,882	1,881
271	271	- Other Short-term loans	2	162	162
424	424	- Accrued interest		532	532
211,681	**273,541**	**Total**		**212,810**	**278,741**
40,370	40,370	Liabilities for which fair value is not disclosed *		32,077	32,077
252,051	**313,911**	**Total Financial Liabilities**		**244,887**	**310,818**

31 March 2015			Fair Value Level	31 March 2016	
Balance Sheet £000	Fair Value £000			Balance Sheet £000	Fair Value £000
		Recorded on balance sheet as:			
39,921	39,921	- Short-term creditors		31,771	31,771
695	695	- Short-term borrowing		694	694
449	449	- Long-term creditors		306	306
210,986	272,846	- Long-term borrowing		212,116	278,047
252,051	**313,911**	**Total Financial Liabilities**		**244,887**	**310,818**

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

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

31 March 2015			Fair Value Level	31 March 2016	
Balance Sheet £000	Fair Value £000			Balance Sheet £000	Fair Value £000
		Financial assets held at amortised cost:			
6,000	6,178	- Long-term loans to local authorities	2	10,000	10,105
138,500	139,149	- Short-term bank deposits	2	152,000	151,543
488	488	- Accrued interest	2	399	399
		Loans & Receivables			
30,441	30,441	- Cash equivalents at amortised cost	2	47,878	47,878
-	-	- Accrued interest	2	7	7
		Available for Sale investments			
-	-	- Covered Bond	2	5,596	5,596
-	-	- Accrued interest	2	30	30
175,429	**176,256**	**Total**		**215,910**	**215,558**
31,246	31,246	Assets for which fair value is not disclosed *		24,912	24,912
206,675	**207,502**	**Total Financial Assets**		**240,822**	**240,470**
		Recorded on balance sheet as:			
607	607	- Long-term debtors		457	457
6,000	6,178	- Long-term investments		10,000	10,105
30,639	30,639	- Short-term debtors		24,455	24,455
138,988	139,637	- Short-term investments		152,399	151,942
30,441	30,441	- Cash and cash equivalents		53,511	53,511
206,675	**207,502**	**Total Financial Assets**		**240,822**	**240,470**

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

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

(e) Financial Instruments - Risks

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

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

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

The main risks covered are:

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

Credit Risk: Investments

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

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

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £121m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2016 that this was likely to crystallise.

The credit quality of £5m of the Authority's investments is enhanced by collateral held in the form of covered bonds collateralised by UK residential mortgages. The collateral significantly reduces the likelihood of the Authority suffering a credit loss on these investments.

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

31 March 2015		**Credit Rating**	**31 March 2016**	
Long-term	**Short-term**		**Long-term**	**Short-term**
£000	**£000**		**£000**	**£000**
-	-	AAA	-	-
-	-	AA+	-	-
-	-	AA	-	-
-	16,000	AA-	-	51,000
-	24,500	A+	-	20,000
-	43,000	A	-	48,000
-	10,000	A-	-	2,000
6,000	45,000	Unrated local authorities	10,000	31,000
6,000	**138,500**	**Total Investments**	**10,000**	**152,000**

Credit Risk: Receivables

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

- revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. Following a review of accruals raised over the past three years, the de minimis was raised from £25,000 for 2014/15 to £50,000 for 2015/16.

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

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

Credit risk exposure 31 March 2015 £000		Gross balance of debtors £000	Average % default based on past experience %	Average % default based on current experience %	Credit risk exposure 31 March 2015 £000
-	Capital	4,980	-	-	-
4,402	Housing	5,871	72	69	4,056
1,212	Social Services	6,256	19	17	1,043
1,347	Parking	2,035	74	72	1,468
-	Other local authorities	367	-	-	-
-	Health authorities	282	-	-	-
2,068	Other sundry debtors	13,255	19	15	2,024
9,029	**Total**	**33,046**	**22**	**26**	**8,591**

Liquidity Risk

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

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

31 March 2015 £000	Time to maturity (years)	31 March 2016 £000
1,023	Not over 1	161
-	Over 1 but not over 2	-
-	Over 2 but not over 5	1,883
2,089	Over 5 but not over 10	2,089
136,912	Over 10 but not over 20	136,912
30,000	Over 20 but not over 30	30,000
11,642	Over 30 but not over 40	11,642
22,591	Over 40	22,591
7,000	Uncertain date	7,000
211,257	**Total**	**212,278**

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

Market Risks: Interest Rate Risk

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

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

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

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

	2015/16 £000
Increase in interest payable on variable rate borrowings	(21)
Increase in interest receivable on variable rate investments	2,081
Impact on comprehensive income and expenditure	**2,060**
Decrease in fair value of loans and receivables *	(946)
Decrease in fair value of fixed rate borrowing liabilities	(31,166)

* No impact on comprehensive income and expenditure.

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

17. Short-Term Debtors

31 March 2015 £000				31 March 2016 £000		
Gross	**Impairment Allowance**	**Net**		**Gross**	**Impairment Allowance**	**Net**
			Collection Fund Debtors			
13,646	(7,591)	6,055	Council tax payers	14,606	(7,425)	* 7,181
1,984	(1,065)	919	Business rate Payers	1,135	(621)	* 514
			Other Debtors			
7,353	-	7,353	Government departments	3,722	-	* 3,722
13,325	-	13,325	Capital	4,980	-	4,980
6,111	(4,402)	1,709	Housing	5,871	(4,056)	1,815
10,645	(6,260)	4,385	Housing benefit	11,389	(7,133)	* 4,256
6,538	(1,212)	5,326	Social Services	6,256	(1,043)	5,213
1,823	(1,347)	476	Parking	2,035	(1,468)	567
595	-	595	Other local authorities	367	-	367
567	-	567	Health authorities	282	-	282
10,710	(2,068)	8,642	Other sundry debtors	13,255	(2,024)	11,231
73,297	**(23,945)**	**49,352**	**Total short-term debtors**	**63,698**	**(23,770)**	**40,128**

* These debtors are not included in Note 16(b), Financial Instruments (balances), as they do not meet the definition of a financial asset.

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

18. Cash and Cash Equivalents

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

31 March 2015 £000		31 March 2016 £000
1,333	Cash held by the Authority	40
4,053	Bank current accounts	4,470
14,589	Short-term deposits with banks – call accounts	35,335
-	Available for Sale Investments	5,626
10,466	Schools – under the LMS cheque book scheme	8,040
30,441	**Total cash and cash equivalents**	**53,511**

19. Assets Held for Sale

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

2014/15 £000		2015/16 £000
7,519	**Opening Balance**	**1,508**
(303)	Revaluation gains from fair value adjustments	2,239
610	Assets reclassified	86
(18)	Depreciation	-
(6,300)	Disposal of Assets Held for Sale	-
1,508	**Balance at end of the year**	**3,833**

20. Short-Term Creditors

31 March 2015 £000		31 March 2016 £000
	Collection Fund creditors	
5,528	Council tax payers	* 5,829
1,111	NNDR payers	* 817
1,577	GLA	* 1,341
1,808	Central Government (NNDR)	* 1,751
	Other Creditors	
6,521	Central Government	* 2,250
2,961	HMRC	* 4,692
5,298	Pension Fund	* 12,595
4,028	Capital creditors	2,212
31,914	Other sundry creditors	25,233
3,978	Income in advance	4,326
64,724	**Total**	**61,046**

* These creditors are not included in Note 16(b), Financial Instruments (balances), as they do not meet the definition of a financial asset.

21. Provisions

	Self-Insurance £000	Collection Fund £,000	Other Provisions £000	Total £000
Balance at 31 March 2015	**4,579**	**895**	**138**	**5,612**
Additional provisions made in year	-	1,623	-	**1,623**
Amounts used in year	(752)	(249)	-	**(1,001)**
Transfers to revenue	(1,015)	-	(133)	**(1,148)**
Balance at 31 March 2016	**2,812**	**2,269**	**5**	**5,086**

Self-Insurance Provision

The Authority's insurance cover is arranged with Zurich Municipal with substantial excesses for which a self-insurance provision is maintained. The self-insurance provision has been set up to meet the excesses on the Authority's public and employer's liability, property and motor vehicle insurance policies. It is not possible to determine the precise timing of the settlement of claims relating to this provision. The excess levels at 1 January 2016 were public and employer's liability (£163,000), motor vehicles (£157,000) and property (£50,000).

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

Collection Fund Provision

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

Other Provisions

The provision for Leasing Dilapidations for office premises previously leased by the Authority (£133,000 as at 31 March 2015) was released in 2015/16. The remaining provision of £5,000 (£5,000 31 March 2015) is to fund pay equalisation responsibilities for staff formerly based at Purfleet Depot.

22. Usable Reserves

31 March 2015 £000		31 March 2016 £000
11,766	General Fund balance	11,766
63,239	Earmarked reserves	66,279
8,670	Housing Revenue Account balance	7,155
15,311	Capital Grants Unapplied	23,784
55,203	Capital Receipts Reserve	73,274
17,267	Major Repairs Reserve	24,571
171,456	**Total usable reserves**	**206,829**

Earmarked reserves include:

31 March 2015 £000		31 March 2016 £000
48,613	General Fund earmarked reserves	54,076
2,748	General balances	2,911
10,214	Schools balances	7,168
1,664	Centrally held schools balances (see Note 33)	2,124
63,239	**Total Earmarked Reserves**	**66,279**

In the 2014/15 accounts, General Balances, Schools Balances and Centrally held schools balances were categorised as part of the General Fund balance rather than as earmarked reserves. Earmarked reserves are shown in detail at Note 8.

23. Unusable Reserves

31 March 2015 £000		31 March 2016 £000
192,301	Revaluation Reserve	344,798
-	Financial Instruments Available for Sale Reserve	22
383,766	Capital Adjustment Account	426,133
(1,015)	Financial Instruments Adjustment Account	(918)
(421,209)	Pensions Reserve	(388,109)
462	Deferred Capital Receipts Reserve	344
3,490	Collection Fund Adjustment Account	2,188
(3,816)	Accumulated Absences Account	(3,008)
153,979	**Total unusable reserves**	**381,450**

a) Revaluation Reserve

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

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

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

31 March 2015 £000		31 March 2016 £000
131,704	**Balance at 1 April**	**192,301**
68,627	Net gain on revaluation of fixed assets	170,984
(3,410)	Excess of Fair Value Depreciation over Historical cost depreciation	(4,079)
(5,185)	Removal of Revaluation balance upon sale	(6,327)
565	Other Adjustments	(8,081)
192,301	**Balance at 31 March**	**344,798**

b) Financial Instruments Available for Sale Reserve

This reserve is used for the accounting entries for a covered bond that purchased in 2015/16 which is valued on the balance sheet at fair value with the difference (£22k for 2015/16) being credited to the CIES. This sum is subsequently transferred through the movement in reserves statement and recorded in the FIASR in accordance with statutory requirements.

c) Capital Adjustment Account

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

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

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

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

2014/15 £000		2015/16 £000
417,148	**Balance at 1 April**	**383,766**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(20,817)	Net charges for depreciation of non-current assets	(21,083)
(21,629)	Net charges for impairment of non-current assets	20,653
(47,837)	Net charges for de-recognition of non-current assets	(24,285)
-	Mitigation of PPP Capitalised	136
(1,898)	Amortisation of intangible assets	(1,072)
(20,452)	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	(13,209)
	Adjusting amounts written out of the Revaluation Reserve	
3,410	Depreciation	4,079
5,185	Asset Disposal	6,327
-	Other	8,081
(104,038)	**Net written out amount of the cost of non-current assets consumed in the year**	**(20,373)**
	Capital financing applied in the year:	
4,695	Use of the Capital Receipts Reserve to finance new capital expenditure	12,614
-	Use of the Major Repairs Reserve to finance new capital expenditure	20
46,142	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	24,900
1,489	Statutory provision for the repayment of debt	1,293
18,616	Capital expenditure charged against the General Fund and HRA balances	21,928
70,942	**Capital financing applied in year**	**60,755**
(1,406)	**Revenue expenditure funded from capital under statute**	**(1,752)**
1,120	**Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement**	**3,737**
383,766	**Balance at 31 March**	**426,133**

d) Financial Instruments Adjustment Account

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

2014/15 £000		2015/16 £000
(1,112)	**Balance at 1 April**	(1,015)
97	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	97
(1,015)	**Balance at 31 March**	**(918)**

e) Pensions Reserve

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

2014/15 £000		2015/16 £000
(382,439)	**Balance at 1 April**	**(421,209)**
(27,419)	Actuarial gains or (losses) on pensions assets and liabilities	39,879
(34,183)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(35,707)
22,832	Employer's pensions contributions and direct payments to pensioners payable in the year	28,928
(421,209)	**Balance at 31 March**	**(388,109)**

f) Deferred Capital Receipts Reserve

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

2014/15 £000		2015/16 £000
1,206	**Balance at 1 April**	**462**
(744)	Transfer to the Capital Receipts Reserve upon receipt of cash	(118)
462	**Balance at 31 March**	**344**

g) Collection Fund Adjustment Account

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

2014/15 £000		2015/16 £000
(57)	**Balance at 1 April**	**3,490**
3,547	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(1,302)
3,490	**Balance at 31 March**	**2,188**

h) Accumulated Absences Account

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

2014/15 £000		2015/16 £000
(4,529)	**Balance at 1 April**	**(3,816)**
4,529	Settlement or cancellation of accrual made at the end of the preceding year	3,816
(3,816)	Amounts accrued at the end of the current year	(3,008)
713	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	808
(3,816)	**Balance at 31 March**	**(3,008)**

24. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2014/15 £000		2015/16 £000
(1,173)	Interest received	(1,456)
7,623	Interest paid	7,569
6,450	**Balance at 31 March**	**6,113**
(89,718)	Depreciation, impairment and downward revaluation	(24,715)
(1,898)	Amortisation	(1,072)
(7,381)	(Increase) / decrease in creditors	2,578
155	Decrease in long-term creditors	129
1,027	Increase / (decrease) in debtors	(14)
(687)	Decrease in long-term debtors	(150)
(29)	(Decrease) / increase in inventories	40
(11,351)	Movement in pension liability	(6,779)
2,270	Decrease in provisions	527
(20,452)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(13,209)
(464)	Other non-cash items charged to the net surplus or deficit on the provision of services	1,992
(128,528)	**Net cash flows from operating activities**	**(40,673)**

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

2014/15 £000		2015/16 £000
44,095	Capital grants credited to the Consolidated Income and Expenditure Statement	33,372
23,528	Proceeds from sale of fixed assets	31,788
67,623	**Adjustment for items included in the net surplus or deficit on the provisions of services that are investing and financing activities**	**65,160**

25. Cash Flow Statement – Investing Activities

2014/15 £000		2015/16 £000
69,453	Purchase of property, plant and equipment, investment property and intangible assets	59,462
826,785	Purchase of short-term and long-term investments	379,399
(23,528)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(31,788)
(39,299)	Capital grants received	(40,256)
(784,786)	Proceeds from short-term and long-term investments	(361,500)
3,547	Other receipts from investing activities	236
52,172	**Net cash flows from investing activities**	**5,553**

26. Cash Flow Statement – Financing Activities

2014/15 £000		2015/16 £000
(34,827)	Cash receipts of short-term and long-term borrowing	(40,251)
33,827	Repayments of short-term and long-term borrowing	39,122
(1,000)	**Net cash flows from financing activities**	**(1,129)**

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 Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

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

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

Directorate Income and Expenditure 2015/16	Communities and Resources £000	Public Health £000	Children, Adults and Housing £000	oneSource £000	oneSource non shared £000	Total £000
Fees, charges and other service income	(22,323)	-	(115,213)	(1,664)	(7,633)	**(146,833)**
Government grants	(509)	(10,402)	(131,486)	(36)	(95,810)	**(238,243)**
Total income	**(22,832)**	**(10,402)**	**(246,699)**	**(1,700)**	**(103,443)**	**(385,076)**
Employee expenses	24,124	1,703	148,274	17,127	5,836	**197,064**
Other service expenses	72,150	8,888	188,792	(10,703)	93,500	**352,627**
Total expenditure	**96,274**	**10,591**	**337,066**	**6,424**	**99,336**	**549,691**
Net expenditure	**73,442**	**189**	**90,367**	**4,724**	**(4,107)**	**164,615**

Comparative figures for 2014/15 are as follows:

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

Reconciliation to Subjective Analysis

Reconciliation of directorate income and expenditure to cost of services in the Comprehensive Income and Expenditure Statement.

2015/16	Directorate Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CI & ES £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	(146,833)	18,528	-	**(128,305)**	-	**(128,305)**
Interest and investment income	-	(119)	-	**(119)**	(8,511)	**(8,630)**
Income from council tax	-	-	-	**-**	(104,851)	**(104,851)**
Income from non-domestic rates	-	-	-	**-**	(29,247)	**(29,247)**
Government grants and contributions	(238,243)	1,301	-	**(236,942)**	(77,672)	**(314,614)**
Total income	**(385,076)**	**19,710**	**-**	**(365,366)**	**(220,281)**	**(585,647)**
Employee expenses	197,064	5,971	-	**203,035**	-	**203,035**
Other service expenses	352,627	(63,218)	(1,525)	**287,884**	-	**287,884**
Depreciation, amortisation and impairment	-	25,651	-	**25,651**	-	**25,651**
Interest payments	-	-	-	**-**	20,671	**20,671**
Levies	-	-	-	**-**	13,783	**13,783**
Payments to Housing Capital Receipts Pool	-	-	-	**-**	1,221	**1,221**
Gain or loss on disposal of fixed assets	-	-	-	**-**	(18,579)	**(18,579)**
Total expenditure	**549,691**	**(31,596)**	**(1,525)**	**516,570**	**17,096**	**533,666**
Deficit or (surplus) on the provision of services	**164,615**	**(11,886)**	**(1,525)**	**151,204**	**(203,185)**	**(51,981)**

Comparative figures for 2014/15 are as follows:

2014/15	Directorate Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CI & ES £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	(116,804)	4,783	-	**(112,021)**	-	**(112,021)**
Interest and investment income	-	(97)	-	**(97)**	(4,783)	**(4,880)**
Income from council tax	-	-	-	**-**	(99,119)	**(99,119)**
Income from non-domestic rates	-	-	-	**-**	(31,094)	**(31,094)**
Government grants and contributions	(294,378)	(27,730)	-	**(322,108)**	(73,334)	**(395,442)**
Total income	**(411,182)**	**(23,044)**	**-**	**(434,226)**	**(208,330)**	**(642,556)**
Employee expenses	196,236	10,638	-	**206,874**	-	**206,874**
Other service expenses	385,835	(49,721)	(4,187)	**331,927**	-	**331,927**
Depreciation, amortisation and impairment	-	91,616	-	**91,616**	-	**91,616**
Interest payments	-	-	-	**-**	23,121	**23,121**
Levies	-	-	-	**-**	12,746	**12,746**
Payments to Housing Capital Receipts Pool	-	-	-	**-**	1,048	**1,048**
Gain or loss on disposal of fixed assets	-	(744)	-	**(744)**	(3,075)	**(3,819)**
Total expenditure	**582,071**	**51,789**	**(4,187)**	**629,673**	**33,840**	**663,513**
Deficit or (surplus) on the provision of services	**170,889**	**28,745**	**(4,187)**	**195,447**	**(174,490)**	**20,957**

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.

2014/15 £000		2015/16 £000
170,889	Net expenditure in the Directorate analysis	164,615
24,558	Net expenditure of services and support services not included in the analysis (including movement in Housing Revenue Account balance)	(13,411)
195,447	**Cost of services in Comprehensive Income and Expenditure Statement**	**151,204**

28. Trading Operations

2014/15 (Surplus)/ Deficit £000		2015/16 Income £000	2015/16 Expenditure £000	2015/16 (Surplus)/ Deficit £000
	a) Open Air Market			
401	The Authority operates an open air market three days a week	(504)	756	252
	b) Other Trading Accounts			
(388)	Highways	(4,260)	3,575	(685)
481	Schools/Welfare Catering	(7,203)	7,407	204

The Market expenditure figure for 2015/16 includes costs of £50k relating to the Market revaluation adjustment. The comparable figure for 2014/15 was £277k.

Highways – cost recovery rates were reviewed in 2015-16 resulting in the increase in net surplus of £297k.

The Catering Service has a £573k surplus before overheads in 2015-16; the deficit once overheads are applied is £204k. Income increased by £543k and expenditure (excluding revenue contributions to capital expenditure) by £411k giving a net increase in trading surplus of £132k. The overheads decreased in 2015/16 by £154k to £777k. The improvement in financial performance can be attributed to the first full year of universal free school meals, the introduction of ICT to improve the service and reduction in waste through increased efficiency in ordering and stock control, and the imbedding of improved controls and processes that were introduced in 2014/15.

29. Pooled Budgets

Mental Health

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

2014/15 £000		2015/16 £000
	Funding	
1,693	Section 75 Joint Pooled Budget between London Borough of Havering and North East London Foundation Trust	1,668
257	Recharges (excluded from the Pooled Budget)	528
1,221	Non Pooled Budget codes	1,207
3,171	**Total funding**	**3,403**
3,256	**Final outturn**	**3,462**

Adult Services – Better Care Fund

Under the National Health Services Act 2006 section 13Z (2) and 14Z (3) & Local Government Acts 1972 & 2000, a partnership arrangement was established with NHS Havering Clinical Commissioning Group (CCG) in April 2015.

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

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

Section 75 Joint Pooled Budget between LBH and Havering CCG	**2015/16 £000**
Funding – capital	
Minimum contribution – income	**(1,389)**
Disability Facility grant allocation	829
Social Care capital grant allocation	560
Minimum contribution - expenditure	**1,389**
Funding – revenue – CCG commissioned services	
Minimum CCG contribution – income	**(10,017)**
Minimum CCG contribution – paid to CCG	**10,017**
Funding – revenue – CCG / LBH	
Minimum CGC contribution (including S256 funding) – income	**(7,508)**
CCG minimum contribution (including S256 monies)	4,609
CCG additional contribution	850
CCG contribution to Care Act	609
Additional LBH contribution – S256	590
Further LBH Contribution	850
Minimum CGC contribution (including S256 funding) – expenditure	**7,508**
Total funding	**(18,914)**
Total expenditure	**18,914**
Net pooled balance as at 31 March	**-**

30. Members’ Allowances

Payments in year were £982,553 including expenses (£994,475 in 2014/15). Additionally, payments to co-opted members totalled £2,057 (£3,106 in 2014/15).

31. Officers' Remuneration

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

Lower Band		Upper Band	2015/16 Schools	2015/16 Other	2015/16 Total	2014/15 Schools	2014/15 Other	2014/15 Total
£50,000	-	£55,000	53	27	**80**	42	25	**67**
£55,000	-	£60,000	22	24	**46**	18	11	**29**
£60,000	-	£65,000	15	8	**23**	24	17	**41**
£65,000	-	£70,000	27	14	**41**	22	13	**35**
£70,000	-	£75,000	12	6	**18**	6	4	**10**
£75,000	-	£80,000	4	1	**5**	5	6	**11**
£80,000	-	£85,000	3	4	**7**	6	3	**9**
£85,000	-	£90,000	3	4	**7**	3	2	**5**
£90,000	-	£95,000	2	3	**5**	2	6	**8**
£95,000	-	£100,000	1	1	**2**	1	3	**4**
£100,000	-	£105,000	-	5	**5**	1	1	**2**
£105,000	-	£110,000	-	-	**-**	-	3	**3**
£110,000	-	£115,000	1	1	**2**	-	-	**-**
£115,000	-	£120,000	-	-	**-**	-	-	**-**
£120,000	-	£125,000	-	-	**-**	-	1	**1**
£125,000	-	£130,000	-	-	**-**	-	-	**-**
£130,000	-	£135,000	-	1	**1**	-	-	**-**
£135,000	-	£140,000	-	-	**-**	-	-	**-**
£140,000	-	£145,000	-	1	**1**	-	-	**-**
£145,000	-	£150,000	-	-	**-**	-	1	**1**
£150,000	-	£155,000	-	-	**-**	-	-	**-**
£155,000	-	£160,000	-	-	**-**	-	-	**-**
£160,000	-	£165,000	-	-	**-**	-	-	**-**
			143	**100**	**243**	**130**	**96**	**226**

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

Senior Officers Remuneration

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

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

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

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

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

Post Holder Information	Notes	Salary £	Other payments £	Total Remuneration excluding pension contributions 2015/16 £	Employer's pension contribution £	Total Remuneration including pension contributions 2015/16 £
Chief Executive – C Coppell	1	88,517	7,363	**95,880**	-	**95,880**
Group Director of Communities and Resources	2	28,315	-	**28,315**	4,417	**32,732**
Deputy Chief Executive – Communities and Resources	2	112,315	-	**112,315**	17,521	**129,836**
Group Director of Children, Adults and Housing – J Hollister	3	54,462	-	**54,462**	8,496	**62,958**
Total		**283,609**	**7,363**	**290,972**	**30,434**	**321,406**

Note 1 During 2015/16 the Chief Executive (Cheryl Coppell) was employed on a contract of three days per week by the Authority; her full time equivalent salary being £165k.

In her role as the Acting Returning Officer, the Chief Executive received a sum of £7,363 for the Parliamentary Elections in 2015.

Note 2 The Group Director of Communities and Resources (FTE Salary being £137.8k) was appointed to the role of Deputy Chief Executive, Communities and Resources on the 15th June 2015 (FTE Salary being £141k).

Note 3 The Group Director of Children, Adults & Housing (Joy Hollister) left the Authority on the 9th August 2015. The full time equivalent salary for the role was £150k. The post is being covered on an agency basis until the recruitment process has been completed.

The comparative figures for 2014/15 are as follows:

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

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

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

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

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

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

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

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

32. External Audit Costs

The following fees relating to external audit and inspection were included in the 2015/16 accounts:

2014/15 £000		2015/16 £000
202	Fees payable with regard to external audit services carried out by appointed auditor	152
22	Fees payable for the certification of grant claims and returns carried out by the appointed auditor	-
-	Certification of housing benefit subsidy claim	15
	Previous audits (PricewaterhouseCoopers)	
	Main Audit	6
	Teachers Pension return certification	10
	Audit fees refunded by the Audit Commission	(10)
224	**Total for year**	**173**

33. Dedicated Schools Grant

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

Details of the deployment of DSG receivable for 2015/16 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	**Individual Schools Budget £000**	**Totals £000**
Final DSG for 2015/16 before academy recoupment			195,984
Less academy figure recouped for 2015/16			(77,264)
Total DSG after academy recoupment for 2015/16			**118,720**
Plus: brought forward from 2014/15			1,664
Agreed initial budgeted distribution for 2015/16	**22,798**	**97,586**	**120,384**
In year adjustments	(1,502)	1,502	-
Final budgeted distribution for 2015/16	**21,296**	**99,088**	**120,384**
Actual central expenditure	(19,172)	-	(19,172)
Actual ISB deployed to schools	-	(99,088)	(99,088)
Carry forward to 2016/17	**2,124**	**-**	**2,124**

Comparative figures for 2014/15 are as follows:

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

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

34. Grant Income

a) The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16:

2014/15 £000		2015/16 £000
Credited to Taxation and Non Specific Grant Income		
38,890	Revenue Support Grant	30,443
9,208	Redistributed Business Rates	9,384
1,083	Council Tax Freeze Grant	-
13,449	Non ring-fenced Grant	13,857
19,912	Capital Grants	33,372
82,542	**Total**	**87,056**
Credited to Services		
56,113	Rent Allowances	57,858
34,327	HRA Rent Rebates	37,580
24,183	Decent Homes Grant	-
9,717	Public Health Grant	10,402
121,130	Dedicated Schools Grant	118,811
2,083	Schools Funding Agency / Education Funding Agency	1,953
7,131	Pupil Premium Grant	6,784
1,598	Universal Free School Meals	2,427
513	Additional Funding For Schools –Primary School Sports Funding	504
3,675	Other	2,947
260,470	**Total**	**239,266**

<u>Current Liabilities</u>

b) Capital Grants – receipts in advance:

2014/15 £000		201516 £000
11,142	Brought forward	9,169
1,895	Amounts received in year	1,319
(3,868)	Amounts applied to meet new capital investment	(2,788)
9,169	**Carried forward**	**7,700**

35. Related Parties

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

Members

Members of The Authority have direct control over its financial and operating policies. The total of Members' allowances paid in 2015-16 is shown in Note 30.

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

Organisations	Member	Payments to Organisations by the Authority £000	Balance Outstanding £000	Income £000	Income Outstanding £000
East London Waste Authority	Cllr S Kelly Cllr R Benham	13,781		931	207
Tapestry (Formerly Age Concern Havering)	Cllr J Alexander	900		3	-
Havering Theatre Trust	Cllr P Rumble	495	-	-	-
BT Global Services[1]	Cllr M White	185	-	2	-
First Step	Cllr L Van den Hende	133	-	-	-
Havering Association for People with Disabilities[2]	Cllr L Van den Hende	88	-	-	-
Local Government Association	Cllr G Ford Cllr C Barrett	67	-	-	-
Veolia North Thames Trust	Cllr R Benham	252	-	(7)	-
Havering Museum Ltd	Cllr F Thompson Cllr W Brice-Thompson	11	-	1	-
Mardyke Youth and Community Centre	Cllr M Deon Burton	1	-	4	-
Kenneth Elliot and Rowe Solicitor	Cllr K Darvill	-	-	-	1
Havering Arts Council	Cllr J Chapman Cllr D White Cllr L Hawthorn Cllr J Ganly	-	-	-	-

Notes

1. Payments disclosed represent all transactions with British Telecom plc; however Cllr M White is the Partnership Director Local Government at BT Global Services.
2. Related party transactions relate to the period of April 2015 to March 2016, however Cllr L Van den Hende stepped down from the role in November 2015.

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

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

Note 9 Other operating expenditure: levies;

Note 11 Taxation and Non-specific Grant Income;

Note 29 Pooled budgets;

Note 33 Dedicated Schools Grant; and

Note 34 Grant Income

Entity controlled or significantly influenced by the Authority

Joint Committee with London Borough of Newham (oneSource)

On 1 April 2014, the London Boroughs of Havering and Newham created a new public sector shared back-office support service which is supported by members through a joint committee who receive key reports and make strategic decisions about its operation. oneSource has brought together 22 services and 1,350 staff from both authorities. oneSource was created with a view to making savings by eliminating duplication, reducing senior management costs and introducing more efficient processes. oneSource provides almost all the support services for the two authorities including HR, ICT, Finance, Legal services, Exchequer and Transactional, Asset Management and Business services

The oneSource net controllable expenditure for 2015/16 is disclosed below indicating the share falling to each of the authorities. The LBH share is charged against the Consolidated Income and Expenditure Statement.

2014/15 £000	**oneSource**	**2015/16 £000**
	Net Expenditure	
17,636	Exchequer and Transactional Services	17,472
8,009	Finance	7,727
1,361	Business Services	1,421
4,957	Legal and Governance	3,879
10,092	ICT	8,439
2,438	Asset Management	1,712
3,251	Strategic and Operational HR	3,266
47,744	**Total Net Expenditure**	**43,916**
	Cost Sharing:	
28,823	London Borough of Newham	27,091
18,921	London Borough of Havering	16,825

As at 31 March 2016, the Authority owed £1.7m to the London Borough of Newham.

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

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

Shared OneSource role	Employing organisation	Period
Managing Director	London Borough of Newham	April 2015 to March 2016
Director of Asset Management	London Borough of Havering	April 2015 to March 2016
Director of Exchequer and Transactional	London Borough of Havering	April 2015 to March 2016
Director of Legal and Governance	London Borough of Newham	April 2015 to March 2016
Director of Human Resources	London Borough of Havering	April 2015 to March 2016
Director of Business Development	London Borough of Havering	April 2015 to March 2016
Director of Finance	London Borough of Newham	April 2015 to March 2016
Director of ICT	London Borough of Newham	April 2015 to March 2016

Mercury Land Holdings Ltd

The Authority controls Mercury Land Holdings Ltd through its ownership of 100% of the shares in the company.

During 2015-16 the Authority incurred pre-incorporation expenses on behalf of the Company to the amount of £93k. These costs are to be recovered back from the Company during the financial year 2016-17.

Pension Fund

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

36. Capital Expenditure and Capital Financing

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

2014/15 £000	**Capital Expenditure**	**2015/16 £000**
67,835	Property, plant and equipment	56,758
212	Intangible fixed assets	952
1,406	Revenue expenditure funded from capital under statute	1,752
69,453	**Total capital expenditure**	**59,462**
	Less financed from	
(4,695)	Capital receipts	(12,614)
-	Major repairs	(20)
(18,615)	Revenue funds	(21,928)
(46,143)	Grants and contributions	(24,900)
-	**Increase in need to borrow supported by Government**	**-**

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

31 March 2015 £000	**Capital Financing Requirement**	**31 March 2016 £000**
811,645	Tangible fixed assets	960,809
1,533	Intangible assets	1,413
(192,301)	Revaluation Reserve	(300,407)
(383,766)	Capital Adjustment Account	(426,133)
(586)	Finance lease and other long-term liabilities	(449)
236,525	**Net requirement**	**235,233**

37. Leases

Operating Leases

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

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

2014/15 £000		2015/16 £000
969	Children's and Education Services	156
43	Highways, Roads and Transport Services	6
1,012	**Minimum lease payments**	**162**

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

31 March 2015 £000		31 March 2016 £000
890	Not later than one year	216
1,594	Later than one year and not later than five years	343
382	Later than five years	-
2,866	**Minimum Lease Payments**	**559**

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

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

31 March 2015 £000		31 March 2016 £000
202	Not later than one year	131
508	Later than one year and not later than five years	133
134	Later than five years	-
844	**Minimum lease payments**	**264**

The minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.385m (£0.219m in 2014/15). In most cases these rents are charged to Central Support Services and subsequently recharged to the appropriate Service in accordance with the *SeRCOP*.

38. Revaluation Gains and Impairment Losses

During 2015/16, the Authority has recognised a net revaluation gain of £24.4m (a net impairment loss of £23.9m in 2014/15) in the Comprehensive Income and Expenditure Statement in relation to its revaluation of assets. A breakdown of the revaluations and impairments by asset class can be found in the table below:

Asset Class	Revaluation Gains Credited to the CI&ES £ 000	Impairment Loss Charged to the CI&ES £ 000
Council dwellings	(4,987)	-
Other land and buildings	(46,815)	31,150
Total PPE	**(51,802)**	**31,150**
Investment Properties	(4,886)	1,150
Total (gain) or loss to the CI&ES	**(56,688)**	**32,300**

39. Termination Benefits

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

Exit Package cost band (including special payments	Number of Compulsory Redundancies		Number of Departures Agreed		Total Number of exit packages by Cost Band		Total Cost of exit packages in each band	
	2014/15	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**
£0 - £20,000	31	14	5	10	36	24	316,743	203,904
£20,001 - £40,000	4	3	3	4	7	7	178,192	202,813
£40,001 - £60,000	1	-	-	-	1	-	41,356	-
£60,001 - £80,000	-	-	-	2	-	2	-	143,620
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	1	-	-	-	1	-	117,878
Total	**36**	**18**	**8**	**16**	**44**	**34**	**536,291**	**668,215**

Note: The Authority terminated the contracts of a number of employees in 2015/16, incurring costs of £668,215 (£536,291 in 2014/15). The majority of the redundancies are as a result of the Havering transformation programme.

40. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers Pensions

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

In 2015/16 the Authority paid £6.59m (£6.15m 2014/15) to Teachers Pensions in respect of teachers pension contributions. This represented a contribution rate of 16.5% from 1 September 2016 (rising from 14.1% from 1 April 2015) of teachers' pensionable pay (14.1% in 2014/15). There were no contributions remaining payable at the end of the period.

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

NHS Pension Scheme

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

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

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

In 2015/16 the Authority paid £38k (£52k in 2014/15) to NHS Pensions in respect of public health pension contributions. This represented 14.3% of pensionable pay (14.0% in 2014/15). There were no contributions remaining payable at the end of the period.

41. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Authority participates in two post-employment schemes:

- the Local Government Pension Scheme, administered locally by London Borough of Havering. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

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

1. State Street (SSgA)
2. Baillie Gifford

3. Royal London Asset Management
4. UBS
5. Ruffer
6. GMO

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

Discretionary Post-retirement Benefits

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

Transactions Relating to Post-employment Benefits

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

2014/15 £000		2015/16 £000
	Comprehensive Income and Expenditure Statement	
	Cost of services:	
	Service Cost Comprising:	
19,294	Current service cost	23,161
496	Past service costs	167
(1,191)	Gain from settlements	(582)
	Financing and Investment Income and Expenditure	
15,584	Net interest expense	12,961
34,183	**Total post-employment benefits charged to the surplus or deficit on the provision of services**	**35,707**
	Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	
	Re-measurement of the net defined benefit liability comprising:	
(43,911)	Return on plan assets (excluding the amount included in the net interest expense)	15,693
78,168	Actuarial gains and losses arising on changes in financial assumptions	(44,206)
(6,838)	Other	(11,366)
27,419	**Total post-employment Benefits charges to the Comprehensive Income and Expenditure Statement**	**(39,879)**
	Movements in Reserves Statement	
(34,183)	Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(35,707)
	Actual amount charged against the General Fund Balance for pensions in the year:	
22,832	Employers' contributions payable to scheme	28,928
(11,351)	**Net movement in Pensions Reserve**	**(6,779)**

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

2014/15 £000		2015/16 £000
	Local Government Pension Scheme	
(911,242)	Present value of the defined benefit obligation	(879,476)
490,033	Fair value of plan assets	491,367
(421,209)	**Net liability arising from defined benefit obligation**	**(388,109)**

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

2014/15 £000		2015/16 £000
	Local Government Pension Scheme	
434,371	Opening fair value of scheme assets	490,033
17,676	Interest income	15,218
	Re-measurement gain (loss):	
43,911	The return on plan assets, excluding the amount included in the net interest expense	(15,693)
22,832	Contributions from employer	28,928
5,457	Contributions from employees into the scheme	5,479
(32,982)	Benefits paid	(32,060)
(1,232)	Other – effect of settlements	(538)
490,033	**Closing fair values of scheme assets**	**491,367**

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

2014/15 £000		2015/16 £000
	Funded liabilities: Local Government Pension Scheme	
816,810	Opening balance at 1 April	911,242
19,294	Current service cost	23,161
33,260	Interest cost	28,179
5,457	Contributions from scheme participants	5,479
	Re-measurement (gains) and losses:	
78,168	Actuarial gains/ losses arising from changes in financial assumptions	(44,206)
(6,838)	Other	(11,366)
496	Past service cost (Including curtailments)	167
(32,982)	Benefits paid	(32,060)
(2,423)	Liabilities extinguished on settlements	(1,120)
911,242	**Closing balance at 31 March**	**879,476**

Local Government Pension Scheme assets comprised:

2014/15					2015/16			
Quoted Prices in Active Markets £000	**Quoted Prices not in Active Markets £000**	**Total £000**	**Percentage of Total assets %**	**Asset Category**	**Quoted Prices in Active Markets £000**	**Quoted Prices not in Active Markets £000**	**Total £000**	**Percentage of Total assets %**
				Equity Securities				
3,896.0	-	**3,896.0**	1	Consumer	1,827.6	-	**1,827.6**	0
2,877.3	-	**2,877.3**	1	Manufacturing	4,431.6	-	**4,431.6**	1
651.4	-	**651.4**	-	Energy and utilities	1,545.2	-	**1,545.2**	0
10,360.1	-	**10,360.1**	2	Financial institutions	9,118.2	-	**9,118.2**	2
403.5	-	**403.5**	-	Health and Care	657.6	-	**657.6**	0
3,896.8	-	**3,896.8**	1	Information technology	3,222.1	-	**3,222.1**	1
-	17.0	**17.0**	-	Other	-	17.2	**17.2**	0
				Debt Securities				
58,575.0	-	**58,575.0**	12	Corporate bonds (investment grade)	53,714.3	-	**53,714.3**	11
14,784.8	-	**14,784.8**	3	UK Government	11,870.0	-	**11,870.0**	2
49,561.6	-	**49,561.6**	10	Other	50,319.5	-	**50,319.5**	10
				Real Estate				
22,441.5	-	**22,441.5**	5	UK Property	24,486.4	-	**24,486.4**	5
				Investment Funds and Unit Trusts				
299,942.3	-	**299,942.3**	60	Equities	302,704.9	-	**302,704.9**	62
				Cash and Cash Equivalents				
22,625.7	-	**22,625.7**	5	All	27,452.4	-	**27,452.4**	6
490,016.0	**17.0**	**490,033.0**	**100**	**Totals**	**491,349.8**	**17.2**	**491,367.0**	**100**

Basis for Estimating Assets and Liabilities

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

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

2014/15 £000		2015/16 £000
	Local Government Pension Scheme	
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.1 years	Men	22.1 years
24.1 years	Women	24.1 years
	Longevity at 65 for future pensioners:	
24.2 years	Men	24.2 years
26.7 years	Women	26.7 years
3.0%	Rate of inflation	3.1%
3.0%	Rate of increase in salaries	3.1%
2.1%	Rate of increase in pensions	2.1%
3.1%	Rate for discounting scheme liabilities	3.4%

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

Change in assumptions at 31 March 2016	Approximate % increase to Employer Liability	Approximate Monetary amount £000
0.5% decrease in Real Discount Rate	9%	82,098
1 year increase in Member Life Expectancy	3%	26,384
0.5% Increase in the Salary Increase Rate	2%	20,178
0.5% Increase in the Pension Increase Rate	7%	61,138

Impact on the Authority's Cash Flows

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

The Authority anticipated to pay £20.5m expected contributions to the scheme in 2016/17.

The weighted average duration of the defined benefit obligation for scheme members is 16.2 years, 2015/16 (16.2 years 2014/15).

42. Contingent Liabilities

Contractual

A High Court claim for misrepresentation, in that a building was not demolished within the timescales notified, was rejected. However, in an associated case the Director of the same company has brought two sets of proceedings, one in the Employment Tribunal and the other in the High Court, claiming unfair dismissal and damages for breach of TUPE rights. The High Court claim exceeds £1m. The Employment Appeal Tribunal has ordered that the Employment Tribunal case be reconsidered following an initial decision in the Council's favour. The Employment Tribunal subsequently decided in the Authority's favour, however the individual has now appealed to the Employment Appeal Tribunal. The associated High Court claim remains stayed until the outcome of the appeal. The Council is currently pursuing the claimant for legal costs in respect of both claims.

MMI Scheme of Arrangement

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

43. Heritage Assets: Five-year Summary of Transactions

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

44. Trust Funds

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

	Richard Ballard Charity £	**Lucas Children's Play site Charity £**
Balance 31 March 2015	6,500	147,369
Receipts	24	552
Payments	(24)	(5,000)
Balance 31 March 2016	**6,500**	**142,921**

The Richard Ballard Charity

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

The Lucas Children's Play Charity

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

Housing Revenue Account
Income and Expenditure Statement 2015/16

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

2014/15 £000		Notes	2015/16 £000
	Income		
(45,569)	Dwelling rents		(49,672)
(421)	Non-dwelling rents		(399)
(6,368)	Charges for services and facilities		(7,186)
(1,526)	Contributions towards expenditure		(1,385)
(24,183)	Decent Home Grant		-
(78,067)	**Total Income**		**(58,642)**
	Expenditure		
7,190	Repairs and maintenance		7,744
19,647	Supervision and management		19,950
417	Rents, rates, taxes and other charges		346
363	Increased provision for bad/doubtful debts		405
43,804	Depreciation and Impairment of tangible fixed assets	4	26,750
53	Debt management		47
71,474	**Total Expenditure**		**55,242**
(6,593)	**Net expenditure or income of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(3,400)**
250	**HRA Services' share of Corporate and Democratic Core**		**250**
(6,343)	**Net Expenditure of HRA Services**		**(3,150)**
	HRA Share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement		
(10,481)	Net gain on disposal of HRA assets		(5,603)
5,771	Interest payable and similar charges		5,853
(189)	Interest and investment income		(254)
(11,242)	**Deficit/(Surplus) for the year on HRA Services**		**(3,154)**

Movement on the Housing Revenue Account Balance during 2015/16

2014/15 £000		2015/16 £000
(6,953)	**Housing Revenue Account balance brought forward**	**(8,670)**
(11,242)	(Surplus)/deficit for the year on the HRA Income and Expenditure Account	(3,154)
9,358	Adjustments between accounting basis and funding basis under regulations	4,669
(8,837)	**HRA balance before transfer to earmarked reserves**	**(7,155)**
167	Transfers to earmarked reserves	-
(8,670)	**Housing Revenue Account balance carried forward**	**(7,155)**

Note to the Statement of Movement on the Housing Revenue Account Balance 2015/16

2014/15 £000	Notes	2015/16 £000
Items included in the HRA Income and Expenditure Account but excluded from the movement in the HRA balance		
Adjustments to the Revenue Resources		
(115)	Pensions costs (transferred from the Pensions Reserve)	(245)
3	Holiday pay (transferred to the Accumulated Absences Reserve)	16
(9,140)	Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	(30,894)
(9,252)	**Total Adjustments to Revenue Resources**	**(31,123)**
Adjustments between Revenue and Capital Resources		
-	Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	10,054
-	Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(305)
7,525	Posting of HRA resources from revenue to the Major Repairs Reserve	7,324
11,085	Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	18,719
18,610	**Total Adjustments between Revenue and Capital Resources**	**35,792**
9,358	**Adjustments between accounting basis and funding basis under regulations**	**4,669**

1. Information on Housing Fixed Assets

a) Number of Dwellings

31 March 2015 Number		31 March 2016 Number
	Flats	
2,927	1 bedroom	2,914
2,342	2 bedrooms	2,301
381	3 bedrooms	380
20	4 or more bedrooms	18
	Houses	
328	1 bedroom	329
1,132	2 bedrooms	1,143
2,412	3 bedrooms	2,388
156	4 or more bedrooms	156
9,698	**Total Number of Dwellings**	**9,629**

b) Balance Sheet Value of HRA Tangible Fixed Assets

31 March 2015 £000		31 March 2016 £000
	Operational	
380,625	Dwellings	488,301
20,130	Other land and buildings	18,936
303	Vehicles, plant and equipment	230
2,527	Infrastructure	2,199
403,585		509,666
	Non-operational	
1,139	Investment properties	1,127
680	Held for sale	-
1,819		1,127
405,404	**Total Tangible Fixed Assets**	**510,793**

c) Valuation of Council Dwellings at Year End

31 March 2015 £m		31 March 2016 £m
1,522	Vacant possession value	1,953
1,142	Excess of vacant possession value over Balance Sheet value	1,465

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

2014/15 £000		2015/16 £000
9,742	**Balance brought forward at start of year**	**17,267**
7,525	Total depreciation from Capital Adjustment Account	7,324
-	Less MRR used to fund Capital Expenditure on HRA dwellings	(20)
17,267	**Balance carried forward at end of year**	**24,571**

3. a) Total Capital Expenditure and Funding

2014/15 £000		2015/16 £000
	Capital expenditure on HRA property and other assets:	
36,325	Dwellings	19,228
(18)	Other land and buildings	369
-	Equipment	-
-	Infrastructure	-
36,307	**Total expenditure**	**19,597**
	Financed from:	
-	Major Repairs Reserve	20
25,222	Grants and contributions	-
11,085	Revenue contributions	18,720
-	Capital receipts	857
36,307	**Total funding**	**19,597**

b) HRA Capital Receipts

2014/15 £000		2015/16 £000
6,509	Right to Buy sales	8,177
7,973	Other property sales	1,572
14,482	Total cash receipts	9,749
(1,048)	Transferred for Pooling	(1,221)
13,434	**Total new usable Capital Receipts**	**8,528**

4. Depreciation and Impairment Charge

The depreciation charged to the HRA breaks down as follows:

2014/15 £000		2015/16 £000
6,572	Dwellings	6,423
531	Other buildings	496
87	Equipment	87
335	Infrastructure	318
7,525	**Total HRA depreciation**	**7,324**
36,279	Impairment charge	**19,426**
43,804	**Total HRA depreciation and impairment charge**	**26,750**

5. Rent Income, Arrears and Bad Debts

2014/15		2015/16
£95.93	Average weekly rent (including service charges unpooled)	£103.44

The increase in average weekly rents was 7.8%.

31 March 2015 £000		31 March 2016 £000
2,710	Rent arrears at 31 March	2,417
(2,105)	Bad debts provision at 31 March	(2,171)
605	**Total**	**246**

Collection Fund 2015/16

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

Income and Expenditure Statement 2015/16

2014/15			2015/16	
Business Rates	Council Tax		Business Rates	Council Tax
£000	£000		£000	£000
		Income		
-	(123,771)	Income from Council Tax	-	(129,930)
(71,015)	-	Income from Business Rates	(73,818)	
-	(49)	Prompt payment discounts	-	(55)
(400)	1	Transitional relief	325	-
(1,971)	-	Income collectable from Business Rate Supplement	(2,061)	-
		Previous Year Deficit recognised in the CI&ES		
(920)	-	London Borough of Havering	-	-
(1,534)	-	Central Government	-	-
(613)	-	Greater London Authority	-	-
(76,453)	**(123,819)**	**Total Income**	**(75,554)**	**(129,985)**
		Expenditure		
		Previous Year Surplus recognised in the CI&ES		
	913	London Borough of Havering	196	2,678
	-	Central Government	326	-
	232	Greater London Authority	131	670
		Precepts		
21,632	95,833	London Borough of Havering	21,831	101,311
36,054	-	Central Government	36,385	-
14,421	23,975	Greater London Authority	14,554	24,517
		Charges to Collection Fund		
1,223	810	Write-offs	3,000	463
(8)	(910)	Increase/(decrease) in bad debt provision	(1,479)	(386)
(2,902)	-	Increase in provision for appeals	4,579	-
(123)	-	Deferrals	-	-
272	-	Cost of collection	271	-
		Business Rate supplement		
1,962	-	Payment to Greater London Authority	2,054	-
9	-	Cost of Collection	7	-
72,540	**120,853**	**Total Expenditure**	**81,855**	**129,253**
(3,913)	(2,966)	Movement in fund balance	6,301	(732)
4,172	(1,493)	Net deficit/(surplus) at start of year	259	(4,459)
259	**(4,459)**	**Net deficit/(surplus) carried forward notes 3a and 3b)**	**6,560**	**(5,191)**

Notes to the Collection Fund Accounts

1. Income from Council Tax

Council Tax is based partly on the valuation of domestic properties and is partly a Personal Tax with discounts for single occupiers. The Authority set the level of council tax in 2015/16 at £1,514.00 for band D properties. The number of band D equivalent properties in each band making up the council tax base was as follows:

Band	**Number of Band D Equivalent Properties**
A1	2
A	1,921
B	4,958
C	17,984
D	29,860
E	16,291
F	8,495
G	4,747
H	548
Allowance for losses in collection 2.00%	(1,696)
Tax Base	**83,110**

2. Income from Business Rates

Under the arrangements for uniform business rates, the Authority collects Non-Domestic Rates (NNDR) for its area. These are based on local rateable values of £182.4m at 31 March 2016 (£182m at 31 March 2015) multiplied by uniform rates for large and small businesses. In 2015/16 the rate was 49.3p for large businesses (48.2p in 2014/15) and 48p for small (47.1p in 2014/15). The total amount, less certain reliefs and other deductions, are shared between Central Government, Havering and The Greater London Authority (GLA). In addition to the multiplier used to calculate business rates, all London local authorities are required to collect from businesses with a rateable value in excess of £55,000 an additional 2p supplement, which is payable to the GLA. Under these arrangements the amounts included in these Accounts can be analysed as follows:

2a) Income collectable from Non Domestic Rates

2014/15 £000		**2015/16 £000**
82,857	Gross NNDR due in year	85,376
(11,842)	Less: allowances and other adjustments	(11,559)
71,015		**73,817**

2b) Income collectable from Business Rate Supplement

2014/15 £000		**2015/16 £000**
2,213	Gross Supplement due in year	2,285
(242)	Less: allowances and other adjustments	(224)
1,971		**2,061**

In 2013 The London Borough of Havering agreed to enter into a pooling arrangement with the London Borough of Barking and Dagenham, Thurrock Council and Basildon Council. As part of the agreement, a memorandum of understanding was produced to determine how the pools resources would be allocated.

3. Collection Fund Surplus / Deficit

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

3a) Council Tax

2014/15 £000		**2015/16 £000**
(3,567)	London Borough of Havering	(4,156)
(892)	Greater London Authority	(1,035)
(4,459)	**(Surplus) / Deficit**	**(5,191)**

3b) Business Rates

2014/15 £000		**2015/16 £000**
78	London Borough of Havering	1,968
129	Central Government	3,280
52	Greater London Authority	1,312
259	**Deficit**	**6,560**

PENSION FUND

Pension Fund Account for the year ended 31March 2016

2014/15 £000		Notes	2015/16 £000
	Dealings with members, employers and others directly involved in the fund		
35,704	Contributions	7	41,065
1,573	Transfers in from other pension funds	8	1,390
37,277			42,455
(33,499)	Benefits	9	(34,973)
(1,506)	Payments to and on account of leavers	10	(1,982)
(35,005)			(36,955)
2,272			**5,500**
(3,334)	Management expenses	11	**(3,663)**
	Returns on investments		
6,651	Investment income	12	4,796
-	Taxes on Income	13	(25)
63,061	Profit and losses on disposal of investments and changes in the market value of investments	14a	(8,336)
69,712	**Net returns on investments**		**(3,565)**
68,650	**Net increase in the net assets available for benefits during the year**		**(1,728)**
506,019	Opening net assets of the Fund at start of year		574,669
574,669	**Closing net assets of the Fund at end of year**		**572,941**

Net Asset Statement as at 31 March

2014/15 £000		Notes	2015/16 £000
567,999	Investment Assets	14	562,102
(910)	Investment Liabilities	14	(1,387)
8,339	Current Assets	20	13,707
(759)	Current Liabilities	21	(1,481)
574,669	**Net assets of the Fund available to fund benefits at end of the year**		**572,941**

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

Notes to the Pension Fund

1 Description of the Fund

The Havering Pension Fund is part of the Local Government Pension Scheme and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Deputy Chief Executive Communities and Resources.

The following description of the scheme is a summary only. For more details on the operation of the Pension Fund, reference should be made to the Havering Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

- The Local government Pension Scheme Regulations 2013 (as amended),
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

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

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

b) Membership

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

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.
- Designated bodies, which are non-community schools, whose employer has changed from the Authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non community schools.

During 2015/16 three new employers joined the fund, two ceased and one employer transferred out.

There are 35 employer organisations with active members within the Havering Pension Fund including the Authority. The membership profile is detailed below.

31 March 2015		31 March 2016
35	**Number of employers with active members**	**35**
	Number of employees in scheme	
4,897	Havering	4,845
1,468	Scheduled bodies	1,570
119	Admitted bodies	111
6,484	**Total**	**6,526**
	Number of pensioners and dependants	
5,432	Havering	5,486
280	Scheduled bodies	320
67	Admitted bodies	78
5,779	**Total**	**5,884**
	Deferred pensioners	
4,465	Havering	4,796
700	Scheduled bodies	846
59	Admitted bodies	67
5,224	**Total**	**5,709**
17,487		**18,119**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2016. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2013. Current employer contribution rates range from 17.3% to 28.7% of pensionable pay.

d) Benefits

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

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

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

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

2 Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at year end as at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting* in *the United Kingdom* 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3 Summary of Significant Accounting Policies

Fund Account – revenue recognition

(a) Contribution income

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

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

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises.

(b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10)

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

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

(c) Investment Income

i) Interest Income

Interest income is recognised in the Fund as it accrues.

ii) Dividend Income

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

iii) Distribution from Pooled Funds

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

iv) Property- Related Income

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

v) Movement in the Net Market Value of Investments

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

Fund Account – Expense Items

(d) Benefits payable

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

(e) Taxation

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

(f) Management Expenses

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

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. The majority of staff costs of the Pensions Administration team have been charged to the scheme. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight is charged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

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

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

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

Net Assets Statement

(g) Financial Assets

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

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

(i) Market-Quoted Investments

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

(ii) Fixed Interest Securities

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

(iii) Unquoted Investments

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

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

Investments in pooled property are valued at the net asset value or a single price advised by the manager.

(iv) Pooled Investment Vehicles

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

(h) Foreign Currency Transactions

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

(i) Derivatives

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

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

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

(j) Cash and Cash Equivalents

Cash comprises cash in hand and includes amounts held by the Fund's external managers.

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

(k) Financial Liabilities

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

(l) Actuarial Present Value of Promised Retirement Benefits

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

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (note 19)

(m) Additional Voluntary Contributions

The Havering Pension Fund provides an additional voluntary contributions (AVC) scheme for it members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Standard Life as their AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22)

4. Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates provided to the admitted and scheduled bodies in the Fund, as requested, in the intervening years. The methodology used in the annual updates is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net asset statement at 31 March 2016 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	Approximate % Increase to liabilities	Approximate monetary amount £m)
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied	The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows:		
		• 0.5% decrease in the real discount rate could result in an increase of 10%	10%	97
		• 1 year increase in member life expectancy could result in an increase of 3%	3%	30
		• 0.5% increase in salary increase rate could result in an increase of 3%	3%	30
		• 0.5% increase in the pension increase rate could result in an increase of 7%	7%	66

6. Events after the Reporting Date

Ending of the UK's Membership of the European Union

Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016, there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant on-going uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations. For the purposes of these financial statements, the Referendum is considered a non-adjusting event.

7. Contributions Receivable

By category

2014/15 £000		2015/16 £000
	Employees contributions	
	Normal:	
5,401	Havering	5,450
1,323	Scheduled Bodies	1,388
152	Admitted Bodies	127
	Additional contributions:	
53	Havering	28
9	Scheduled bodies	25
1	Admitted bodies	1
6,939	**Total Employees' Contribution**	**7,019**
	Employers contributions	
	Normal:	
12,470	Havering	12,681
5,127	Scheduled bodies	5,412
576	Admitted bodies	440
	Deficit funding:	
10,056	Havering	*15,117
	Augmentation	
288	Havering	326
248	Scheduled bodies	29
-	Admitted bodies	41
28,765	**Total Employers Contributions**	**34,046**
35,704	**Total Contributions Receivable**	**41,065**

*The £15.11m deficit funding reflects additional contributions made by the Authority to the Pension Fund. It consists of £6.3m past service contribution and £8.8 in voluntary planned contributions.

By authority

2014/15 £000		2015/16 £000
28,268	Havering	33,602
6,707	Scheduled bodies	6,854
729	Admitted Bodies	609
35,704	**Total Contributions Receivable**	**41,065**

8. Transfers in from Other Pension Funds

1,573	**Individual transfers in from other schemes**	**1,390**

9. Benefits Payable

By category

2014/15 £000		2015/16 £000
	Pensions	
26,137	Havering	26,757
782	Scheduled Bodies	887
482	Admitted Bodies	546
27,401	**Pension Total**	**28,190**
	Commutation and Lump Sum Retirements	
4,997	Havering	5,151
471	Scheduled Bodies	645
208	Admitted Bodies	375
5,676	**Commutation and Lump Sum Retirements Total**	**6,171**
	Lump Sum Death Benefits	
410	Havering	506
85	Scheduled Bodies	106
(73)	Admitted Bodies	-
422	**Lump Sum Death Benefits Total**	**612**
33,499	**Total Benefits Payable**	**34,973**

By authority

2014/15 £000		2015/16 £000
31,544	Havering	32,414
1,338	Scheduled bodies	1,638
617	Admitted Bodies	921
33,499	**Total Benefits Payable**	**34,973**

10. Payments To and On Account of Leavers

2014/15 £000		2015/16 £000
68	Refunds to members leaving service	76
1,438	Individual transfers to other schemes	1,673
0	Group Transfers (Elutec)	233
1,506		**1,982**

At the year end there are potential liabilities of a further £0.8m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (*See Note 25).

11. Management Expenses

2014/15 £000		2015/16 £000
450	Administrative Costs	512
2,618	Investment Management Expenses	2,796
253	Oversight and Governance Costs	344
13	Local Pension Board	11
3,334		**3,663**

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

The Investment Management Expenses above includes £289k in respect of transaction costs (2014/15 £797k and restated £567k)

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note14).

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

12. Investment Income

2014/15 £000		2015/16 £000
754	Equity Dividend	642
*3,918	Fixed Interest Securities	*3,960
1,196	Pooled Property Income	1,145
404	Foreign Exchange Gains/(losses)	(1,398)
47	Interest on Cash Deposits	67
332	Other Income	380
6,651		**4,796**

***** Income includes Index linked Interest of £199k (2014/15 £432k)

13. Taxes on Income

2014/15 £000		2015/16 £000
-	Withholding Tax	(25)
-		**(25)**

14. Analysis of Investments

2014/15 £000		2015/16 £000
	Investment Assets	
	Equities	
3,906	UK Quoted	1,273
20,485	Overseas Quoted	19,114
24,391		**20,387**
	Fixed Interest Securities	
13,913	UK Public Sector	11,827
68,003	UK Private (Corporate)	62,191
-	Overseas Public Sector	-
81,916		**74,018**
	Index-Linked Securities	
49,766	UK Public Sector	52,374
731	UK Private (Corporate)	722
13,094	Overseas Public Sector	13,094
63,591		**66,190**
	Derivative Contracts	
21	Forward Currency Contracts	65
21		**65**
	Pooled Investment Vehicles	
	UK Managed Funds	
360,314	UK Quoted	357,428
19	UK Unquoted	169
318	Overseas	273
550	Property	-
	UK Unit Trust	
26,341	UK Property	33,449
387,542		**391,319**
	Cash Deposits	
9,044	Managers	7,188
9,044		**7,188**
-	Amounts receivable for sales	1,616
1,236	Investment income due	1,155
258	Outstanding Dividend and Recoverable Withholding Tax	164
1,494		**2,935**
567,999	**Total Investment Assets**	**562,102**

Note 14(Cont'd)

2014/15 £000		2015/16 £000
	Investment Liabilities	
	Derivative Contracts	
(550)	Forward FX Contracts	(295)
(355)	Amount payable for purchases	(1,092)
(5)	Investment Income Due	-
(910)	**Total Investment Liabilities**	**(1,387)**
567,089	**Total Net Investments**	**560,715**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2016
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Equities	24,391	11,210	(13,925)	(1,289)		20,387
Fixed Interest Securities	81,916	48,854	(53,785)	(2,967)		74,018
Index-linked Securities	63,591	127,502	(126,772)	1,869		66,190
Pooled Investment Vehicles	387,542	128,240	(118,209)	(6,254)		391,319
Derivatives – forward currency contracts	(529)	244,977	(244,977)	299		(230)
Cash Deposits (fund managers)	9,044			1	(1,857)	7,188
	565,955	**560,783**	**(557,668)**	**(8,341)**	**(1,857)**	**558,872**
Other Investment Balances	1,134			5	704	1,843
	567,089	**560,783**	**(557,668)**	**(8,336)**	**(1,153)**	**560,715**

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

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.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £289k, including transition costs (2014/15 £797k and £567k restated). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2016 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2015		Manager	Mandate	Value 31 March 2016	
£000	**%**			**£000**	**%**
119,855	21.13	Royal London	Investment Grade Bonds	121,510	21.67
26,671	4.70	UBS	Property	33,942	6.05
72,851	12.85	Ruffer	Absolute Return	71,006	12.66
55,502	9.79	State Street Global Assets	Passive UK/Global Equities	72,130	12.87
11,682	2.06	State Street Global Assets	Sterling Liquidity Fund	6,239	1.11
101,846	17.96	Baillie Gifford	Pooled Global Equities	83,794	14.94
17	-	Barings DAAF	Multi Asset	-	-
76,732	13.53	Baillie Gifford DGF	Multi Asset	-	-
101,882	17.97	GMO	Multi Asset	96,197	17.16
		London CIV	Pooled Global Equities	75,874	13.53
51	0.01	Other		23	0.01
567,089	**100.00**	**Total Fund**		**560,715**	**100.00**

All of the above companies are registered in the United Kingdom

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

Market Value 31 March 2015	% of total fund	Security	Market Value 31 March 2016	% of total fund
£000			£000	
101,882	17.73	GMO Global Real Return (UCITS) Fund	96,197	17
101,846	17.72	Baillie Gifford Global Alpha Pension Fund	83,794	15
-	-	London CIV Diversified Growth Fund	75,724	14
55,502	9.66	SSGA MPF All World Equity Index	72,130	13
-	-	UBS Property	33,449	6
76,732	13.35	Baillie Gifford Diversified Growth Fund	-	-

14c. Stock Lending

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

15. Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and various investment managers.

Forward foreign currency

The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Royal London and Ruffer. A breakdown of forward contracts held by the Fund as at 31 March 2016 is given below:

Open forward currency contracts

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value (Unrealised Gain)	Liability Value (Unrealised Loss)
		000		000	£000	£000
Up to one month	GBP	5,838	JPY	987,454	-	(277)
Up to two months	GBP	17,500	USD	25,062	65	-
Up to three months	GBP	818	EUR	1,053	-	(18
Gross open forward currency contracts at 31 March 2016					**65**	**(295)**
Net forward currency contracts at 31 March 2016					**-**	**(230)**
Prior year comparative						
Gross open forward currency contracts at 31 March 2015					**21**	**(550)**
Net forward currency contracts at 31 March 2015					**-**	**(529)**

16. 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 2015				31 March 2016		
Fair value through fund account	**Loans and receivables**	**Financial liabilities at amortised cost**		**Fair value through fund account**	**Loans and receivables**	**Financial liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
24,391	-	-	Equities	20,387	-	-
81,916	-	-	Fixed Interest Securities	74,018	-	-
63,591	-	-	Index linked securities	66,190	-	-
14	-	-	Derivative contracts	65	-	-
361,201	-	-	Pooled investment Vehicles	357,870	-	-
26,341	-	-	Property	33,449	-	-
-	9,044	-	Cash	-	7,187	-
	-		Other Investment Balances	-	2,935	-
-	9,525	-	Debtors	-	13,708	-
557,454	**18,569**	**-**	**Financial Assets Total**	**551,979**	**23,830**	**-**
			Financial Liabilities			
(543)	-	-	Derivative contracts	(295)	-	-
-	-	-	Other Investment Balances	-	-	(1,092)
-	-	(811)	Creditors	-	-	(1,481)
(543)	**-**	**(811)**	**Financial Liabilities Total**	**(295)**		**(2,573)**
556,911	**18,569**	**(811)**	**Grand total**	**551,684**	**23,830**	**(2,573)**
574,669				**572,941**		

16. Financial Instruments

(b) Net Gains and Losses on Financial Instruments

2014/15 £000		2015/16 £000
	Financial assets	
63,061	Fair value through fund account	(8,336)
-	Loans and receivables	-
	Financial liabilities	
-	Fair value through fund account	-
-	Loans and receivables	-
63,061	**Total**	**(8,336)**

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

(c) Valuation of financial instruments carried out at fair value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

Values at 31 March 2016	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	518,361	169	33,449	551,979
Loans and receivables	23,830	-	-	23,830
Total Financial Assets	**542,191**	**169**	**33,449**	**575,809**
Financial Liabilities				
Financial liabilities at fair value through fund account	(295)	-	-	(295)
Financial liabilities at amortised cost	(2,573)	-		(2,573)
Total Financial Liabilities	**(2,868)**	**-**	**-**	**(2,868)**
Net Financial Assets	**539,323**	**169**	**33,449**	**572,941**

Values at 31 March 2015	Quoted Market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial Assets				
Financial assets at fair value through profit and loss	531,112	19	26,341	557,472
Loans and receivables	18,551	-	-	18,551
Total financial Assets	**549,663**	**19**	**26,341**	**576,023**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(543)	-	-	(543)
Financial liabilities at amortised cost	(811)	-	-	(811)
Total Financial Liabilities	**(1,354)**	**-**	**-**	**(1,354)**
Net Financial Assets	**548,309**	**19**	**26,341**	**574,669**

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

17. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

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

Responsibility for the Fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the authorities' pensions operations. Polices are reviewed regularly to reflect changes in activity and in market conditions.

(a) Market Risk

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

The objective is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising 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 administering 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 administering authority to ensure it is within limits specified in the investment strategy.

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movements during the financial year, in consultation with the Fund's performance monitoring service, it has been determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset Type	31 March 2016 Potential market movements (+/-)	31 March 2015 Potential market movements (+/-)
Global Equities inc. UK	11.30%	-
Fixed Interest Bonds	8.18%	7.74%
Index Linked Bonds	10.82%	11.26%
Global Pooled inc UK	4,78%	9.04%
Property	2.69%	4.86%
Cash	0.01%	0.01%

The potential price changes disclosed above are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend on the Funds asset allocations. The potential volatilities are consistent with a one-standard deviation movement in the value of assets over the last three years. This can be applied to the period end asset mix.

If the market price of the Fund's investments had increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2016 £000	Change %	Value on Increase £000	Value on Decrease £000
Global Equities inc.UK	20,387	11.30%	22,690	18,083
Fixed Interest Bonds	74,018	8.18%	80,073	67,964
Index linked Bonds	66,190	10.82%	73,352	59,028
Global Pooled inc.UK	357,870	4.78%	374,976	340,764
Property	33,449	2.69%	34,349	32,549
Cash	7,187	0.01	7,188	7,186
Total	**559,101**		**592,628**	**525,574**

Asset Type	Value as at 31 March 2015 £000	Change %	Value on Increase £000	Value on Decrease £000
Global Pooled inc.UK	385,592	9.04	420,450	350,734
Fixed Interest Bonds	81,916	7.74	88,256	75,576
Index linked Bonds	63,591	11.26	70,751	56,431
Property	26,341	4.86	27,621	25,061
Cash	9,044	0.01	9,045	9,043
Total	**566,484**		**616,123**	**516,845**

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 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis

The 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 council recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

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

Assets exposed to interest rate risk	Value as at 31 March 2016 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	140,208	1,402	141,610	138,806
Cash and Cash Equivalents	7,188	72	7,260	7,116
Total Change in Asset Value	**147,396**	**1,474**	**148,870**	**145,922**

Assets exposed to interest rate risk	Value as at 31 March 2015 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	145,507	1,455	146,962	144,052
Cash and Cash Equivalents	9,044	90	9,134	8,954
Total Change in Asset Value	**154,551**	**1,545**	**156,096**	**153,006**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

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

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's performance measurement service it has been determined that a likely volatility associated with foreign exchange rate movements is 7.80% over a rolling 36 month period.

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

A 7.80% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Value as at 31 March 2016 £000	Potential Market movement 7.80%	Value on increase £000	Value on Decrease £000
Overseas Equities	19,113	1,491	20,604	17,622
Overseas Pooled	1,901	148	2,049	1,753
Overseas Index Linked Bonds	13,094	1,021	14,115	12,073
Overseas Cash	26	2	28	24
Total change in assets available to pay benefits	**34,134**	**2,662**	**36,796**	**31,472**

Assets exposed to currency risk	Value as at 31 March 2015 £000	Potential Market movement 7.80%	Value on increase £000	Value on Decrease £000
Overseas Equities	20,485	1,510	21,995	18,975
Overseas Pooled	2,249	166	2,415	2,083
Overseas Index Linked Bonds	13,094	965	14,059	12,129
Overseas Cash	140	10	150	130
Total change in assets available to pay benefits	**35,968**	**2,651**	**38,619**	**33,317**

(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 Administering 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.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2016 the value of liquid assets was £522m, which represented 93% of the total Fund (31 March 2015 £540m, which represented 95% of the total fund assets).

(d) Refinancing Risk

The key risk is that the Authority will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its investment strategies.

18. Funding Arrangements

London Borough of Havering ("the Fund")

Actuarial Statement for 2015/16

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The Funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (N.B. this will also minimise the costs to be borne by council tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

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

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

Funding Position as at the last formal funding valuation

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

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2013 valuation were as follows:

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

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

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

** Currently aged 45*

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

Experience over the period since April 2013

Real bond yields have fallen placing a higher value on liabilities. The effect of this has been offset by the effect of strong asset returns and deficit contributions. Funding levels are therefore likely to have improved marginally and deficits fallen over the period.

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

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

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

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

19. Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 basis, every year using the same base data as the Funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18).

31 March 2015	Year Ended	31 March 2016
£m		£m
1,019	Present Value of Promised Retirement Benefits	992
575	Fair Value of Scheme assets (bid Value)	572
444	Net Liability	420

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The actuary has not made any allowance for unfunded benefits.

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

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

It is estimated that this liability at 31 March 2016 comprises £476m (£460m 31 March 2015) in respect of active members, £153m in respect of deferred pensioners (£164m 32 March 2015) and £363m in respect of pensioners (£395m 31 March 2015). The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. No allowance has been made for unfunded benefits.

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

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. They are given below. It is estimated that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £51m.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended	31 March 2016	31 March 2015
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.1	2.1
Salary Increase Rate	3.1	3.0
Discount Rate	3.4	3.1

Longevity assumption

As discussed in Note 18, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

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

*Future pensioners are assumed to be currently aged 45 at the most recent formal valuation as at Match 2013.

Please note the longevity assumptions are identical to last year 's IAS26 disclosure for the Fund..

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Professional notes

These notes accompanies the covering report titled 'Actuarial Valuation as at 31 March 2016 for IAS19 accounting purposes. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

20. Current Assets

2014/15 £000		**2015/16 £000**
	Debtors:	
8	Pension Grants	-
7	Other Local Authorities	-
345	Contributions due from employers	288
71	Contributions due from employees	82
-	Pension Fund Investment Interest	67
2,608	Pension Fund Bank Account Balances	675
2	Debtors Refund	-
5,298	Cash deposit with LB Havering	12,595
8,339	**Current Assets**	**13,707**

2014/15 £000	**Analysis of Debtors**	**2015/16 £000**
8	NHS Bodies	-
7	Other local authorities	-
345	Public corporation and trading funds	288
73	Other entities and individuals	82
433	**Total Debtors**	**370**

21. Current Liabilities

2014/15 £000		2015/16 £000
	Creditors:	
(188)	Unpaid Benefits	(883)
(263)	Accrued Expenses	(251)
(305)	Income Tax Recoveries	(320)
(3)	Holding Accounts	(27)
(759)		**(1,481)**

2014/15 £000	Analysis of Creditors	2015/16 £000
(759)	Other entities and individuals	(1,481)
(759)	**Total**	**(1,481)**

22. Additional Voluntary Contributions

Market Value 2014/15	AVC Provider	Market Value 2015/16
£000		**£000**
803	Prudential	707
160	Standard Life	169

Some employees made additional voluntary contributions (AVC's) of £54,827 (2014/15 £62,496) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2015/16 were £40,807 (2014/15 £47,380) to the Prudential and £14,020 (2014/15 £15,116) to Standard Life.

23. Agency Services

Havering Council pays discretionary awards to the former employees of Havering. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

2014/15		2015/16
£000		**£000**
1,464	Payments on behalf of Havering Council	1,452

24. Related Party Transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Fund, or to be controlled or influenced by the Fund.

The Havering Pension Fund is administering by Havering Council and consequently there is a strong relationship between the Authority and the Pension Fund. In 2015/16, £0.450m was paid to the Authority for the cost of administrating the Fund (2014/15 £0.411m).

The Authority is also the largest employer in the Fund and in 2015/16 contributed £27.798m (2014/15 £22.526m) to the Pension Fund in respect of employer's contributions.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of Havering Council, through a service level agreement. As at 31 March 2016 cash holdings totalled £12.9m (2014/15 £7.6m), earning interest over the year of £67k (2014/15 £47k).

Governance

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

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

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

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

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

Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 244. This applies in equal measure to the accounts of the

Havering Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Havering Council.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2016 totalled £186k (2014/15 £186k). This relates to an outstanding commitment due on an unquoted private equity fund.

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts ‘called’ by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. As mentioned in Note 10 there are potential liabilities of £0.8m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

26. Contingent Assets

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

Five admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.7m.

27. Impairment Losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2016.

Glossary

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

(i) recognising

(ii) selecting measurement bases for, and

(iii) presenting assets, liabilities, gains, losses and charges to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

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

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

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

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

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

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

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

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

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

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

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

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

Code of Practice on Local Authority Accounting in the United Kingdom (The Code) Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board. The Code is reviewed continuously and is issued annually.

Collection Fund A Statutory Account which receives council tax and non-domestic rates to cover the costs of services provided by Havering and its precepting authorities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Minimum Revenue Provision (MRP) The Authority is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Net Book Value The amount at which fixed assets are included in the balance sheet after depreciation has been provided for.

Net Current Replacement Cost The current cost of replacing or recreating an asset in its existing use, adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

Net Realisable Value The open market value of the asset less the expenses to be incurred in realising the asset.

Non-Operational Assets Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of its services. Examples include investment and surplus properties.

Non Distributed Costs Costs which are not chargeable to services and comprise of:

- Retirement benefit costs (past service costs, settlements and curtailments)
- Unused share of IT facilities

The costs of shares of long term unused but unrealisable assets.

oneSource A partnership between the London Boroughs of Bexley, Havering and Newham through a joint-committee arrangement to deliver support services. This will release resources to be applied to the protection of front-line services.

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

Operating Lease A lease other than a finance lease, i.e. a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

Outturn The actual level of expenditure and income for the financial year.

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

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

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

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

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

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

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

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

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

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

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