

London Borough of Havering

Statement of accounts

For the financial year

2011/12

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## Explanatory foreword

### 1. Introduction from the responsible financial officer

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

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

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

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

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

### 2. IFRS 2011

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

Government Act 2003.

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

### 3. Review of 2011/12

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

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

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

#### a) Performance and outturn

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

The following matters are particularly worthy of note:

- Overall financial performance remained consistent with longer term goals as set out in the medium term financial strategy and corporate plan. The general fund

balance (excluding schools balances) has been maintained at £11.7 m.

- The revenue outturn included £9.1 m of expenditure directed towards the delivery of the transformation agenda. This included two major projects, internal shared services and customer services, which are designed to increase efficiency and reduce the cost of both back office and front office services. These major organisational changes were introduced in April 2011 and the projects have continued throughout 2011/12.
- Interest rates have continued to remain low throughout the year, as has been the case for some time. As a consequence interest earnings on investment activities remained low when compared with historical levels. However, these trends were accounted for in developing the MTFS and were accommodated within the budget settlement.

#### **b) Treasury management**

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

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

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

#### **c) Pension fund**

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

The latest triennial valuation of pension fund assets and liabilities was completed in the spring of 2011. In common with the vast majority of Local

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

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

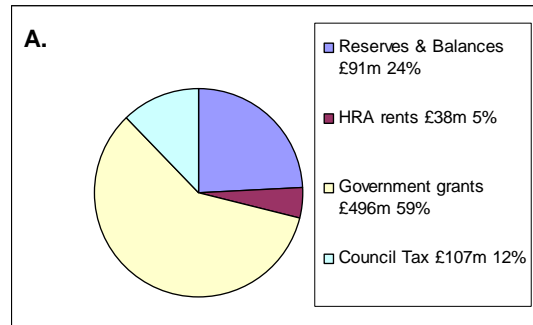
**4. Revenue expenditure and services provided**

**A. REVENUE FUNDING**

The Council's total revenue spending (as set out in the comprehensive income and expenditure statement) is funded from various sources as illustrated on the right.

Government grants include capital and revenue grants.

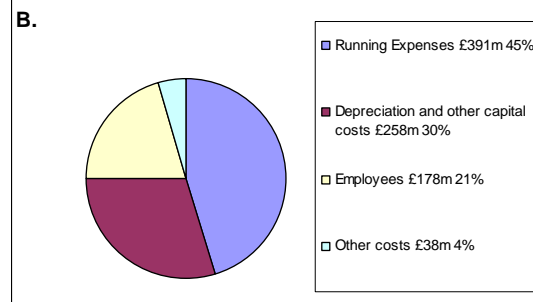
Reserves and balances include statutory adjustments in accordance with IFRS.



**B. REVENUE EXPENDITURE**

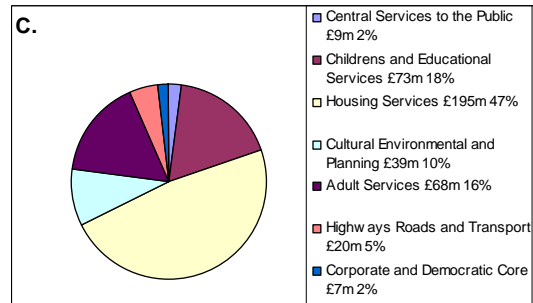
This chart shows the main categories of expenditure over Council services.

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



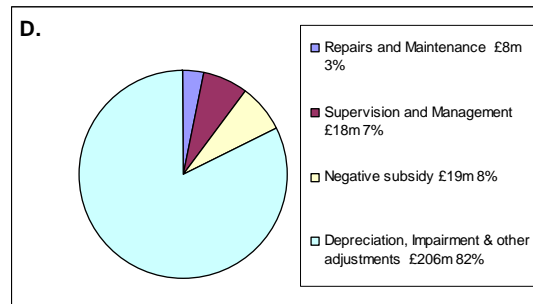
**C. SERVICES PROVIDED**

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



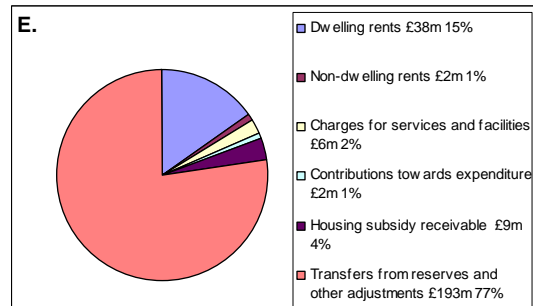
**D. HOUSING REVENUE EXPENDITURE**

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



**E. HOUSING REVENUE INCOME**

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



## 5. The 2011/12 budget

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

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

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

## 6. Capital

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

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

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

## 7. Reserves and balances

The general fund working balance remains

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

## 8. Foundation and Voluntary Aided Schools

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

## 9. Academies

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

## 10. HRA Self-Financing Determinations

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

## 11. Arms Length Management Organisation

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

## 12. Transformation

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

## 13. Further information

Further information about the accounts is available from:

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

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

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

E mail [finance@havering.gov.uk](mailto:finance@havering.gov.uk)  
Website [www.havering.gov.uk](http://www.havering.gov.uk)

Statement of responsibilities for the statement of accounts

**The Council's responsibilities**

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the group director of finance and commerce.
- Manage its affairs to secure economic efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts.

**The group director of finance and commerce's responsibilities**

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

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

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

The group director - finance and commerce has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

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

**Councillor Georgina Galpin**  
**CHAIRMAN, AUDIT COMMITTEE**  
25 September 2012

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



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

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

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

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

This report, including the opinions, has been prepared for and only for London Borough of Havering's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the

Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### ***Scope of the audit of the statement of accounts***

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

### ***Opinion on statement of accounts***

In our opinion the statement of accounts:

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

### ***Opinion on other matter***

In our opinion, the information given in the explanatory foreword for the financial year

for which the statement of accounts is prepared is consistent with the statement of accounts.

***Matters on which we are required to report by exception***

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

***Opinion on the pension fund accounts***

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

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

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

This report, including the opinions, has been prepared for and only for London Borough of Havering's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do

not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

***Scope of the audit of the pension fund accounts***

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

***Opinion on the pension fund accounting statements***

In our opinion the pension fund's accounting statements:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, of the financial transactions of the Pension Fund during the year ended 31 March 2012, and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

***Opinion on other matter***

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

Julian Rickett (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

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

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

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

***Auditors' responsibilities***

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

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place

proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

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

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

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

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

***Conclusion***

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

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

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

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

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

### Statement of Movements in Reserves 2011/12

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

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

## Comprehensive Income and Expenditure Statement 2011/2012

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

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

**Balance Sheet as at 31st March 2012**

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

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

**Cash Flow Statement as at 31<sup>st</sup> March 2012**

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

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



## Notes to the Core Financial Statements

### Statement of Accounting Policies

#### 1. Accounting Policies

##### Going Concern

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

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

##### i. General Principles

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

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

##### ii. Accruals of Income and Expenditure

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

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

##### iii. Acquisitions and Discontinued Operations

###### Acquired operations

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

###### Discontinued operations

The Council has not discontinued any material operations (or transferred operations under machinery of

government arrangements) during the financial year.

#### **iv. Cash and Cash Equivalents**

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

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

#### **v. Exceptional Items**

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

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

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

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

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

#### **vii. Charges to Revenue for Non-Current Assets**

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

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

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

#### **viii. Employee Benefits**

##### **Benefits Payable During Employment**

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

##### **Termination Benefits**

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

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

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

#### Post Employment Benefits

Employees of the Council are members of two separate pension schemes:

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

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

#### *The Local Government Pension Scheme*

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

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

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

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

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

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

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

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this

means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### *Discretionary Benefits*

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

#### **ix. Events After the Reporting Period**

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

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

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

#### **x. Financial Instruments**

##### **Financial Liabilities**

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

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

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

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

##### **Financial Assets**

Financial assets are classified into two types:

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

##### **Loans and Receivables**

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

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

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

#### **xi. Foreign Currency Translation**

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

#### **xii. Government Grants and Contributions**

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

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

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

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

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

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

#### *Un-ringfenced Grant*

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

#### *Business Improvement Districts*

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

#### **xiii. Heritage Assets**

The Council's Heritage Assets are split into 2 categories

- Civic Regalia
- Heritage Buildings

#### **Civic Regalia**

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

**Heritage Buildings**

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

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

**xiv. Intangible Assets**

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

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

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

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

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

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

**xvi. Inventories**

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

**xvii. Investment Property**

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

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

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



**xviii. Jointly Controlled Operations and Jointly Controlled Assets**

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

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

**xix. Leases**

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

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

**The Authority as Lessee****Finance Leases**

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

Lease payments are apportioned between:

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

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

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

**Operating Leases**

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

**The Authority as Lessor****Finance Leases**

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

(long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

#### Operating Leases

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

#### xx. Overheads and Support Services

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

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

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

#### xxi. Property, Plant and Equipment

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

#### Recognition

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

#### Measurement

Assets are initially measured at cost, comprising:

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

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

Havering has applied the following de minimis criteria for the capitalisation of expenditure, so that schemes



which cost less than this are classified as revenue rather than capital: -

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

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

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

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

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

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

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

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

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

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

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

#### **Impairment**

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

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

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

#### **Depreciation**

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

Depreciation is calculated on the following bases:

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **xxii. Public Private Partnership (PPP) and Similar Contracts**

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

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

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

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

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

### **xxiii. Provisions, Contingent Liabilities and Contingent Assets**

#### **Provisions**

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

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

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

#### **Contingent Liabilities**

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

#### **Contingent Assets**

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

### **xxiv. Reserves**

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

### **xxv. Revenue Expenditure Funded from Capital under Statute**

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

**xxvi. VAT**

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

**xxvii. Carbon Reduction Commitment**

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

**xxviii. Academies**

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

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

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

## 3. Critical Judgements in Applying Accounting Policies

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

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

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

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

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

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

## 5. Material Items of Income and Expense

### *Transformation*

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

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

### *HRA Self-financing Determinations*

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

## 6. Events after the Balance Sheet Date

### *Academies*

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

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

### *Arms Length Management Organisation (ALMO)*

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

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

### *Local Government Pension Scheme*

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

*Authorisation of Accounts for Issue*

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

**7. Adjustments between Accounting Basis and Funding Basis under Regulations**

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

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

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

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

**Major Repairs Reserve:** The Council is required to maintain the Major Repairs Reserve, which controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has yet to be applied at the year-end.

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



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

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

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

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

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

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

**8. Transfers to/from Earmarked Reserves**

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

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

### **Corporate Transformation and Strategic Projects**

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

### **Insurance Reserve**

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

### **Revenue Contribution for future Capital Schemes**

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

### **Capital and Primary School Bridge Funding**

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

### **Property Strategy Review**

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

### **Legal Reserve**

Provide funding for legal cases.

### **Standards Funds LEA Contribution**

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

### **Crematorium and Cemetery Funds**

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

- (a) Fund created by fees
- (b) Cemetery Memorial fund

### **Property Management**

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

### **Social Care Funding**

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

**Other Reserves**

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

**9. Other Operating Expenditure**

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

**10. Financing and Investment Income and Expenditure**

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

**11. Taxation and Non Specific Grant Income**

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



## 12. Property, Plant and Equipment

*Movements in Balances 2011/12*

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

## Movements in 2010/11:

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

**Capital Commitments**

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

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

**Revaluations**

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

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

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

**13. Heritage Assets***Carrying value of heritage assets held by the Council:*

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

**Civic Regalia**

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

**Heritage Buildings**

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

**14. Investment Properties & Assets Held for Sale**

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

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

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

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

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

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

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

## 15. Intangible Assets

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £1.994m charged to revenue in 2011/12 was charged to Central Support Services and then absorbed as an overhead across all the service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

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

## 16. Financial Instruments

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

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

### Fair value of assets and liabilities carried at amortised cost

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



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

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

Details of carrying amount and fair value are shown below:

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

Comparative figures as at 31<sup>st</sup> March 2011 were as follows:

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

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

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

#### **Methodology and Assumptions**

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

**Discount rates used in NPV calculation**

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

**Assumptions**

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

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

**Explanation of differences between carrying and fair value**

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

**17. Inventories**

**Stocks comprise the following:**

**Highways - tools, clothing, guard rails and materials;**

**Fleet Stores - fuel and vehicle parts;**

**Education Computer Centre - IT hardware and consumables;**

**Gritting - salt;**

**Catering - foodstuffs/perishables**

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

**18. Short-Term Debtors**

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

**19. Cash and Cash Equivalents**

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

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

**20. Short-Term Creditors**

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

**21. Provisions**

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

**Other provisions consist of:**

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

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

**Self-Insurance Provision**

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

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

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

**22. Useable Reserves**

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

The General Fund balance can be further analysed as follows:

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

**23. Unusable Reserves**

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

a) Revaluation Reserve

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

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

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

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

b) Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on

donated assets that have yet to be consumed by the Council.

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

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

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



c) Financial Instruments Adjustment Account

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

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

d) Pensions Reserve

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

2010/11 £000		2011/12 £000
<b>(421,950)</b>	<b>Balance at 1st April</b>	<b>(281,219)</b>
86,118	Actuarial gains or (losses) on pensions assets and liabilities	(52,991)
35,399	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(20,047)
19,214	Employer's pensions contributions and direct payments to pensioners payable in the year	18,907
<b>(281,219)</b>	<b>Balance at 31st March</b>	<b>(335,350)</b>

e) Deferred Capital Receipts Reserve

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

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

f) Collection Fund Adjustment Account

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

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

g) Accumulated Absences Account

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

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

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

#### 24. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

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

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

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

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

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

**27. Amounts Reported for Resource Allocation Decisions**

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

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

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

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

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

**Reconciliation to Subjective Analysis**

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

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

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

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

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

**28. Acquired and Discontinued Operations**

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

**29. Trading Operations**

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

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

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

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

**30. Pooled Budgets****a) Learning Disabilities**

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

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

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



**(b) Mental Health**

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

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

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

**31. Members' Allowances**

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

**32. Officers' Remuneration**

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

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

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

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

**Senior Officers Remuneration**

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

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

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

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

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

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

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

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

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

The comparative figures for 2010/11 are as follows:

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

**33. External Audit Costs**

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

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

**34. Dedicated Schools Grant**

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

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

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

**35. Grant Income**

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

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

Current Liabilities

b) Capital Grants – receipts in advance:

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

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

**36. Related Parties**

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

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

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

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

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

### 37. Capital Expenditure and Capital Financing

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

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



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

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

### 38. Leases

#### Council as Lessee

##### *Finance Leases*

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

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

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

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

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

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

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

#### *Operating Leases*

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

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

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

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

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

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

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

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

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

### 39. Public Private Partnership (PPP)

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

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

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

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

The current year position is shown below:

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

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

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

#### 40. Impairment Losses

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

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

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

**41. Termination Benefits**

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

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

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

**42. Pensions Schemes Accounted for as Defined Contribution Schemes****Teachers Pensions**

Teachers employed by the Council are members of the Teachers Pension scheme administered by the Department for Education (DfE). It provides teachers with defined benefits upon their retirement and the Council contributes towards these costs by making contributions based upon a percentage of member's personal salaries.

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

In 2011/12 the Council paid £8.7m (£11.5m 2010/11) to Teachers Pensions in respect of teachers pension contributions. This represented 14.1 % of teachers' pensionable pay (14.1% in 2010/11). There were no contributions remaining payable at the end of the period.

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

**43. Defined Benefit Pension Schemes**

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

The Council participates in two pension schemes:

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

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

#### Transactions relating to Retirement benefits

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

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

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

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

#### 44. Assets and Liabilities in relation to Retirement Benefits.

##### Reconciliation of Scheme Liabilities

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

##### Reconciliation of fair value of the scheme assets:

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

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

the expected return for each asset class over the actual asset allocation for the fund at 31st March 2012.

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

#### Scheme history

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

Assets are measured at current bid price.

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

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

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

#### **Basis of Estimating Assets and Liabilities**

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

The main assumptions used in their calculations are as follows:



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

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

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

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

### History of Experience Gains and Losses

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

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

### 45. Contingent Liabilities

#### Employee related liabilities

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

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

### 46. Contingent Assets

#### Employers Liability Trigger litigation

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

### 47. Nature and Extent of Risks Arising from Financial Instruments

#### Key risks

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

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

#### Overall procedures for managing risk

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

1. By formally adopting the requirements of The Code of Practice;
2. By approving annually in advance, prudential indicators for the following three years limiting;
  - the Council 's overall borrowing;
  - its maximum and minimum exposure to fixed and variable rates;
  - its maximum and minimum exposure to the maturity structure of its debt;
  - its maximum annual exposure to investments beyond a year.
3. By approving an Investment Strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government guidance.

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

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

### **Credit risk**

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

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

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

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

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

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

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

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

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

**Liquidity risk**

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

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

**Re-financing and maturity risk**

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

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

The maturity analysis of loans is as follows:

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

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

**Market risk***Interest rate risk*

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

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

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

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

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

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

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

#### **48. Heritage Assets: Five-year Summary of Transactions**

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

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

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

##### Heritage Assets

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

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

#### 50. Trust Funds

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

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

##### **The Richard Ballard Charity**

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

##### **The Lucas Children's Play Charity**

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

## Housing Revenue Account Income and Expenditure Statement 2011-12

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

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



Movement on the Housing Revenue Account Balance during  
2011/12

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

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

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

## Notes to the Housing Revenue Account

## 1. Information on Housing Fixed Assets

## a) Number of Dwellings

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

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

## b) Balance sheet value of HRA tangible fixed assets

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

## c) Valuation of Council dwellings at year end

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

The difference between the vacant possession value of HRA dwellings shown here and the balance sheet value of the dwellings shown in note 1(b) is a measure of the cost to Government of providing council housing at less than market rents.

## 2. Movement on Major Repairs Reserve

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

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

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

**b) HRA Capital Receipts**

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

**4. Depreciation and Impairment Charge**

The depreciation charged to the HRA breaks down as follows:

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

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

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

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

### 6. Housing Revenue Account Subsidy Payable

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

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

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

The increase in average weekly rents was 7.45%.

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

## Collection Fund 2011/2012

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

## Income and Expenditure Account

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

## Notes to the Collection Fund Accounts

**1. Income from Council Tax**

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

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

**2. Income from Business Rates**

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

**2a) Income collectable from Non Domestic Rates**

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

**2b) Income collectable from Business Rate Supplement**

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

**3. Precepts and Demands**

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

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

**4. Collection Fund Deficit**

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

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

## Pension Fund

### Introduction

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

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

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

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

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

### Membership

The membership of the Pension Fund is as follows:

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

### Employers in the Fund

The other employers in the Pension Fund are as follows:

#### Scheduled bodies:

Havering College of Further Education  
 Havering Sixth Form College  
 Homes in Havering  
 Drapers Academy (Academy from September 2010)  
 Abbs Cross School (Academy from 1 April 2011)  
 Brittons School & Technology College (Academy from 1 April 2011)  
 Coopers' Company & Coborn School (Academy from 1 April 11)  
 The Albany School (Academy from 1 August 2011)  
 Champion School (Academy from 1 August 2011)

Hall Mead Secondary School (Academy from 1 August 2011)  
 Sacred Heart of Mary's Girl's School (Academy from 1 August 2011)  
 St Edwards CE Secondary Comprehensive (Academy from 1 August 2011)  
 Emerson Park (Academy from 1 September 2011)  
 Redden Court (Academy from 1 September 2011)

#### Admitted Bodies:

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

#### Designated Bodies:

##### Trust Schools

Corbets Tey Special School

##### Foundation Schools

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

##### Voluntary Aided Schools

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

#### Investment Arrangements

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

A review of the Fund's investment strategy took place during the summer of 2008. Given that markets had seen unprecedented volatility and market falls during 2008 some of the intended restructuring was postponed. The markets were monitored during 2009 and the Fund carried out a competitive tender process for a Passive Equity Manager and a Multi – asset Manager. The results of this exercise

awarded contracts to State Street (passive equities manager) and Ruffer Investment Company (Multi-asset manager) who commenced trading in September 2010. In September 2010 the Pensions Committee decided to terminate the mandate with the Global Equities Manager (Alliance Bernstein) and assets were placed with the Passive Equity Manager (State Street Global Assets) until a new Global Equity Manager was appointed. A new Global Equity Manager Baillie Gifford was awarded the mandate for Global equities in December 2011. Assets are in the process of being transferred and it is anticipated that trading will commence in April 2012. Further strategy implementation (including rebalancing) will be undertaken during 2012/13.

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

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

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

### Performance

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

In 2011/12, the overall return on the Fund's investments was 4.2% (2010/11 6.3%). This represented an under

performance of -0.6% against the tactical benchmark (2010/11 underperformance of -1.9%) and an under performance of -16.9% against the strategic benchmark (2010/11 underperformance -3.3%).

The longer term performance is as follows:

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

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



Pension Fund Account for the year ended 31<sup>st</sup> March 2012

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

<b>Net Asset Statement as at 31 March</b>			
2011 £'000		Note	2012 £'000
388,686	Investment Assets	11	402,319
(164)	Investment Liabilities	11	-
413	Current Assets	12	1,695
(301)	Current Liabilities	13	(509)
<b>388,634</b>	<b>Net assets of the fund available to fund benefits at end of the year</b>		<b>403,505</b>

The financial statements summarise the transactions of the Fund and the net assets of the Fund. They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. Refer to Note 22 for details of the Actuarial Valuation.

## Notes to the Pension Fund

### 1. Basis of Preparation

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

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

### 2. Summary of Significant Accounting Policies

#### Fund Account - revenue

##### (a) Contribution income

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

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

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

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

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

##### (c) Investment Income

###### *i) Interest income*

Interest income is recognised in the fund as it accrues.

###### *ii) Dividend income*

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an Investment asset.

###### *iii) Distribution from pooled funds*

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

###### *iv) Property- related income*

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

###### *v) Movement in the net market value of investments*

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

#### Fund Account – expense items

##### (d) Benefits payable

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

##### (e) Taxation

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

##### (f) Administrative expenses

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

##### (g) Investment management expenses

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

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

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

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

**Net Assets Statement****(h) Financial assets**

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

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

**(i) Market-quoted investments**

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

**(ii) Fixed interest securities**

Fixed interest securities are recorded at net market value.

**(iii) Unquoted investments**

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

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

**(iv) Pooled investment vehicles**

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

**(i) Foreign currency transactions**

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

**(j) Derivatives**

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

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

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

**(k) Cash and cash equivalents**

Cash comprises cash in hand.

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

**(l) Financial Liabilities**

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

**(m) Actuarial present value of promised retirement benefits**

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

**Stock Lending**

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

**3. Contributions**

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

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

**4. Transfers in from other pension funds**

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

**5. Benefits**

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

**6. Payments To and On Account of leavers**

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

**7. Administrative expenses**

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

**8. Investment management expenses**

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

**9. Investment Income**

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

\* Income includes Index linked Interest of £532k

**10. Reconciliation of movements in investments & derivatives**

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

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

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

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

## 11. Analysis of investments

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

## 11. Investments (continued)

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

## 12. Current Assets

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

## 13. Current Liabilities

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

## Analysis of Debtors

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

## Analysis of Creditors

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

**Analysis of derivatives****Objectives and policies for holding derivatives**

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

**Forward foreign currency**

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

**Open forward currency contracts**

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

## 14. Financial instruments

## (a) Classification of financial instruments

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

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

## (b) Net gains and losses on financial instruments

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



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

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

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

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

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

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

**Level 1**

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

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

**Level 2**

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

**Level 3**

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

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

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

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

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

#### 15. Nature and extent of risks arising from financial instruments

##### Risk and Risk Management

The Fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the

opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

**(a) Market risk**

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

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

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the 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 2012/13 reporting period:

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

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

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

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

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

**Currency Risk**

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

**Currency risk – sensitivity analysis**

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

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

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

**Interest Rate Risk**

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

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

**Interest rate risk sensitivity analysis**

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

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

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

**(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.

**16. Related Party Transactions**

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

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

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

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

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

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

**17. Contingent Liabilities and Contractual Commitments**

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

**18. Contingent Assets**

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

**19. Contingent Liabilities**

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

**20. Impairment losses**

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

**21. Actuarial Present value of promised retirement benefits**

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

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

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

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

Assumptions used for the IAS 19 valuation are as follows:

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

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

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

## 22. Actuarial Valuation

### London Borough of Havering (“the Fund”)

#### Actuarial Statement for 2011/12

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

#### Description of Funding Policy

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

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out

which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 24 years

#### Funding Position as at the last formal funding valuation

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

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

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

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

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

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

#### Principal Actuarial Assumptions and Method used to value the liabilities

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

#### Method

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

## Assumptions

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

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

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

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

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

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

\* Future pensioners are assumed to be age 45 currently

## 23. Critical Judgements in applying accounting Policies

### Pension Fund liability

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

## 24. Events after the year end date

### Local Government Pension Scheme

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

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

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

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

Item	Uncertainties	Effect if Actual Results differ from assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £57m. However, the assumptions interact in complex ways. During 2011/12, the actuaries advised that changes in actuarial assumptions gave rise to an additional charge of £35m.



## Introduction to the Group Financial Statements

### **Basis of Consolidation**

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

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

### **Introduction**

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

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

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

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

### **Notes to the Group Accounts**

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

## Group Comprehensive Income and Expenditure Statement 2011/2012

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

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

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

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

### Group Statement of Movements in Reserves 2011/12

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

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

## Group Balance Sheet as at 31st March 2012

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

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

**Group Cash Flow Statement as at 31<sup>st</sup> March 2012**

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

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

## Group Notes and Accounting Policies

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

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

### 1. Property Plant and Equipment

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

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

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

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

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

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

### 2. Prior Period Adjustments

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

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

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

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

## Glossary

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

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

Accounting policies do not include estimation techniques.

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

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

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

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

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

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

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

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

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

of inflation, changes in patterns of services, and other factors.

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

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

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

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

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

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

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

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

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

**Revenue Expenditure Funded from Capital Under Statute (formerly known as Deferred Charges)** Expenditure which would otherwise be classified as revenue, but which is classified as capital expenditure for control purposes. Examples



include items such as improvement grants and loan redemption expenses.

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

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

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

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

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

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

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

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

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

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

**Fixed Assets** Assets that yield benefit to the Council and the services it provides for a period of more than one year. Fixed Assets are sub-divided into **Tangible** and **Intangible**: the former are

physical assets such as land, buildings and equipment; the latter are assets such as computer software or marketable research and development.

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

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

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

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

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

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

**Minimum Revenue Provision (MRP)** The Council is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance or loans fund principal charges) The charge has been determined as 4% of the Capital Financing Requirement.

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

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

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

remaining useful life.

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

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

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

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

- Retirement benefit costs (past service costs, settlements and curtailments)
- Unused share of IT facilities
- The costs of shares of long term unused but unrealisable assets.

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

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

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

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

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

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

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

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

**Revenue Expenditure** The day to day expenditure of the Council, e.g. pay, goods and services and depreciation.

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

#### **Statement of Movements in Reserves**

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

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