

## Notice of Meeting

### AUDIT AND STANDARDS COMMITTEE

**Monday, 21 September 2020 - 5:00 pm**  
**Meeting to be held virtually**

**Members:** Cllr Princess Bright (Chair), Cllr Adegboyega Oluwole (Deputy Chair), Cllr Simon Bremner, Cllr Josie Channer, Cllr Irma Freeborn, Cllr Kashif Haroon, Cllr Mohammed Khan and Cllr Emily Rodwell

**Independent Advisor:** Stephen Warren

**By Invitation:** Cllr Dominic Twomey

Date of publication: 11 September 2020

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Please note that this meeting will be webcast, which is a transmission of audio and video over the internet. To view the webcast click [here](#) and select the relevant meeting (the weblink will be available at least 24-hours before the meeting).

#### AGENDA

1. **Apologies for Absence**
2. **Declarations of Interest**
3. **Minutes - To confirm as correct the minutes of the meetings held on 27 July 2020 (Pages 3 - 8)**
4. **Statement of Accounts 2018-19 and BDO's ISA260 Report (Pages 9 - 246)**
5. **Work Programme 2018/19 (Pages 247 - 248)**
6. **Any other public items which the Chair decides are urgent**

7. **To consider whether it would be appropriate to pass a resolution to exclude the public and press from the remainder of the meeting due to the nature of the business to be transacted**

#### **Private Business**

The public and press have a legal right to attend Council meetings such as the Audit and Standards Committee, except where business is confidential or certain other sensitive information is to be discussed. The list below shows why items are in the private part of the agenda, with reference to the relevant legislation (the relevant paragraph of Part 1 of Schedule 12A of the Local Government Act 1972 as amended). ***There are no such items at the time of preparing this agenda.***

8. **Any other confidential or exempt items which the Chair decides are urgent**



Our Vision for Barking and Dagenham

## **ONE BOROUGH; ONE COMMUNITY; NO-ONE LEFT BEHIND**

Our Priorities

### **A New Kind of Council**

- Build a well-run organisation
- Ensure relentlessly reliable services
- Develop place-based partnerships

### **Empowering People**

- Enable greater independence whilst protecting the most vulnerable
- Strengthen our services for all
- Intervene earlier

### **Inclusive Growth**

- Develop our aspirational and affordable housing offer
- Shape great places and strong communities through regeneration
- Encourage enterprise and enable employment

### **Citizenship and Participation**

- Harness culture and increase opportunity
- Encourage civic pride and social responsibility
- Strengthen partnerships, participation and a place-based approach

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## **MINUTES OF AUDIT AND STANDARDS COMMITTEE**

Monday, 27 July 2020  
(5:00 - 6:50 pm)

**Present:** Cllr Princess Bright (Chair), Cllr Adegboyega Oluwole (Deputy Chair), Cllr Simon Bremner, Cllr Josie Channer, Cllr Irma Freeborn, Cllr Kashif Haroon, Cllr Mohammed Khan and Cllr Emily Rodwell

**Also Present:** Cllr Dominic Twomey and Stephen Warren (Independent Advisor)

### **25. Declarations of Interest**

There were no declarations of interest.

### **26. Minutes (27 April 2020)**

The minutes of the meeting held on 27 April 2020 were confirmed as correct subject to the following amendment:

The sentence under the first bullet point under item 18, "The audit was currently going through the Council's and BDO's quality review processes" should read, 'The audit was currently going through BDO's quality review processes.'

### **27. Approval of the Statement of Accounts 2018-19 and BDO's ISA260 Report**

The Chief Accountant presented a report on the Statement of Accounts and the Council's external auditor's Audit Completion Report. He stated that it was with much regret that he was not able to present the Committee with a Statement of Accounts (which was marked as 'to follow' in his report) as some aspects of the audit were still outstanding. He confirmed that the unadjusted errors identified in the audit were below the materiality threshold, which was an important milestone, as the aim of the audit was to ensure that the accounts were free from material errors. The audit was almost in the position of receiving official sign-off and he would endeavour to provide the Committee with sufficient opportunity to read the Statement of Accounts before presenting them for approval at a future date.

The Senior Manager at BDO, the Council's external auditor, confirmed that the Audit Completion Report (ISA260) appended to the Chief Accountant's report was a draft version. The final version, along with the audit opinion was yet to be issued as there was work remaining. He presented an overview of the key changes to the audit since the interim audit findings report was presented to the Committee, confirming that the work relating to significant risks identified was almost complete, except matters relating to the group accounts. An overview of the following outstanding matters was provided:

- Completion of group accounts audit;
- Review of final set of financial statements;
- Partner and Quality Reviewer reviews;
- Clearance of review points arising from reviews; and
- Subsequent events (this could not be completed until the date of signing).

The Senior Manager stated that he and other BDO colleagues working on the audit would be on annual leave during various parts of August 2020 and that plans were in place to ensure the audit was progressed smoothly, with the aim of providing the audit opinion by the end of the first week of September 2020.

The Chair stated that as the Statement of Accounts had not been provided, clearly the Committee was not in a position to make a decision on it, as recommended in the report. She stated that although the Committee understood that there were a number of challenges in completing the audit this year, there had been substantial delays in progressing the audit. The Committee was very disappointed that the Statement of Accounts had not been presented, despite being reassured of this previously. The Committee was concerned that the completion of the audit was now being pushed to September, and this would potentially impact the audit of the 2019/20 accounts. The Chair requested that:

- Following this meeting, an annotated version the Statement of Accounts be provided so that Members could see the key differences between the draft version that was provided to the Committee in July 2019 and the proposed final set;
- Officers share their response to the recommendations made by BDO regarding the lessons learnt from the current audit so that the Committee could have reassurance that the issues identified would not recur when the audit of the 2019/20 accounts took place; and
- Officers provide a realistic date to hold a meeting of the Committee whereby the Statement of Accounts for 2018/19 may be presented for approval so that the Committee was not put in this position again.

The BDO Partner confirmed that the main difficulty in completing the audit had been the group accounts, referring to the draft Audit Completion Report which gave an overview of the extent of the difficulties that arose. However, the group accounts were now at a stage where a final set of amendments could be made and the impact this would have on the single entity accounts could be reviewed. BDO's Assistant Manager would be working with the Council's Chief Accountant to ensure the audit process was complete by this week so she could review the work prior to her going on annual leave. The quality reviews of the audit would then take place and BDO's Senior Manager would ensure this process progressed smoothly in her absence. He would update her on the quality review outcomes when she returned to work on 19 August, and the audit work would be brought together to present a set of accounts that could be considered materially accurate.

In response to a question, the Assistant Manager for BDO stated that he felt it was realistic to aim for a date in September to present the Statement of Accounts to the Committee. The work that was outstanding in relation to inter-group transactions and other consolidation adjustments that needed to be verified, were minor, and he was confident that they would be resolved imminently. Following this, BDO would need to review the final group accounts and then a quality review process would be undertaken.

In response to questions and comments, the Council's Finance Director stated that the finance team was working hard with BDO to ensure the audit of the accounts could be finalised as quickly as possible. Whilst it was disappointing that the audit

completion was now heading towards September, the audit of the single entity accounts was almost there. He reiterated that the main reason for the delay was the audit of the group accounts which had been very complex, due to the nature of the Council's structure and 2018/19 being the first year of preparing them. He confirmed that the Chair's request that the Committee receive an annotated version of the accounts, which would show the changes made since the version the Committee received in July 2019, would be adhered to. The Director also assured Members that he was committed to undertaking a 'lessons learnt' review with BDO's specialist team which would be in addition to the responses given to BDO as a result of recommendations made by them as part of the 2018-19 audit process. This work would take place in September so that the lessons learnt from this audit could be applied to the 2019/20 accounts audit process, to help ensure past mistakes were not repeated. The Director stressed that the Chief Accountant had been extremely thorough in working through the 2019/20 accounts, undertaking quality assurance to ensure the errors identified in the 2018/19 accounts were not repeated.

In response to questions, the Finance Director stated that:

- September was a better time than August to seek the Committee's approval for the 2018/19 accounts as this would allow officers time to present the papers to the Committee in way that would facilitate the Committee making an informed decision;
- The Government had given local authorities an extended deadline to publish their 2019/20 accounts due to the Covid-19 pandemic, which somewhat mitigated the impact of the delay in completing the 2018/19 audit. Also, as BDO would have already undertaken an audit of the Council's accounts, they would be acquainted with how the accounts were set-up, which should smoothen the audit process for the 2019/20 accounts;
- The Chief Accountant and his team were separate from the team which kept oversight of the spend incurred by the Council's services; and
- Over 10% of local authorities' 2018/19 audits were outstanding at the end of May 2020 and he knew of some London boroughs who did not expect to have their accounts audit approved until later in the year. Whilst the Council's position was not desirable, it was certainly not alone in facing complexities in its audit process for the 2018/19 accounts.

The Independent Advisor to the Committee stated that clearly the Committee was disappointed by the prolonged audit process; however, it was refreshing to see a clear commitment for resolution at this meeting. He agreed that an over-ambitious timescale to present the accounts for approval could risk the outcome desired by the Committee. He welcomed the 'lessons learnt' review referred to by the Director and suggested that the outcomes from this work could be shared with Committee outside of the formal meeting process before its meeting in November 2020, which would consider the approval of the 2019/20 Accounts.

The Committee **resolved** to agree that the Statement of Accounts be presented to the Committee at a meeting in September 2020, to be arranged.

## **28. Schedule of Subsidiaries Report based on 2018/19 figures**

The Chief Accountant presented a report on the schedule of subsidiaries owned by the Council, which was requested at the last meeting.

It was noted that each subsidiary was required to produce statutory accounts, which (depending on its size and the nature of the relationship with the Council) were subject to an annual audit. These accounts were then consolidated into the Council's group accounts, which were audited by the Council's external auditor, BDO. The Chief Accountant stated that the Council had a complicated structure which made producing the Council's accounts a very complex task. For example, one of the Council's companies, Barking and Dagenham Trading Partnership, was a group company as it had five subsidiaries, the accounts of all of which would have to be consolidated into the Council's group accounts. There was scope for him to provide further detail on the Council's subsidiaries and their accounts in future versions of this report, if Members felt this would be helpful.

In response to a question, the Chief Accountant stated that in line with accounting principles, the accounts of Barking and Dagenham School Improvement Partnership and Reside Weavers LLP were not consolidated into the Council's group accounts as the Council did not have majority control or influence in these companies.

The Committee **resolved** to note the report.

## **29. Counter Fraud Annual Report 2019/20**

The Counter Fraud Manager presented the Counter Fraud Annual Report 2019 which brought together all aspects of counter fraud work undertaken from 1 April 2019 to 31 March 2020.

In response to questions, the Counter Fraud Manager stated that:

- The Counter Fraud teams did see many cases of fraud occurring which shared similar themes, traits and behaviours. Any new lessons learnt from cases were always responded to, be it closing 'loopholes' which allowed the fraud to take place or introducing new policies and procedures which would make committing the fraud more difficult, and this was done in partnership with other teams across the Council. However, this approach had to be balanced against the needs of all residents, as it was also the Council's duty to make itself and its services accessible;
- The number of cases his teams dealt with relied heavily on referrals made by officers in other teams across the Council. He and his teams regularly reviewed referral numbers by department and were proactive about supporting the departments that had low referral rates in understanding how to identify fraud and make a referral. Furthermore, as more services were moving towards online forms of communication with residents, the Counter Fraud teams were also proactive about supporting colleagues to take into account anti-fraud measures in that context, for example when designing online forms for residents; and
- The Counter Fraud teams did not deal with TV licence fraud; however, where the teams came across cases of fraud which were not within their remit to investigate, they would refer the details on to the relevant body and seek to raise awareness of the fraud amongst residents, if the type of fraud in question could become prevalent.

The Committee **resolved** to note the report.

### 30. Internal Audit Annual Report 2019/20

The Internal Audit Manager presented the Internal Audit Annual Report 2019, which outlined the work carried out for the year ended 31 March 2020 and included the Head of Assurance's overall opinion on the work undertaken.

In response to questions, the Internal Audit Manager stated that:

- He would ensure that the target dates for progressing the actions identified to address areas of limited assurance were included in future update reports;
- The Internal Audit team worked with external auditors when drafting the Internal Audit Plan for the year by having a two-way discussion with them around the areas both sides had identified as potentially benefitting from inclusion in the Plan;
- The Internal Audit Team consulted the Council's contractors, Mazars and PwC, who were helpful in suggesting areas for inclusion in the Internal Audit Plan, which would potentially ensure the Council's assets were protected from harm such as cyber-security attacks; and
- The Internal Audit team would also be undertaking a Covid-19 review to ensure the Council was doing all it could to recover the costs of dealing with the pandemic. This work would include, for example, checking that all eligible costs had been claimed from the Government, and reviewing a sample of business rate relief applications to provide assurance that only those who were entitled had claimed relief, and any suspected cases of fraud had been referred to the relevant Counter Fraud team to investigate.

The Committee **resolved** to note the report.

### 31. Internal Audit Response to the Covid-19 Pandemic

The Finance Director presented a report on Internal Audit's response to the Covid-19 pandemic, which included the impact that the pandemic had had on planned internal audit work, as well as the additional value that the team had added to the Council's overall response.

The Chair commended the response of the Internal Audit team to the Covid-19 pandemic in reviewing risks and priorities in a timely and rational manner, providing reassurance to the Committee and the Council at an unprecedented and uncertain time.

In response to questions, the Finance Director stated that:

- The Internal Audit Charter and Strategy, which was presented to the Committee at the last meeting, set out the context to how the Internal Audit Plan was formulated and the guidelines within which the team operated. There were no specific national internal audit guidelines on how to respond to a pandemic of this nature, so the team had taken a measured and proactive approach in their response based on best practice;
- With regards to the issue of managing the risks associated with children returning to school, Internal Audit was not directly responsible for this. Each school would need to undertake a risk assessment and assure parents and pupils that it would be safe to return, by working with the Council's Director

of Public Health and the Commissioning Director for Education in light of the guidance available. The Council was also taking part in scenario testing involving schools and other external partners to help ensure that both the plans in place to open schools and other services, as well to contain any outbreaks within them, were vigorous. This work was being undertaken in the context of the Council participating in a 'tri-borough agreement for resilience' with Redbridge and Havering which had facilitated much learning in overcoming the challenges posed by the pandemic;

- It was important that the Council took a holistic approach in supporting residents, partners and businesses respond to the pandemic to keep communities stay safe. For example, guidance had been issued to the Borough's faith communities and best practice across various parts of the country were being reviewed to help manage possible future local outbreaks. Ultimately though, it was every individual's responsibility to do their part in keeping themselves and their communities safe;
- Local authorities did not have the legal power to enforce the wearing of masks in certain places; and
- The Council was working with its companies to ensure they were aware of how to manage any shared risks posed by the pandemic.

The Committee **resolved** to note the report.

### **32. Standards: Complaints Update Report**

The Head of Law presented a report updating the Committee on complaints received against Members of the Council.

In response to a question, the Head of Law confirmed that the usual practice was to update the Committee when a complaint had reached the next milestone in the complaints process.

The Committee **resolved** to note the report.

### **33. Work Programme 2020/21**

The Chair presented a draft work programme outlining the matters that were scheduled to be reported to the Committee at its meetings in 2020/21, adding that it was a flexible document which could be updated in response to any changing priorities and circumstances as the year progressed.

It was noted that in line with the discussions relating to Item 4 of the agenda, the Work Programme would need to be updated to reflect the need for an additional meeting in September 2020 so that the Statement of Accounts could be presented for approval.

The Committee **resolved** to note the Work Programme.

**AUDIT AND STANDARDS COMMITTEE****21 September 2020**

<b>Title:</b> Statement of Accounts 2018-19 and BDO's ISA260 Report	
<b>Report of the Finance Director</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> No
<b>Report Author:</b> Thomas Mulloy, Chief Accountant	<b>Contact Details:</b> E-mail: <a href="mailto:Thomas.Mulloy@lbbd.gov.uk">Thomas.Mulloy@lbbd.gov.uk</a>
<b>Accountable Strategic Leadership Director:</b> Philip Gregory, Finance Director (Section 151 Officer)	
<b>Summary</b>	
<p>The Council's draft accounts have been subjected to detailed audit by our external auditors, BDO. Whilst the audit opinions are yet to be issued, as at the date of preparing this report, BDO are proposing an unqualified audit opinion for the Statement of Accounts, including the Pension Fund 2018-19 and unmodified use of reserouces conclusion.</p> <p>In accordance with the Accounts and Audit Regulations, the accounts and the Annual Governance Statement are now being presented to this Committee for their consideration and approval prior to publication.</p>	
<b>Recommendation(s)</b>	
<p>The Audit and Standards Committee is recommended to:</p> <ul style="list-style-type: none"> <li>(i) Review and note the Audit Completion Report (ISA260) from our external auditors, BDO, as set out at Appendix 1 to the report;</li> <li>(ii) Review and approve the draft Statement of Accounts for the year ended 31 March 2019, as set out at Appendix 2 (Single Entity Accounts with material changes highlighted in yellow) to the report. Group Accounts will follow nearer the time at Appendix 5;</li> <li>(iii) Approve both the Pension Fund Accounts (Appendix 3) and the Annual Governance Statement (Appendix 4) for the year ended 31 March 2019, as enclosed in the Statement of Accounts; and</li> <li>(iv) Confirm that the final Statement of Accounts 2018/19 be published as soon as practically possible and authorise the Finance Director, in consultation with the Chair, to make any changes to the draft accounts that may be agreed with the Council's external auditor.</li> </ul>	

## **Reason(s)**

It is a statutory obligation for the Council's Statement of Accounts to be produced and audited, and that the Statement of Accounts and the Annual Governance Statement must be approved by a Committee of the Council

### **1. Introduction and Background**

- 1.1 The publication of the Statement of Accounts is governed by the requirements of the Accounts and Audit Regulations. These require the Statement of Accounts to be certified by the Council's Section 151 officer (Finance Director) as presenting a true and fair view of the financial position of the Council in each year. The accounts must then be submitted for external audit to publish audited accounts.

### **2. Audit of Accounts**

- 2.1 Details of the audit progress to date can be found in the Appendix 1 – in the BDO's Audit Completion Report (ISA260).
- 2.2 At the time of this report, work is still on-going on the Council's Group Accounts 2018-19. Given it is the first year of consolidation and the fact each subsidiary follow different accounting framework, it has been a significant challenge to consolidate all into the Group Accounts. There have been a significant number of review points raised throughout the audit with additional follow up queries raised at the time of this report being issued. Some details are provided at Appendix 1 and a further verbal update will be provided at the Committee.
- 2.3 A significant amount of misstatements were identified during the audit, the majority of which have been amended. The net value of the unadjusted misstatements is £422k. The adjustments which make up this balance will not be amended in the accounts given the final net balance falls under the materiality threshold (£11m). It was deemed more pragmatic by management not to correct these so as to help move the draft 2018/19 accounts nearer to the finish line.

### **3. Management Representation Letter**

- 3.1 It is a requirement of external audit that the Section 151 Officer signs a letter of representation confirming that he has the responsibility for the proper administration of the financial affairs of the authority and that the duties that this entails have been undertaken. The draft letter will be signed nearer to the date of approval of the accounts.

### **4. Publication of the Statement of Accounts**

- 4.1 If the recommendation to approve the Accounts is agreed by this Committee, BDO will be able to provide their formal opinion on the accounts and formally conclude the audit. The accounts will then be placed on the Council's website.

## 5. Financial Implications

- 5.1 There is an audit fee implication for the Council as a result of additional audit work. This will be discussed further after the audit is signed off.

## 6. Legal Implications

- 6.1 The Local Audit and Accountability Act 2014 (the '2014 Act') requires that the Council as a relevant body must have its accounts audited. The procedure is set out in the Accounts and Audit Regulations 2015 (the 'Regulations'). Regulation 9 sets out a timetable and requires certification by the Council's responsible finance officer of the statement and then consideration by a committee to consider the statement and approve by resolution.
- 6.2 Furthermore, specified relevant local authorities are required under Regulation 6(1) (b) to prepare an Annual Governance Statement ('AGS').

Governance is defined by CIPFA / SOLACE2 as:

The arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

and

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entities objectives while acting in the public interest at all times. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

- 6.3 The Regulations require the AGS be approved by a resolution of a Committee of the Council.
- 6.4 Following approval the Council must publish the statement of accounts, the AGS as approved and a narrative statement by the Council on its financial performance, and economy, efficiency and effectiveness in the use of its resources over the financial year.

**Public Background Papers Used in the Preparation of the Report:** None.

### List of appendices:

- Appendix 1 – Audit Completion Report (ISA260) from BDO
- Appendix 2 – Draft Statement of Accounts 2018/19 (single entity accounts)
- Appendix 3 – Draft Pension Fund Accounts 2018/19 (fully audited)
- Appendix 4 - Annual Governance Statement 2018/19
- Appendix 5 – Group Accounts 2018/19 – **to follow**

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# Appendix 1

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Report to the Audit and Standards Committee  
**LONDON BOROUGH OF BARKING  
AND DAGENHAM COUNCIL**

Audit Completion Report: Year ended 31 March 2019

IDEAS | PEOPLE | TRUST



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# WELCOME

## Introduction

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We have the pleasure of presenting our Audit Completion Report to the Audit and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of our progress to date of the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit and Standards Committee on the results of our audit of the Group, the Council financial statements and use of resources. This report comprises of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

The audit is substantially complete with no further significant amendments expected by the date of the Audit and Standards Committee. We look forward to discussing these matters with you at the Audit and Standards Committee meeting and to receiving your input. A final version of this report will be issued upon completion of the audit and receipt of the revised, final version of the Council's statement of accounts.

If you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

BDO LLP

09 September 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the Group and the Council financial statements and use of resources. This report has been prepared solely for the use of the [Audit Committee] and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

# OVERVIEW

## Executive summary

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### Overview

This summary provides an overview of the audit matters that we believe are important to the Audit and Standards Committee in reviewing the results of the audit of the financial statements and use of resources of the Group for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

### Status

Our audit fieldwork is substantially complete. Outstanding matters are listed on page 75.

From our previous Audit Completion Report, Interim Audit Results Report, progress reports and our letter regarding significant deficiencies in internal control, issued on 22 October 2019, Members will be aware that there have been significant challenges to the completion of the audit. In particular with regard to the completeness and quality of the draft financial statements and supporting working papers.



This resulted in additional audit testing being necessary and significant changes to the draft financial statements.

To date our work has identified 86 numerical errors, of which eight are material and 11 relate to errors in the prior period. Due to the varying size of these misstatements, we have grouped them where we can in our adjusted and unadjusted schedules included in the appendices of this report.

At time of drafting we are continuing to work through numerous consolidation issues and awaiting a revised version of group accounts. A high volume of errors has been identified through multiple iterations of group consolidation working papers, such that it is impractical to quantify the number of errors identified. Details of the most significant group issues are included from page 16.

We will provide a verbal update on the outcome of the group accounts audit when presenting this report to the Audit and Standards Committee.

### Audit risks

In addition to those reported in our Audit Plan additional significant audit risks were identified in our updated risk assessment, and from some of our early audit findings, in the following areas:

- Creditors;
- Debtors; and
- misclassification of transactions between the Council and its group entities.

Detail is set out on pages 18 to 20.

No restrictions were placed on our work.

### Audit report

The net value of uncorrected misstatements identified during the audit is £422k in the Comprehensive Income and Expenditure Statement (CIES) and £422k in the Balance Sheet (BS), which is below our materiality tolerance of £11m for the single entity accounts.

The net value of corrected misstatements is £65m, analysed as:

- Factual (net): CIES (£90.2m) / BS £90.2m
- Judgmental (net): CIES £25.2m / BS (£25.2)m

Management have amended the correcting adjustments to address this issue.

# THE NUMBERS

## Executive summary

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### Final materiality

Group final materiality was determined based on group gross expenditure.

There were no changes to final materiality and triviality applied to the accounts from that reported in our Audit Plan.

We have considered group and component materiality in relation to the final set of accounts and confirm it remains appropriate.

### Audit scope

Our approach is designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements).

### Material misstatements

Our audit identified a significant number of material misstatements, including those that are material by nature, these included but were not limited to (the values have been included as absolute below and may contain more than one error per area reviewed):

- Group accounts (numerous material misstatements have been identified and corrected, details are provided in the financial statements section of this report);
- Grants £187.3m (revenue and capital): £186.8m corrected and £457k uncorrected;
- Borrowings: £42.6m;
- Property, Plant & Equipment - valuation: £116.6m; and
- Property, Plant and Equipment - Assets Under Construction: £31.8m.

More information relating to these misstatements is included in the Financial Statements section starting on page 8.

### Unadjusted audit differences

The net value of uncorrected misstatements is £422k in the CIES and £422k in the BS in the single entity accounts. We requested that management make correcting adjustments for all of these misstatements. However, management has proposed that no further amendments will be made as the remaining uncorrected misstatements are not material to the accounts as a whole.

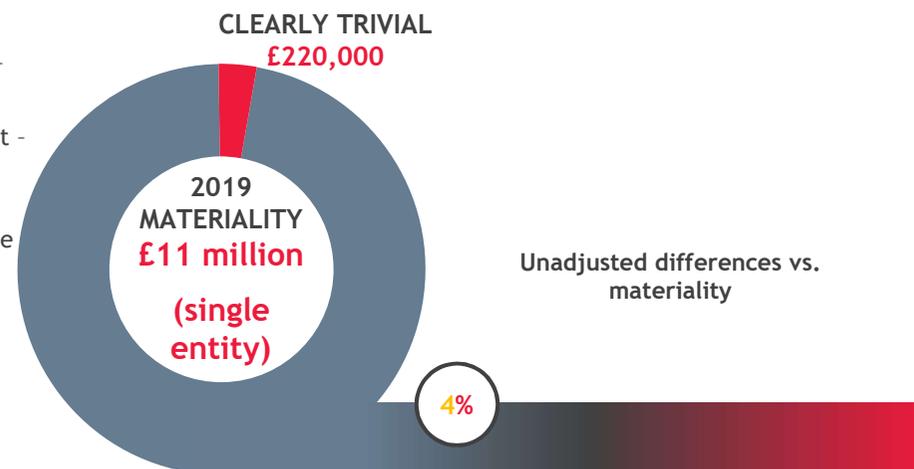
Four classification errors were identified (£4.2m), which had a nil impact on the net value of uncorrected misstatements reported.

One error (£2.3m) was identified as judgmental in relation to the impact of depreciation and revaluation of assets under construction not being reclassified when brought into use.

Ten errors (£28.1m) were projected errors from our work over debtors, creditors, valuation and income and expenditure testing.

The errors above, if uncorrected, will carry forward to 2019/20 as a cumulative misstatement of £422k

Our group accounts work is still in progress due to ongoing consolidation issues that we are working with the Council to resolve. The Council is amending all non-trivial misstatements.



# OTHER MATTERS

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### Financial reporting

- Accounting policies have been disclosed within the Group accounts where they differ materially to the policies of the Council as a single entity. Whilst auditing the Group consolidation we identified an inconsistency in the policy used at Group and subsidiary level in respect of capitalisation of borrowing costs. The Council's policy is to not capitalise borrowing costs. Borrowing costs capitalised in subsidiary accounts were not material in 2018/19 but were non-trivial and should have been adjusted on consolidation. The Council intends for this issue to remain unadjusted, however this remains subject to confirmation of the exact value of borrowing costs capitalised in the Group and the aggregate unadjusted audit differences.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are considered sufficient.
- The Annual Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements.

### Other matters that require discussion or confirmation

- Significant control deficiencies have been identified in relation to internal review of working papers and the processes and controls in relation to the production of the financial statements. In accordance with ISA 265 this was reported to the Audit and Standards Committee on 22 October 2019.
- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

### Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Group and the Council in accordance with the Financial Reporting Council's Ethical Standard.



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As identified in our Audit Plan dated 21 December 2018 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. We have subsequently included further significant risks relating to creditors, debtors and the misclassification of transactions between the Council and its Group entities. These are those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Revenue and Expenditure recognition	Significant	Yes	No	Yes	Yes	No
Non-current asset valuations	Significant	Yes	Yes	Yes	No	Yes
Pension liability assumptions	Significant	Yes	Yes	Yes	No	Yes
Group accounts	Significant	Yes	No	Yes	Yes	Yes
Creditors	Significant	Yes	No	Yes	Yes	No
Debtors	Significant	Yes	No	Yes	Yes	No
Misclassification of transactions between the Council and Group entities	Significant	No	No	Yes	Yes	No

# MANAGEMENT OVERRIDE OF CONTROLS

**ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.**

## Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

## Work performed

We carried out the following planned audit procedures:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud; and
- Obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or that otherwise appeared to be unusual, if any.

## Results

Our testing has:

- Not identified any inappropriate journals and did not identify any significant transactions that were considered to be outside the normal course of business for the Council or appeared unusual;
- Confirmed that the policy in relation to the calculation for bad debt provision varied and had not been reviewed recently, we have raised a recommendation in relation to this matter on page 31;
- Not identified any issues in relation to significant transactions that were outside the normal course of business for the Council or that may have otherwise appeared unusual; and
- Not identified any biases in relation to accounting estimates or any circumstances producing bias which may result in a risk of material misstatement due to fraud.

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## Revenue and Expenditure recognition

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### Risk description

Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the accuracy and existence of income and expenditure.

In particular, we consider there to be a significant risk in respect of the existence (recognition) and accuracy of the revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in relation to the existence and accuracy of fees and charges recorded in the CIES and the completeness of expenditure.

In the public sector, auditors focus their consideration of the risk of fraud and error on expenditure. As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition.

### Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of grants subject to performance conditions to confirm that the conditions of the grant were met before the income was recognised in the CIES;
- Tested an increased sample of fees and charges to ensure income had been recorded in the correct period and that all income that should have been recorded had been recorded; and
- Tested an increased sample of transactions to ensure that expenditure had been recorded in the correct period and was considered valid and appropriate.

### Results

Our testing has:

- Noted that the supporting evidence for this area was poor which has resulted in a significant number of changes to the original draft financial statements. Issues noted included; amounts not agreeing to the amounts recognised, grants recognised incorrectly within the financial statements where conditions were not met, non-grant income being recognised as grant income and grants being omitted from the grant figures disclosed within the statements. Our work has identified 56 individual errors in recognition of grant income totalling £9.5m (management have corrected all but £457k reclassification of this amount).
- Our work identified that the Dedicated School Grant had been double counted in 2018/19 and 2017/18 on the face of the CIES, in 2018/19 this resulted in an error of £176.8m and £168.1m in 2017/18. A prior period adjustment is required in relation to this error.

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## Results Contd.

- Identified three income and expenditure transactions around the year end which had been accounted for in the incorrect period. This included one cut off error in relation to income of £2.9m and two errors in relation to expenditure totalling £73k all of which were excluded from the 2018/19 financial year when they should have been included. Management have corrected the £2.9m income error.

# NON-CURRENT ASSET VALUATIONS

## Non-current asset valuation

### Risk description

Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

The Council has appointed an external valuer to carry out revaluations on assets as at 31 March 2019.

Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, there is a risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

### Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert;
- Confirmed that the basis of valuation of assets valued in year was appropriate;
- Checked that the beacon basis used to value the housing revenue account assets had been appropriately applied;
- Reviewed the reasonableness of assumptions used in the valuation of non-current assets, the accuracy and completeness of the source data used by the valuer and the Council's critical assessment of the external valuer's conclusions;
- Checked that the accounting policy adopted in relation to the valuation of assets was reasonable and that the aggregate of any assets that are not revalued in year did not create a material expected movement when compared to independent data; and
- Reviewed the reasonableness of assumptions used in any roll forward of asset values from valuation date to the balance sheet date and the value of assets not included in the valuation exercise.

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## Results

Our testing did not identify any issues in relation to the instructions provided to the valuer and assessment of the expertise of the valuer.

We confirmed the valuation basis of assets valued in 2018/19 was appropriate.

Our audit work confirmed the beacon basis used to value council dwellings (housing revenue assets) was appropriately applied for existing assets.

Our sample testing of the accuracy of the information in relation to input data provided to the valuer identified 21 discrepancies between the submitted data and the data held by the Council, the differences noted resulted in a £1.1m difference in valuation which extrapolates to a £2.7m understatement of asset values. Management do not intend to correct this misstatement.

Our testing of investment properties identified three assets that had been included within the draft financial statements but had been demolished in the previous financial year. This has resulted in an overstatement of the value of investment properties in the current year and also in the prior period comparatives of £1.9m. Management have corrected this misstatement.

Our audit work identified inconsistent application of the accounting policy when valuing new assets, which has led to an overstatement of council dwellings of £6.4m. Management have corrected this misstatement.

Our review of the previous auditor's file identified that a number of assets were valued in October 2017 for the 2017/18 financial year, 6 months before the year end and no consideration had been given to potential movement in values between then and the year end. Consequently it was necessary for us to complete additional work on the opening balance to satisfy ourselves that it was not materially misstated as a result of potential movement in market values between October 2017 and 31 March 2018. We concluded that the opening asset balances were understated by £1.1m, which is not material so a prior period adjustment is not required.

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## Pension liability assumption

### Risk description

The net pension liability comprises the Council's share of the market value of assets held in the London Borough of Barking & Dagenham Pension Fund, and the estimated future liability to pay pensions.

An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the membership data and cash flows provided to the actuary as at 31 March may not be accurate, or that the valuation uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

### Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the consulting actuary report on the competency and experience of the actuary and the reasonableness of the assumptions used in the calculation;
- Obtained assurance over the controls for providing complete and accurate membership data to the actuary; and
- Checked whether any significant changes in membership data have been communicated to the actuary.

### Results

Our audit work identified one misstatement in relation to pensions. An overstatement of investment returns of £18.5m in relation to an estimation made by the actuary, whereby the percentage used for the assets return basis was higher than the actual outturn. Management have corrected for this error.

Two non-material misstatements arose during the course of the audit, after the draft financial statements had been prepared, as a result of:

- a supreme court judgment being issued (Lord Chancellor v McCloud) which the Council concluded created an obligation on LGPS schemes that existed at the balance sheet date and, therefore, required recognition by the applicable accounting framework. The Council sought actuarial advice on the judgment's impact on its liability, which was determined to be £3.8m. We are satisfied with the assumptions used by the actuary in making this estimate; and

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## Pension liability assumption

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### Results

- receipt of updated technical guidance on accounting for the impact of the Guaranteed Minimum Pension (GMP) on the Council's liabilities of £3.8m. Management have corrected this misstatement.

We did not find any other issues in relation to our work on the pension liability assumptions.

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## Risk description

The Council is expected to produce consolidated Group Accounts for the first time in 2018/19. The Council holds interests in a number of subsidiary organisations and is involved in joint venture arrangements.

The Council needs to ensure that it considers the requirements of IFRS 10 and IFRS 12, giving appropriate consideration to whether each of the subsidiaries are required to be consolidated. There is a significant risk that the consolidated financial statements will not be accurately prepared.

## Work performed

We carried out the following planned audit procedures:

- Held early discussions with the Council to ensure that we agreed with the approach taken for consolidating the group accounts;
- Reviewed the Council’s documented consideration of the requirements of IFRS 10 and IFRS 12; and
- Performed audit testing on the draft consolidated Group Accounts to ensure that they were compliant with the Code.

## Results

Our work on the Group accounts is currently ongoing.

Work performed on the financial information of components included analytical procedures at group level and review/corroboration of information relevant to consolidation adjustments. One component (Reside Roding Ltd) was deemed to be significant, as defined by auditing standards, due to a material risk we identified in respect properties developed for sale but incorrectly classified, and we requested specific assurance in respect of that risk. With BDO auditing the subsidiary companies, we as group auditors were able to access component audit files and obtain information from component auditors as required. We have no concerns over the quality of component auditor work and our access to information was not restricted.

We have identified significant issues with the Council’s Group consolidation, which has led to a high number of adjustments across numerous versions of working papers. Some adjustments were material in value.

Adjustments have also been required in respect of terminology used, the Group boundary and assessment of relationships using applicable accounting standards thereof.

Issues identified are summarised on the following page of this report.

We continue to work with the Council to address consolidation issues and obtain required assurance over the Group accounts.

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### Results continued

We have provided a summary of issues identified with the Group accounts and the audit process thereof. It should be noted that we are continuing to work with the Council to conclude the preparation and audit of the Group accounts and further issues, in addition to those reported below, are possible.

Individually material errors have been identified in respect of the following:

- Expenditure on property developed for sale was misclassified as property, plant and equipment (PPE), but should have been reported as inventory in the comparatives (£21.1m) and cost of sales (£31.8m) and revenue (£31.3m) on disposal in 2018/19.
- No adjustment was made for unrealised profit on consolidation, where the Council had capitalised expenditure that was revenue in subsidiary accounts (£9.5m). Several iterations were required to correctly account for this adjustment throughout the statements and the value may yet change further upon resolution of outstanding queries.
- Investment property was incorrectly classified as PPE (£18.8m).
- Cash flows were misclassified between activity types in the cash flow statement. Erroneous values were mostly linked to errors in the CIES and Balance Sheet, but entries also demonstrated a wider misunderstanding of the cash flow statement. For example,
  - Full transaction value of subsidiary sales capitalised by the Council were adjusted in a separate line of operating activities (£20.5m), but should have been adjustment of the profit element from deficit on provision of service in operating activities and purchase of PPE in investing activities (£9.5m, but may yet change).
  - A loss on revaluation was adjusted out of financing activities like a cash outflow, rather than as a non-cash movement in operating activities.
  - Sale of inventory in 18/19 (£31m) and purchase of inventory (£7.7m 18/19 and £13.7m 19/20) were reported as cash flows in investing activities without recognition that these were recognised in the loss for the year in operating activities, which should have been adjusted by the movement in inventory balance in a separate line within operating activities.
- An error arose on the cash flow statement when eliminating a loan from the Council to a subsidiary, which meant investment payments and loan receipts were adjusted by £16.7m, but should have been £26.9m.

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## Results continued

- The previously unaudited 2017/18 Group cash flow statement did not eliminate a £20.7m of loan proceeds from the Council to subsidiaries.
- 2017/18 cash flows from purchase of investments (£719m) and proceeds from sale of investments (706m) were netted in investing activities. Repayment of borrowing (£377m) and receipts from borrowing (£476m) were netted in financing activities. These values should have been disclosed gross.

A high volume of other individually non-trivial errors have been identified relating to:

- Conversion of component accounts prepared under IFRS/UK GAAP into Group statements prepared under the Code of Practice on Local Authority Accounting.
- Elimination of intra-group transactions and other consolidation adjustments.

Other significant issues with the Group accounts included:

- No Group notes were prepared where materially different to the Council's single entity notes.
- No Group comparatives were prepared for the core statements or notes (prior year Council single entity values were used).
- No Group accounting policies were disclosed where different to the Council's single entity policies.

Disclosure errors were identified relating to the use of incorrect/misleading terminology and inconsistencies throughout the statement of accounts.

Issues with information provided for audit include:

- A Group boundary assessment with reference to the applicable reporting framework was not provided initially and when provided it was inaccurate and inadequate.
- Information provided for use during the audit process relating to each of the components, which fed into our Group audit planning and Group boundary review, was inaccurate.
- Working papers prepared for audit were not well designed. This contributed to the volume of errors that arose. This led to the submission of multiple versions of working papers for audit, which in turn required significantly more resource to audit than planned. Working papers were re-worked in February 2020 and improved, but issues remain and further improvements are required for 2020/21.

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**Creditors**  
**Responses in relation to our preliminary analytical review identified a material unexplained variance in the expected values which resulted in an increased audit risk for creditors.**

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## Risk description

The Council has undertaken a number of processes in relation to creditors, including matching the purchase order to the invoice once items have been processed.

Furthermore, the Council will need to account for supplies / services at different times resulting in accruals or receipts in advance to be estimated and judgements made when updating the ledger for the amounts to be recorded. This ensures material accuracy and it is important this is done on a consistent basis.

Creditors generally will affect a number of areas within the financial statements such as grants expenditure and employment tax calculations. In addition, management are required to make key estimations and judgements based on the information they have available. It is important that these estimations and judgements have a clear audit trail and are based on the best information available at that point.

## Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of creditors to confirm they had supporting documentation due to the increased risk identified as part of our initial work;
- Tested an increased sample of accruals and receipts in advance to confirm judgements and estimations made had supporting calculations, which were consistent with Council policies due to the increased risk identified as part of our initial work; and
- Tested a sample of Purchase Orders (PO) specific transactions to confirm the invoice matched the PO value and where there were variances, the amount was adjusted for.

## Results

Our testing has:

- Identified a number of significant issues, including; poor quality of supporting evidence and working papers, incorrect calculations of accruals and incorrect classifications of creditors;
- Identified 19 errors in relation to accruals and receipts in advance, the total of these errors was calculated to be £11.1m overstatement of which management have corrected £5.9m the remaining £5.6 m is an projected misstatement; and
- During the course of investigating queries raised as a result of the audit management identified another £11.4m of errors owing to over-receipting of purchase orders occurring across the previous six years. This has resulted in a misstatement of £10.5m in relation to periods before 2018/19 and £877k in 2018/19. Management have corrected for these misstatements

Due to the number of errors identified in this area we have raised a recommendation, see page 30.

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**Debtors**  
**Responses in relation to our preliminary analytical review identified a material unexplained variance in the expected values which resulted in an increased audit risk for debtors.**

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## Risk description

The Council has a significant number of debtors as part of its day to day processes. In addition, where different systems process debtors there should be a reconciliation process to ensure the ledger agrees to all other systems.

Furthermore, the Council will need to account for payments in advance to be estimated and judgements made when updating the ledger for the amounts to be recorded.

Without a clear methodology and a standardised set of processes and controls in place there is a risk that the figures used to calculate the debtor including any estimations or judgements may be inconsistent resulting in a material misstatement of debtors.

## Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of debtors to confirm they had supporting documentation due to the increased risk identified as part of our initial work; and
- Tested an increased sample of prepayments to confirm judgements and estimations made had supporting calculations, which were consistent with Council policies due to the increased risk identified as part of our initial work.

## Results

Our testing has:

- Identified a number of significant issues, including; the poor quality of working papers and supporting evidence, inconsistent provisions made for bad debt and debtors incorrectly classified (such as payment in advance instead of receipt in advance); and
- Identified 22 errors in relation to accruals and payments in advance which were either raised for the incorrect value or there was insufficient evidence to support the validity of the debt. The total value of the errors was a £19.3m overstatement of debtors. Management have corrected for £9.8m of this misstatement the remaining £9.5m is an projected misstatement.

Due to the number of errors identified in this area we have raised a recommendation, see page 31.

# MISCLASSIFICATION OF TRANSACTIONS BETWEEN ENTITIES

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## Misclassification between the Council and its group entities

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
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### Risk description

In April 2019 the auditor of component Be First (KPMG) issued a disclaimer opinion for the 2017/18 accounts. This was on the basis that the auditor had identified transactions miscoded between component entities that share the Council's ledger. This issue transcends all components that share the Council's ledger.

There is a risk that Council transactions have been miscoded to component entity accounts, posing a material risk to the Council's single entity accounts in particular.

### Work performed

We carried out the following planned audit procedures:

- Liaised with the outgoing auditors and reviewed their audit file to understand the issue they identified;
- Reviewed the Council's paper demonstrating that it was able to identify all miscoded transactions in 2017/18 and that it had mitigated the risk of this error repeating in 2018/19;
- Tested a sample of non adjusting entries for completeness to ensure entries that were not included should not have been;
- Sample tested the adjustments proposed by the Council to correct the miscodings; and
- Reviewed and tested the operating effectiveness of controls in place to prevent this issue from occurring and considered the implications on our audit strategy if these controls were not effectively designed or operating.

### Results

Our testing has:

- Confirmed the findings of the previous auditors including any issues they had identified;
- Not identified any significant issues in relation to the Council's work on identifying any miscoding of transactions which would result in a non trivial error in 2018/19;
- Not identified any significant miscodings between entities for 2018/19; and
- Confirmed the controls in place are adequate and appropriate to reduce the possibility of the miscoding occurring in the future.

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## Related Party Transactions

### Risk description

We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.

### Work performed

We carried out the following planned audit procedures;

- Updated our understanding of the related party transactions identification procedures in place and reviewed relevant information concerning any such identified transactions; and
- Discussed with management and reviewed senior management declarations to ensure there are no potential related party transactions which have not been disclosed; this is something we require you to include in your management representation letter to us.

### Results

Our work identified that the draft financial statements provided for audit did not include debtor and creditor balances for related parties. This was corrected in the second version of the accounts received.

We did not find any issues in relation to declarations of interest from Members.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

# NEW ACCOUNTING STANDARDS

## New Accounting Standards

### Risk description

Two new accounting standards will apply for the 2018/19 financial statements, these are IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers. There is a risk that these are not adopted appropriately if their impact is material.

### Work performed

We carried out the following planned audit procedures:

- Reviewed the Council's consideration and approach when applying IFRS 9 and IFRS 15 to the financial statements; and
- Compared the accounting policies adopted by the Council to the requirements of these new accounting standards.

### Results

We have reviewed managements' considerations to applying IFRS 9 and 15, which management confirmed had no material impact on the financial statements. Our review confirmed that this conclusion was appropriate.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

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# ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES

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## Allowance for non-collection of receivables

### Risk description

The Council's bad debt provision on aged debt is determined for each income stream using available collection rate data. The significant provisions include council tax arrears, non-domestic rates arrears, housing benefit overpayments, housing rents arrears and car parking. The bad debt provision is material overall.

### Work performed

We reviewed the provision model for significant income streams and debtor balances to assess whether it appropriately reflected historical collection rates by age of debt or arrears.

### Results

Our review noted there was an inconsistent approach in relation to the method to which calculations were completed to formulate the bad debt provision, this resulted in a £1.5m overstatement of the provision for housing debt. We have raised a recommendation on page 35 of this report.

Our review over allowance for non-collection of other income streams did not identify any issues.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
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# COMPONENTISATION OF COUNCIL DWELLINGS

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## Componentisation of Council dwellings

### Risk description

For dwelling properties, we consider the split in value between land and building used in 2017/18 to be unusual and in addition we note the dwelling properties were not componentised. There is a risk that the annual depreciation charge is materially misstated.

### Work performed

We carried out the following planned audit procedures:

- Considered the reasonableness of the split in value between land and building using comparatives from other local authorities; and
- Considered if a lack componentisation of buildings results in a material misstatement to the depreciation charge.

### Results

No issues identified.

Significant risk
Normal risk
Significant management judgement
Use of experts
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# PROPERTY, PLANT AND EQUIPMENT - OTHER AREAS

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### Risk description

Our final accounts testing identified a number of other areas which had significant errors, this resulted in additional testing. These were:

- Additions;
- Disposals;
- Asset under construction (AUC); and
- Community assets.

### Work performed

We carried out the following planned audit procedures:

- Increased sample testing of additions to ensure the capitalised additions agree to appropriate supporting evidence and are deemed to add value to the asset.
- Increased sample testing over historical AUC costs not reclassified to operational assets

### Results

Our work in relation to additions of Property, Plant and Equipment identified five errors where capitalised expenditure either did not agree to underlying evidence or to the amount recognised in the draft financial statements. The cumulative impact of the errors is an overstatement of capital expenditure by £3.4m. This will remain an uncorrected misstatement as it is extrapolated.

Our work on assets under construction identified two prior period errors. The first was an overstatement of £31.8m relating to historic capital spend which had not been reclassified when assets became operational. This resulted in the need for a prior period adjustment to be made. The second misstatement of £527k related to an extension to a school which had not been recognised as other land and buildings once complete. This does not require a prior period adjustment as it is not material.

Our testing identified a material understatement by £47.7m of the value of community assets that were not re-valued at the year end. Management have corrected this misstatement.

Our testing of disposals identified an incorrect classification of disposals for vehicles, plant and equipment that should have been classified as intangible assets as at 31 March 2018. This resulted in an overstatement of the vehicles, plant and equipment opening balance figure by £1.5m and a understatement of the opening balance for intangible assets of £1.5m. Management do not intend to correct these misstatement.

# MATTERS REQUIRING ADDITIONAL CONSIDERATION

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## Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 29 December 2018.

## Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

## Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

## Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify any significant matters in connection with related parties.

## Group matters

Our work on Group reporting is still in progress.



# AUDIT DIFFERENCES: SUMMARY

## Summary for the current year

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**We are required to bring to your attention unadjusted differences and we request that you correct them.**

At the time of writing this report we await an adjusted version of the consolidated Group financial statements. We will provide a schedule of unadjusted Group audit differences once established with reference to a final version of the consolidation as part of our final Audit Completion Report.

The audit differences identified to date are set out in the tables contained in the appendices to this report.

At this stage the classification of adjusted and unadjusted differences is based on our understanding, through discussions with management, of the adjustments it does and does not intend to make and those seen in the latest version of accounts provided.

On this basis there are 67 individual differences (43 errors are outlined in appendices due to grouping similar individual errors together) that management intends to correct.

The remaining 19 audit differences are those which management currently intends to leave unadjusted in the final version of the financial statements. These can be analysed as:

- Factual (net): CIES 0.4m / BS £0.4m
- Judgmental (net): CIES (£2.4)m / BS (£2.4)m
- Projected(net): CIES £6.8m / BS (£6.8)m

Factual misstatements are those about which there is no doubt.

Judgmental misstatements are differences arising from the judgments of management including those concerning recognition, measurement, presentation and disclosure in the financial statements that the auditor considers unreasonable or inappropriate.

Projected misstatements are the auditor’s best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

We will update the Audit and Standards Committee on any movement in these figures at the meeting to which this report is presented. We will also issue a revised Audit Completion Report to reflect the final position at the date of the opinion.

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We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Annual Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Annual Report is consistent with the financial statements and our knowledge.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council’s review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

# SPECIAL REPORTING POWERS AND DUTIES

## ISA 265 requirement

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Matter	Comment
Significant deficiency in the internal control for the preparation of the financial statements.	<p>Auditing standards require that we communicate to those charged with governance any significant deficiencies in internal control identified during the audit, in writing, as soon as is practicably possible.</p> <p>Our audit of the draft statement of accounts identified a significant number of figures included in the statements which were misstated, some materially so. We raised these matters with the Council throughout the audit, which resulted in revised working papers being provided for a significant number of areas of the accounts. As a result, it has been necessary to perform additional audit work to confirm the accuracy of revisions proposed by the Council.</p> <p>The errors identified varied in their nature and impact on the statement of accounts. They also included a number of misstatements in relation to the prior year (2017/18) comparatives some of which resulted in a prior period adjustment.</p> <p>At the time of issuing this report there is a £65.4m net impact on the cost of services reported by the Council. This and the individual material disclosure misstatements in the core financial statements certified by the section 151 officer, published by the Council and presented for audit, is contrary to the Local Authority Accounting Code of Practice requirement for the Council to produce materially accurate draft financial statements. We have worked with the Council on finalising the impact of the audit findings, and the Council producing a final set of financial statements that are materially accurate and Code compliant.</p> <p>The Council has provided evidence to demonstrate that a review of completeness and reconciliation of the draft financial statements to their management accounting regime, was undertaken by senior members of the closedown team prior to publication, which placed reliance on previously audited figures. The evidence provided demonstrates that an appropriate internal control, designed to identify potential material misstatements before publication of the draft statement of accounts, exists. However, the subsequent identification of the misstatements, material and otherwise, referred to in this Audit Completion Report indicates that this internal control did not operate effectively. Therefore, we consider this a significant deficiency in internal control.</p>

# WHOLE OF GOVERNMENT ACCOUNTS

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Matter	Comment
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019.  New guidance has now confirmed that we are now no longer required to review the WGA Data Collection Tool (DCT), as the Council are no longer required to submit it for 2018/19.

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We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable resource deployment	<p>The update to the Medium Term Financial Strategy to 2020/21 has forecast further reductions in Government core grant funding and a budget gap of £11.5m (after a planned one-off use of reserves). The current forecast position for 2018/19 is an overspend of £3.818m, however this is heavily reliant on the successful delivery of the People and Resilience Action Plan.</p> <p>Identifying the required level of savings from 2018/19 will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models. There is a significant risk that this will not be achieved, impacting on the financial sustainability of the Council in the medium term.</p>	Significant	<p>The financial outturn position for 2018/19 was £2.9m overspend against the planned spend and before our audit, equivalent to 2% of the budget. The most significant overspends were in respect of adults, children’s and disabilities, where the overspend was £9.9m, thus demonstrating that significant underspends were achieved in other areas. The most favourable variance against budget was in respect of council tax and business rates income, where income was £3.4m higher than budgeted.</p> <p>The MTFs shows the budget gaps for future years to be as follows:</p> <ul style="list-style-type: none"> <li>• 2020/21: £4.8m</li> <li>• 2021/22: £(3.7m)</li> <li>• 2022/23: £2.3m</li> <li>• 2023/24: £2.2m</li> </ul> <p>In order to bridge these gaps, £3.2m will need to be appropriated from earmarked reserves in 2020/21. The Council does not anticipate any future use of reserves other than that, with a budget surplus predicted for 2021/22, and therefore no gap to fill, and all other gaps are expected to be covered by savings targets.</p> <p>The Council have considered the impact of Covid-19 for the 2018/19 accounts and do not believe the impact will be significant. They do note the impact will affect the 2019/20 and 2020/21 financial accounts.</p> <p>This is in line with our work and considerations of the Council's judgement.</p>

# SIGNIFICANT DEFICIENCIES

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We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Standards Committee.

As the purpose of the audit is for us to express an opinion on the Group and the Council’s financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

**Significant Deficiencies**

Area	Observation & implication	Recommendation	Management response
Preparation of financial statements	Our initial review of the draft financial statements identified a significant number of issues, both in relation to compliance with the code, casting and reconciliations to working papers.	Introduce a two layer quality control, whereby: <ul style="list-style-type: none"> <li>• The accounts are reviewed for compliance with the code of practice;</li> <li>• The accounts are reviewed for casting; and</li> <li>• All working papers are reconciled to the draft financial statements.</li> </ul>	This will be in place for the Draft SoA 2019-20. These controls now form part of our robust QA process going forward.  Responsible officer: Chief Accountant
Quality of working papers	Our review and testing of working papers has identified a significant number of errors including figures not the draft statements or the supporting evidence requested.	Quality review all working papers before proving for audit.	As above, all working papers will be subject to a QA process. Additionally there will be changes to the working papers, making it easier for BDO to select samples from and audit them. This will be in place for 2019-20 Audit.  Responsible officer: Chief Accountant

# SIGNIFICANT AND OTHER DEFICIENCIES

## Significant Deficiencies (continued)

Area	Observation & implication	Recommendation	Management response
Creditor balances	<p>Review of creditor balances identified a significant number of errors including:</p> <ul style="list-style-type: none"> <li>incorrect accrual calculations;</li> <li>incorrect classification where unspent grant income has been incorrectly included; and</li> <li>Insufficient supporting evidence for creditors.</li> </ul>	<p>Introduce a control process, whereby:</p> <ul style="list-style-type: none"> <li>A complete review of the creditor balance is completed to ensure that all creditors have been correctly treated;</li> <li>A regular review / reconciliation process is put in place to ensure that accruals are reviewed to confirm they have been correctly accounted for; and</li> <li>All creditors are reviewed to confirm there is sufficient supporting evidence if required.</li> </ul>	<p>A rigorous and robust programme has been drawn up and is in place as part of 2019-20 accounts closedown.</p> <p>In addition, we have identified a list of historic balances which need writing off/on. There will be a QA of all Balance Sheet reconciliations.</p> <p>Responsible officer: Chief Accountant</p>
Debtor balances	<p>Review of debtor balances identified a significant number of errors including:</p> <ul style="list-style-type: none"> <li>Different figures between the ledger and other Council systems;</li> <li>incorrect provision made for bad debt classification where unspent grant income has been incorrectly included;</li> <li>Insufficient supporting evidence for debtors; and</li> <li>Debtors incorrectly classified (such as payment in advance instead of receipt in advance).</li> </ul>	<p>Introduce a control process, whereby:</p> <ul style="list-style-type: none"> <li>A complete review of the debtor balance is completed to ensure that all debtors have been correctly treated;</li> <li>A review process is put in place to ensure that receipts in advance are reviewed to confirm they have been correctly accounted for;</li> <li>Regular balance sheet reconciliations are carried out;</li> <li>Emphasis on reviewing PO (for debtors &amp; creditors) variations including correcting variances before year end; and</li> <li>All debtors are reviewed to confirm there is sufficient supporting evidence if required.</li> </ul>	<p>A rigorous and robust programme has been drawn up and is in place as part of 2019-20 accounts closedown.</p> <p>In addition, we have identified a list of historic balances which need writing off/on. There will be a QA of all Balance Sheet reconciliations.</p> <p>Responsible officer: Chief Accountant</p>

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# SIGNIFICANT AND OTHER DEFICIENCIES

## Significant Deficiencies (continued)

Area	Observation & implication	Recommendation	Management response
User access	Management have confirmed there is currently no periodic review of access rights of users. From the review of the IT systems we noted one user who has been granted 'Super user access' in relation to LBBD Intercompany processes. This allows the user to post transactions to other entity ledgers, even though the user has no direct involvement with the other entities.	<p>Implement checks ensuring:</p> <ul style="list-style-type: none"> <li>A periodic review of users is completed to ensure that the access of all users is considered, ensuring the separation of staff who have access to the financial systems and those that have access to other systems;</li> <li>A review is completed for all 'Super users' to confirm that the access is appropriate.</li> </ul>	<p>A user review is conducted on a monthly basis of the specialist / high risk responsibilities; such as General Ledger User, Superusers, Capital Projects, Payables, and Receivables. This is to ensure that only current authorised users have access to appropriate responsibilities. Any out of date access is removed by Oracle Support.</p> <p>Responsible officer: Chief Accountant</p>
Grant income	<p>Review of grant balances identified a significant number of errors including:</p> <ul style="list-style-type: none"> <li>Double accounting of the Dedicated schools grant;</li> <li>Incorrect classification between ring fenced and non-ring fenced grants;</li> <li>Incorrect recognition of grants in the correct financial period; and</li> <li>Incorrect classification of grants (i.e. grants which have been held for a significant period of time should be included as long term liabilities).</li> </ul>	<p>Introduce a control process, whereby:</p> <ul style="list-style-type: none"> <li>A complete review of the grant balances (both revenue and capital) to ensure that all grant income has been correctly treated;</li> <li>A review process is put in place to ensure that all new grants are recorded with sufficient detail that when monies are spent these can be checked against conditions to ensure the Council are able to do so and all working papers include the grant notification letter, award letter and confirmation amounts with any potential conditions; and</li> <li>Review of all grants which have not been spent at year end to confirm any income carried forward has been correctly accounted for.</li> </ul>	<p>This is an area we have revamped - going forward various services will be using a new template for the monthly grant income reconciliation. This is then brought together via central coordination to a position where all grant transactions are converted into single grant items - making it easier for BDO to audit along with clear working papers to be made available. The above is in place for 2019-20 Accounts Audit.</p> <p>Responsible officer: Chief Accountant</p>

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# SIGNIFICANT AND OTHER DEFICIENCIES

## Significant Deficiencies (continued)

Area	Observation & implication	Recommendation	Management response
Group-wide controls	<p>Controls designed, implemented and maintained by Group management over Group financial reporting have not been effective at:</p> <ul style="list-style-type: none"> <li>Ensuring accuracy and completeness of component financial information</li> <li>Monitoring matters affecting the Group boundary, such as composition of decision making boards and contractual terms</li> <li>Identifying consolidation issues before submitting draft accounts for audit</li> </ul>	<p>Introduce procedures that:</p> <ul style="list-style-type: none"> <li>Ensure the same information is used to prepare Group accounts and component accounts and there are lines of communication to amend all statements should adjustments arise</li> <li>Establish effective lines of communication to share matters affecting the Group boundary with Group management</li> <li>Ensure an effective review of consolidation adjustments, boundary considerations and Group statements/notes is completed prior to submission for audit.</li> </ul>	<p>We have created individual ledgers in Oracle for the components to address the dual ledgers set up issue. This will put us in a better position going forward to address most of the concerns raised. Also the Council is working hard with its components to ensure the draft accounts are received in a timely manner. This will ensure sufficient time is set aside for consolidation and reviews effective from 2020/21 onwards. The learning taken from the results of the 2018/19 Group Accounts audit will put us on a better footing for the 2019/20 accounts audit.</p> <p>Responsible officer: Chief Accountant</p>

## Other Deficiencies

Area	Observation & implication	Recommendation	Management response
Allowance for non-collection of receivables	<p>Review of bad debt provision identified variances of the percentages used to calculate the provision and the policy has not been reviewed for a significant period of time.</p>	<p>Review the bad debt provision each year taking into account historical collections rates along with anticipated current or future impacting events.</p>	<p>This is now in place where a single working paper is produced for all known receivables along with the provision calculated. This will ensure a consistent approach is taken.</p> <p>Responsible officer: Chief Accountant</p>

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# INDEPENDENCE

**Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.**

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit that they comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

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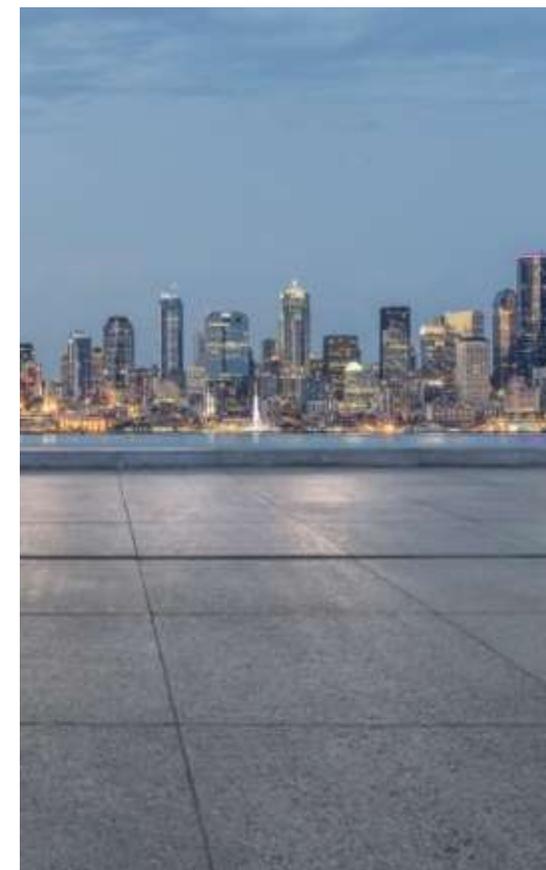
# FEES

<b>Fees summary</b>	2018/19	2018/19	2017/18
	Actual	Planned	Actual
	£	£	£
<b>Audit fee</b>			
• Code audit fee: Consolidated Group and Council financial statements and use of resources	TBC	127,801	165,975
• Group consolidation audit fee <sup>1</sup>	TBC	N/A	N/A
<b>Non-audit assurance services</b>			
<b>Fees for reporting on government grants:</b>			
• Housing benefits subsidy claim	19,800	19,800	34,354
• Pooling of housing capital receipts return	3,250	3,250	5,750
• Teachers' pensions return	3,250	3,250	2,900
<b>Fees for other non-audit services</b>	<b>26,300</b>	<b>26,300</b>	<b>43,004</b>
<b>Total fees</b>	<b>TBC</b>	<b>154,101</b>	<b>208,979</b>

<sup>1</sup> Group accounts were prepared for the first time this year so there is no 2017/18 comparative fee. In agreement with management, no fee estimate was provided due to the uncertainty regarding the level of audit work that would be required for such a complex Group consolidation. We will agree this fee at the conclusion of the audit.

## Additional fees

Due to the additional work required in relation to the Group accounts and the substantial amount of additional testing and Manager and Partner time required to address the audit risk profile of the Council and the volume of errors and other issues identified as part of the single entity audit there will be an additional fee required. This will be discussed in the first instance with management and then with the Audit and Standards Committee after the completion of the audit.



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# UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Error Type	Income and expenditure		Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000
Unadjusted audit differences					
Surplus on the provision of services before unadjusted audit differences		25,058			
1: Assets valued in the prior year were valued as at 1/10/2017, with no consideration of movement up to year end. Giving a expected understatement in their value (we note this is for properties valued using EUV)	P				
DR Plant Property Equipment				1,092 <sup>1</sup>	
CR Revaluation Reserve					1,092 <sup>1</sup>
2: Misclassification of Non ring-fenced Grant Income to ring-fenced Grant income.					
DR CIES - Income above Provision of Service	F		457		
CR CIES - Taxation and Non-specific Grant Income				457	

<sup>1</sup> This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

#### Key

F - Factual  
J - Judgemental  
P - Projected

# UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences						
3: Misclassification of asset 'Chromebooks' disposed within VPE should be included within intangible						
Net Book Value at disposal was £605k which should be reversed out of VPE to Intangibles <sup>1</sup>	F					
DR PPE - Vehicle Plant and Equipment						605
CR Intangibles					605	
4: AUC to be overstated by £527k due to the spend capitalised on the asset not being reclassified to operational assets category when the asset became operational <sup>1</sup>	F					
DR PPE - Other Land and Building					527	
CR Asset Under Construction						527

<sup>1</sup> This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

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Details for the current year

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		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences						
5: Depreciation has been incorrectly calculated on a sample of assets (overstatement of depreciation) (extrapolated error)	P					
DR PPE - Accumulated Depreciation					886	
CR CIES - Depreciation Expense				886		
6: PPE Additions five errors noted where samples didn't agree to underlying breakdown of expenditure/invoices overstating additions (error has been extrapolated)	P					
CR PPE Additions						3,439
DR Expenditure			3,439			
7: £32k underspend on revenue budget was incorrectly recognised as income (error has been extrapolated)	P					
DR CIES - Income			200			
CR Debtor						200

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		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences						
8: Reconciling items on the Capita (Housing System) to Oracle (Finance System) reconciliation of HRA income overstating income	F		432			
DR CIES - HRA Income						432
CR Rent Control Account						
9: Three cut off errors identified over our work on HRA supervision and management expenditure overstating expenditure. (error has been extrapolated) <sup>1</sup>	P			261		
CR CIES - HRA Supervision and Management expenditure						261
DR Creditor Accruals						
10: One cut off error identified from our testing of HRA repairs and maintenance expenditure, overstating expenditure (error has been extrapolated) <sup>1</sup>	P			1,375		
CR CIES - HRA Repairs and Maintenance expenditure						1,375
DR Creditor Accruals						

<sup>1</sup> This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

# UNADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences						
11: Extrapolated Creditor Errors						
Seventeen errors have been corrected by management this was composed of two errors above £1 million, remaining errors below triviality. Nature of errors include creditors raised incorrectly or require writing off.	P					
DR Creditor					613	
DR Creditor - Accruals					4,268	
DR Creditor - Receipts in Advance					754	
CR CIES Expenditure				5,635		
12: Extrapolated Debtor Errors. Twenty two errors have been corrected by management this was composed of One errors above £1 million, remaining errors below triviality. Nature of errors include debtors raised incorrectly or require writing off.	P					
CR Debtors						6,633
CR Debtors Accruals						1,968
CR Debtors Payment In Advance						955
DR CIES Income			9,556			

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# UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences						
13: Double counting of loan receipts from sub and Weavers <sup>1</sup>	F					
CR Investment						238
DR Investment Income			238			
14: One cut off error was identified from our work over social care expenditure, overstating expenditure (error has been extrapolated)	P					
CR CIES Expenditure				778		
DR Creditor						778
15: Revaluation Valuation differences due to valuation input discrepancies (error has been extrapolated) <sup>1</sup>	P					
CR Community Assets						1,163
DR Revaluation Reserve/ CAA					1,163	

<sup>1</sup> This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

# UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Error Type	Income and expenditure		Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000
Unadjusted audit differences					
CR MiRS					1,163
DR Re measurement/Impairment of Revaluation of PPE			1,163		
DR Surplus Assets				193	
CR Re measurement/Impairment of Revaluation of PPE			193		
CR Revaluation Reserve/ CAA					193
DR MiRs				193	
DR Other Land & Building				1,355	
CR Re measurement/Impairment of Revaluation of PPE			1,355		
CR Revaluation Reserve/ CAA					1,355
DR MiRS				1,355	
16: Two cut off errors identified from our work over expenditure	F				
CR CIES Expenditure			73		
DR Creditor				73	

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	Error Type	Income and expenditure		Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000
Unadjusted audit differences					
17: School Cash balance adjustment - difference between the forecasted cash position and actual cash position	F				
DR Cash					2,630
CR Reserve					2,630
18: Grant ELHP - Carry Forward Of Balances to 2018/19 of £390,556					
The council are unable to substantiate the accuracy of the carry forward, therefore this was proposed to be write off	F				
DR Creditor					390
CR Income				390	

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# UNADJUSTED AUDIT DIFFERENCES: DETAIL

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	Error Type	Income and expenditure		Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000
Unadjusted audit differences					
19: Assets Under Construction - opening balance overstated due to assets not being moved to Council dwellings once completed. (change in relation to impact of revaluation if had been moved in correct year) <sup>1</sup>	P				
Dr: Council Dwellings				2,371	
Cr: Revaluation reserve					2,371
Dr: MiRS				2,371	
Dr: Depreciation			879		
Cr: Re measurement/Impairment of PPE				3,250	

<sup>1</sup> This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

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	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences						
20: Assets Under Construction - Spend of IT My Place within AUC to be disposed	P					
Dr: Asset Under Construction						(2,435)
Cr: CIES - Other Operating expenditure			2,435			
<b>Net unadjusted errors</b>		<b>422</b>				
Surplus on the provision of services after unadjusted audit differences		25,480				

<sup>1</sup> This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

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# UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

## Disclosure omissions and improvements

**We are required to bring to your attention other financial reporting matters that the Audit and Standards Committee is required to consider.**

The following unadjusted disclosure matters were noted:

- Expenditure Funding Analysis (EFA) Note

Our review confirmed that the EFA note does not reconcile in line with the requirements of IFRS 8 where it should reconcile on a segment basis with the narrative report. This is only a disclosure point.

- Refinancing and Maturity Risk

Our review of the accounts noted that the maturity analysis has not been prepared using the undiscounted cashflows and therefore does not include the future interest payments which would be material. Management have confirmed as this is only a disclosure point, they will not be correcting for this matter.

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	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
Surplus on the provision of services before adjustments		43,959				
1: Demolition of Investment Properties recognised and revalued within the Investment Property Fixed Asset Register in 2018/19 <sup>1</sup>	F					
DR CIES Finance and Investment - Loss on Disposal			1,200			
CR Investment Property						1,200
DR Capital Adjustment Account - Disposal					1,200	
CR MiRs - General Fund						1,200
2: Reclassification of Housing Rent overpayments/payments in advance to Housing Rent Creditors	F					
DR Housing Rent Debtor					3,812	
CR Housing Rent Creditor						3,812

<sup>1</sup> This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

## Key

F - Factual  
J - Judgemental  
P - Projected

# ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

	Error Type	Income and expenditure			Statement of Financial Position	
		NETDR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
3: To reclassify a £5m loan with Wycombe DC maturing in December 2019 to Short Term Borrowings.	F					
DR Long Term Borrowings					5,000	
CR Short Term Borrowings						5,000
4: To reclassify customers with credit balances to creditors	F					
DR Debtors					790	
CR Creditors						790
5: DSG Income and Expenditure has been grossed up in 2018/19 and 2017/18	F					
<b>Prior period adjustment</b>						
DR Dedicated School Grant Income			176,808			
CR Dedicated School Grant Expenditure				176,808		
DR Dedicated School Grant Income 2017/18			168,108			
CR Dedicated School Grant Expenditure 2017/18				168,108		
CR Equity						

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## Details for the current year

		Income and expenditure			Statement of Financial Position	
		NET DR/(CR)	DR	(CR)	DR	(CR)
		£'000	£'000	£'000	£'000	£'000
Adjusted audit differences						
6: Correction of ST/LT borrowing split as originally split was based on less than 3 months being ST, rather than 12 months	F					
DR Long Term Borrowings						37,600
CR Short Term Borrowings					37,600	
7: Adecco rebates incorrectly recognised as income rather than a reduction in expenditure.	F					
DR CIES Income			2,600			
CR CIES Expenditure				2,600		
8: Reclassification Short Term Capital Grants Receipts In Advance to their appropriate place on the Balance Sheet						
DR ST Grants Receipt In Advance	F					1,346
CR ST Creditors						1,300
CR Taxation and Non-specific Grant Income				46		
CR Equity						46

# ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
9: Grants (DFC RIA) classified as long term liabilities due to the time they have been outstanding	F					
DR ST Grants Receipt In Advance					406	
CR Long Term Creditor						406
10: Revenue grants misclassified to capital grant	F					
DR Reserves - Capital Grants Unapplied					182	
CR CIES - Expenditure			182			
CR CIES - Taxation and Non-specific Grant Income				182		
CR MiRS						182
11: Unidentified Employer Tax Creditor written off	F					
DR Payroll Creditor					290	
CR CIES Expenditure Write Off				290		
DR MiRS					290	
CR Reserves						290

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	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
12: Depreciation on Heritage Assets applied incorrectly.	F					
DR Heritage Assets					97	
CR Capital Adjustment Account						97
DR CIES - Depreciation			97			
CR MiRS - General Fund					97	
13: Valuation of Asset Lock up Garages has been valued incorrectly by the valuers due to the incorrect input data applied (overstating the value)	F					
CR PPE - Other Land and Building						1,471
DR Reserve - Revaluation Reserve					1,471	
DR Revaluation Gains through CIES			1,471			
CR MiRS - General Fund						1,471

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	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
14: Creditor - Parent Pay Unidentified Amount which is unidentified, and has been agreed that the total creditor should be written back to revenue	F					
DR Creditor					1,805	
CR Income			1,805			
DR MiRS					1,805	
CR Reserves						1,805
15: Creditor recognised overstated against workings (3 errors below materiality)	F					
Dr Creditor					164	
Cr CIES Expenditure			164			
Dr MiRs					164	
Cr Reserves						164

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	Income and expenditure			Statement of Financial Position	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences					
16: Creditor Accruals recognised incorrectly (5 errors below materiality) F					
Dr Creditor Accruals				1,530	
Cr CIES Expenditure			54		
CR Asset Under Construction					1,476
DR PPE				1,476	
CR Capital Receipts Reserve					1,476
DR Equity				1,476	
17: Creditor Receipt in Advance incorrectly recognised as Receipt in Advance (9 errors) F					
Dr Creditor Receipts in Advance				1,895	
Cr CIES Expenditure			1,738		
Cr Debtor					157
Dr MiRs				1,738	
Cr Reserves					1,738

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	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
18: Creditor - Reclassified to Long Term Creditor	F					
DR Creditors					279	
CR ST Creditor						279
19: Debtor Error - Rent deposit scheme write off due to change in council policy	F					
CR Debtor						656
DR CIES Expenditure			656			
DR Equity					656	
CR MiRS						656
20: Debtor Error - Housing Report discrepancy impacting bad debt provision	F					
DR ST Debtor - Bad Debt Provision					1,331	
CR CIES - Expenditure			1,331			
DR MiRS					1,331	
CR Equity						1,331

# ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
21: Debtor Error - Debtor to be written off (3 errors below materiality)	F					
CR Debtor						422
DR CIES Income			349			
DR Capital Grants Unapplied			73			
CR MiRS						422
DR Equity					422	
22: Debtor Error - Debtor raised with LA School which is not permitted	F					
CR Debtor						205
DR CIES Income			8			
DR CIES Expenditure			197			
CR MiRS						205
DR Equity					205	

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Details for the current year

	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
23: Debtor Accruals - Accruals written off due to insufficient evidence or lack of recoverability (5 errors)	F					
CR Debtor						316
DR CIES Bad Debt Write Off			316			
CR MiRS						316
DR Equity					316	
24: Debtor Error - Grant Income incorrectly raised as Payment In Advance rather than Receipt in Advance (9 errors)	F					
DR Debtor					1,034	
CR Creditor - Receipt in Advance						753
CR Income				281		
DR MiRS					281	
CR Equity						281

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		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
25: Debtor - Receipt in Advance write off	F					
DR Income			101			
CR Debtor						101
CR MiRS						101
DR Equity					101	
26: Debtor Error - Grant incorrectly treated as Payment in Advance	F					
CR Debtors						13
DR Creditors - Payment in Advance					13	
DR CIES Income				3		
CR CIES Expenditure			3			

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		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
27: Miscoding of Revaluation of OLB upward and downward revaluation	F					
DR Revaluation Upwards					57,392	
CR Revaluation Downwards					1,543	
CR Capital Adjustment Account						58,935
DR CIES Expenditur			58,935			
CR CIES - Deficit Surplus in Revaluation of PPE				58,935		
CR MiRS					58,935	
28: Journal to account for the McCloud and GMP	J					
DR Past service costs			6,622			
DR Pension Interest Cost			89			
CR Net pensions liability						6,711
DR Pensions reserve					6,711	
CR MiRS						6,711

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		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
29: Valuation of Street Purchases for 2018/19 purchases recognised at cost rather than valuers valuation	F					
CR PPE - Council Dwellings						6,468
DR Capital Adjustment Account					6,468	
CR MIRS						6,468
CR CIES - Deficit Surplus in Revaluation of PPE			6,468			
30: Valuation of Community Assets- Revaluing remaining community assets	F					
DR PPE - Community Assets					47,738	
DR MiRS					47,738	
CR Revaluation Reserve :Upwards						45,540
CR Capital Adjustment Account - Upwards Revaluation						2,339
DR Revaluation Reserve :Downwards					100	
DR Capital Adjustment Account - Downwards Revaluation					41	

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Details for the current year

	Error Type	Income and expenditure		Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000
Adjusted audit differences					
CR: CIES - Deficit Surplus in Revaluation of PPE				47,738	
31: LGPS Overstated Investment Return	J				
DR CIES - Investment Return			18,541		
CR Net pensions liability					18,541
DR Pensions reserve				18,541	
CR MiRS					18,541
32: PO Correction due to over receipting (note this is part of a larger £10.5m balance) <sup>1</sup>	F				
DR Reserve				4,993	
CR MIRS					4,993
DR CIES Expenditure			7,777		
CR Creditor					7,777
DR Reserve				2,784	
CR MIRS					2,784

<sup>1</sup> This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

# ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

		Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
33: Interest on long term debtor should have been rolled up at the year end	F				151	
DR Long Term Debtor						151
CR Interest Income				151		
34: Capital Grant GLA Building Council Homes for Londoners - received after the year end and not accrued for	F				2,924	
DR Debtor						2,924
CR Capital Grants Unapplied						2,924
CR CIES - Taxation and Non-specific Grant Income				2,924		
DR MiRS						2,924
35: Asset valued adopted using incorrect measurement value	F					
CR Investment Property						790
DR CIES Finance and Investment - Loss on Disposal			790			
DR Capital Adjustment Account - Disposal						790
CR MiRs - General Fund						790

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		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
36: Investment Property demolished in 2014 has been incorrectly revalued in 2018/19 <sup>1</sup>	F					
CR Investment Property						248
DR CIES Finance and Investment - Loss on Disposal			248			
DR Capital Adjustment Account - Disposal					248	
CR MiRs - General Fund						248
37: HRA Asset Under Construction Asset Overstated	F					
<b>Prior period Adjustment</b>						
DR Council Dwellings					31,802	
CR Asset Under Construction						31,802

<sup>1</sup> This is also a misstatement in the prior period but as it is not material no prior period adjustment is required.

# ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
38: Grant Errors	F					
DR Income				93		
CR Creditors						1,016
DR Debtors					1,109	
CR MiRS					93	
DR Equity						93
39: Housing Debtor unidentified difference between Housing and Ledger	F					
DR Income			801			
CR Debtor						801
CR MiRS						801
DR Equity					801	
40 To adjust year-end finance lease liability posted incorrectly	F					
CR ST Creditor - Finance Lease						526
DR LT Creditor- Finance Lease					466	

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		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000
Adjusted audit differences					
DR CIES - Property Lease Expense			59		
DR MiRS				59	
CR Equity					59
41: Riverside Secondary School -IT Equipment Reclassification	F				
DR Council Dwellings				509	
CR Other Land and Building					509
42: Unidentified transactions on payroll deduction report	F				
DR Debtor				316	
DR Creditor				48	
CR CIES Income and Expenditure			363		
DR MiRS				363	
CR Equity					363

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	Error Type	Income and expenditure			Statement of Financial Position	
		NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences						
<b>Net of adjusted errors</b>		<b>(37,550)</b>				
Surplus on the provision of services after adjustments		6,409				

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# PROJECTED AUDIT DIFFERENCES FOR ALL UNADJUSTED ERRORS

Below we have detailed the impact of the all the current unadjusted errors once extrapolated. The extrapolation represents our best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

	Areas of Financial Statement	Value of Error £'000	Extrapolated Error £'000	Unadjusted Audit Difference Ref.
1	Depreciation - Overstated	14	886	5
2	PPE Additions - Overstated	810	3,438	6
3	CIES Income - Overstated	32	200	7
4	HRA Supervision and Management Expenditure - Overstated	27	261	9
5	HRA Repairs and Maintenance Expenditure - Overstated	24	1,375	10
6	Social Care Expenditure - Overstated	13	778	14
7	Community Asset Revaluation - Understated	610	1,163	15
8	Surplus Asset Revaluation - Overstated	93	193	15
9	Other Land and Building - Overstated	383	1,355	15

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# PROJECTED AUDIT DIFFERENCES - WHERE PARTIAL NUMBER OF ERRORS CORRECTED

Below we have detailed the impact of the all the current adjusted errors once extrapolated. The extrapolation represents our estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

**Note: the error extrapolated amount is reduced by the any factual corrected amount.**

	Areas of Financial Statement	Value of Error £'000	Extrapolated Error £'000	Unadjusted Audit Difference Ref.	Factual Errors Corrected	Revised Extrapolation of potential error remaining.
10	Creditors - Overstated	1,970	2,583	11	£1.9m Error #14,15,	£613k
11	Creditors Accruals - Overstated	1,530	5,796	11	£1.5m Error #16	£4.26m
12	Creditor Receipt in Advance - Overstated	1,895	2,650	11	£1.90m Error #17	£754k
13	Debtor - Overstated	422	7,055	12	£422k Error # 23	£6.63m
14	Debtor Accrual - Overstated	2,281	4,167	12	£2.28m Error # 21,24,25	£1.96m
15	Debtor Receipt in Advance	919	1,874	12	£919k Error # 26,27,28	£955k

# ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

## Disclosure omissions and improvements

**We are required to bring to your attention other financial reporting matters that the Audit and Standards Committee is required to consider.**

The following adjusted disclosure matters were noted:

- Disclosure changes to the EFA Note
- Disclosure changes to the Pension Scheme Notes
- Disclosure changes to the HRA Statement notes
- Disclosure changes to the Financial Instrument Note (including Prior Period Adjustment of £29m)
- Disclosure changes to the PPE Notes and Investment Property Notes
- Disclosure additions for Intangibles
- Disclosure changes to the Unusable Reserve Notes and Capital Financing notes
- Disclosure changes to Senior Remuneration Disclosures
- Disclosure changes to Cash and Cash Equivalent Note
- Disclosure changes to the Group Accounts

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# RESPONSIBILITIES AND REPORTING

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### Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidation Group and Council financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Annual report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Group has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

### What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



# ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	Our work identified a significant number of issues in relation to: <ul style="list-style-type: none"> <li>• Quality of working papers provided;</li> <li>• Quality of draft accounts provided for audit; and</li> <li>• Poor internal review of evidence provided for samples requested.</li> </ul>
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

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## Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Standards Committee.

## Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

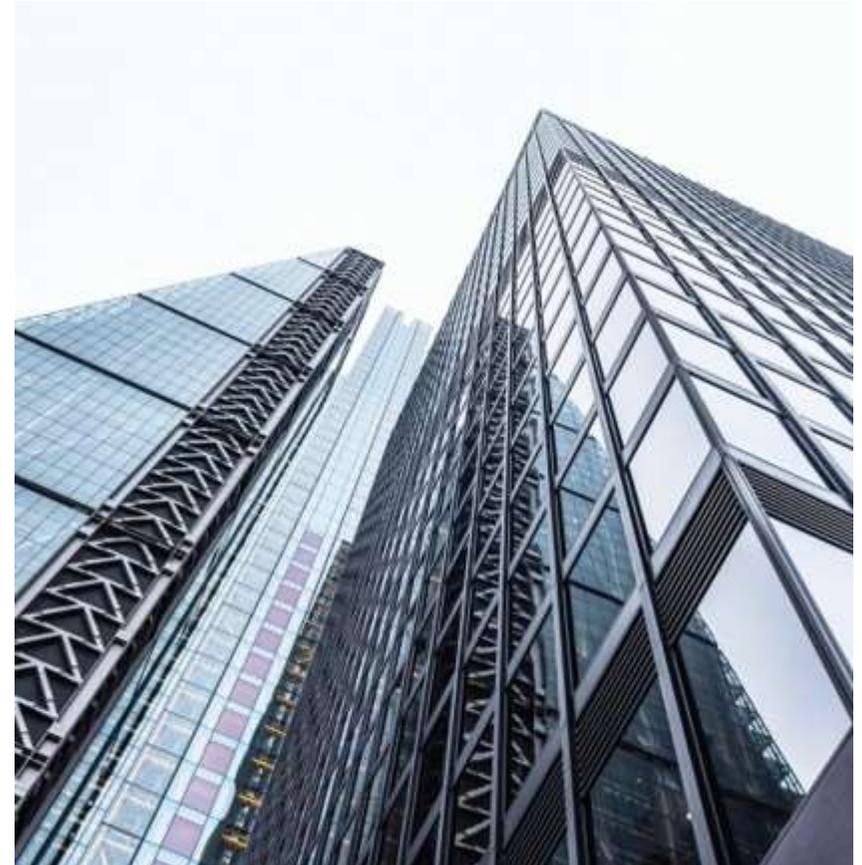
Communication	Date communicated	To whom
Audit Plan	21 December 2018	Audit and Standards Committee
Report on significant weaknesses in internal controls / first audit progress report	22 October 2019	Audit and Standards Committee
Second audit progress report	3 February 2020	Audit and Standards Committee
Interim audit completion report	27 April 2020	Audit and Standards Committee
Audit Completion Report	21 September 2020	Audit and Standards Committee
Annual Audit Letter	Expected 16 November 2020	Audit and Standards Committee

# OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit and Standards Committee meeting at which this report is considered:

- Completion of Group accounts audit;
- Review of final set of financial statements (once provided);
- Partner and Quality Reviewer reviews;
- Clearance of review points arising from reviews; and
- Subsequent events (this cannot be completed until the date of signing).



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# AUDIT QUALITY



## **BDO is totally committed to audit quality**

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)

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# Letter of representation

London Borough of Barking and Dagenham  
Council letter headed paper

BDO LLP  
16 The Havens  
Ransomes Europark  
Ipswich  
IP3 9SJ

Dear Lisa

### Financial statements of London Borough of Barking and Dagenham Council for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Group and the Council's financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Deputy Chief Executive and Chief Operating Officer has fulfilled her responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

### Going concern

We have made an assessment of the Group and the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note xx to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council's ability to continue as a going concern.

### Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

### Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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**Fraud and error**

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

**Misstatements**

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

**Related party transactions**

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note xx to the financial statements, there were no loans, transactions or arrangements between any Group entity and Council members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the controlling party of the Council are accurate.

**Carrying value and classification of assets and liabilities**

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

**Accounting estimates**

- *Valuation of Property, Plant and Equipment;*
- *Pensions assumptions;*
- *Provisions;*
- *Accruals;*
- *Prepayments;*
- *Bad debt calculation; and*
- *Assumptions made in revenue recognition policies.*

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*Significant representations to be confirmed.*

**Litigation and claims**

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

**Confirmation**

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

**Philip Gregory**  
**Section 151 Officer**  
 date

**Cllr Princess Bright**  
**Chair of the Audit and Standards Committee**  
 date

FOR MORE INFORMATION:

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# Appendix 2

## Statement of Accounts

### 2018-2019



One borough; one community;  
no one left behind

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## **Chair's Approval of Statement of Accounts**

This is the Annual Financial Report, incorporating the Statement of Accounts with all audit activities completed. The Audit and Standards Committee of the London Borough of Barking and Dagenham at its meeting on xxxxx authorised the Chair to approve the Statement of Accounts.

Councillor Princess Bright, Chair of Audit and Standards Committee

**Date: XX September 2020**

## Introduction

The Statement of Accounts (the Accounts) summarises the financial position of the London Borough of Barking & Dagenham for the year ended 31 March 2019.

The principles adopted in compiling the Accounts are those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) namely:

- The Code of Practice on Local Authority Accounting in the United Kingdom (the Code); and
- International Financial Reporting Standards (IFRS)

This Narrative Report provides information about the London Borough of Barking & Dagenham, its main objectives and strategies and the principal risks it faces in delivering its ambitions for the communities it serves. It sets out in summary how the Council has used its resources during financial year 2018/19 to achieve planned outcomes in line with its objectives and strategies.

The Narrative Report is a key document for communicating to stakeholders the authority's purpose; how it has performed in accordance with its overall strategy and against Key Performance Indicators over the financial year 2018/19; and how it has allocated its resources in line with intended outcomes. It assists management to demonstrate their collective performance over the year and gives assurance about how well the authority is equipped to deal with the challenges ahead, to continue delivering services and support its local communities.

The Report provides a fair, balanced and understandable analysis of the Council's performance in 2018/19. It shows the connections between the information within the financial statements and the achievement of the Council's objectives and strategies.

The Narrative Report focuses on elements that are material to an understanding of the financial position and performance of the Council and is structured as follows:

- Barking and Dagenham – The Place
- Developing a Shared Vision for the Borough- The Borough Manifesto
- Working in Partnership
- The Council
- Performance – Progress on Transformation
- The Council's Financial Strategy
- Risks and Opportunities
- Financial Performance
- Preparation of the financial statements

## Barking and Dagenham – The Place

Barking and Dagenham is at a key moment in its history. London has grown unprecedentedly in the last 20 years and Barking and Dagenham is the next obvious growth point as London continues to move East. The Council's Growth Commission report entitled 'No-one left behind in the pursuit of growth' (2016) confirmed this and the Borough has already started seeing growth accelerate in recent years. The Council has a unique opportunity to ensure growth is inclusive and leads to improved outcomes for residents, where no-one is left behind.

Over the past 15 years, Barking and Dagenham has become one of the fastest changing communities in Britain. Between 2001 and 2017 the population rose from 164,000 to 210,000 and is projected to rise to 275,000 by 2037. Within this overall increase is a picture of rapid movement of people. Between 2012 and 2014 approximately 50,000 new residents made the Borough their

## NARRATIVE REPORT

home and roughly the same number left, meaning that – in line with the average London rate – the turnover was almost a quarter of the total population.

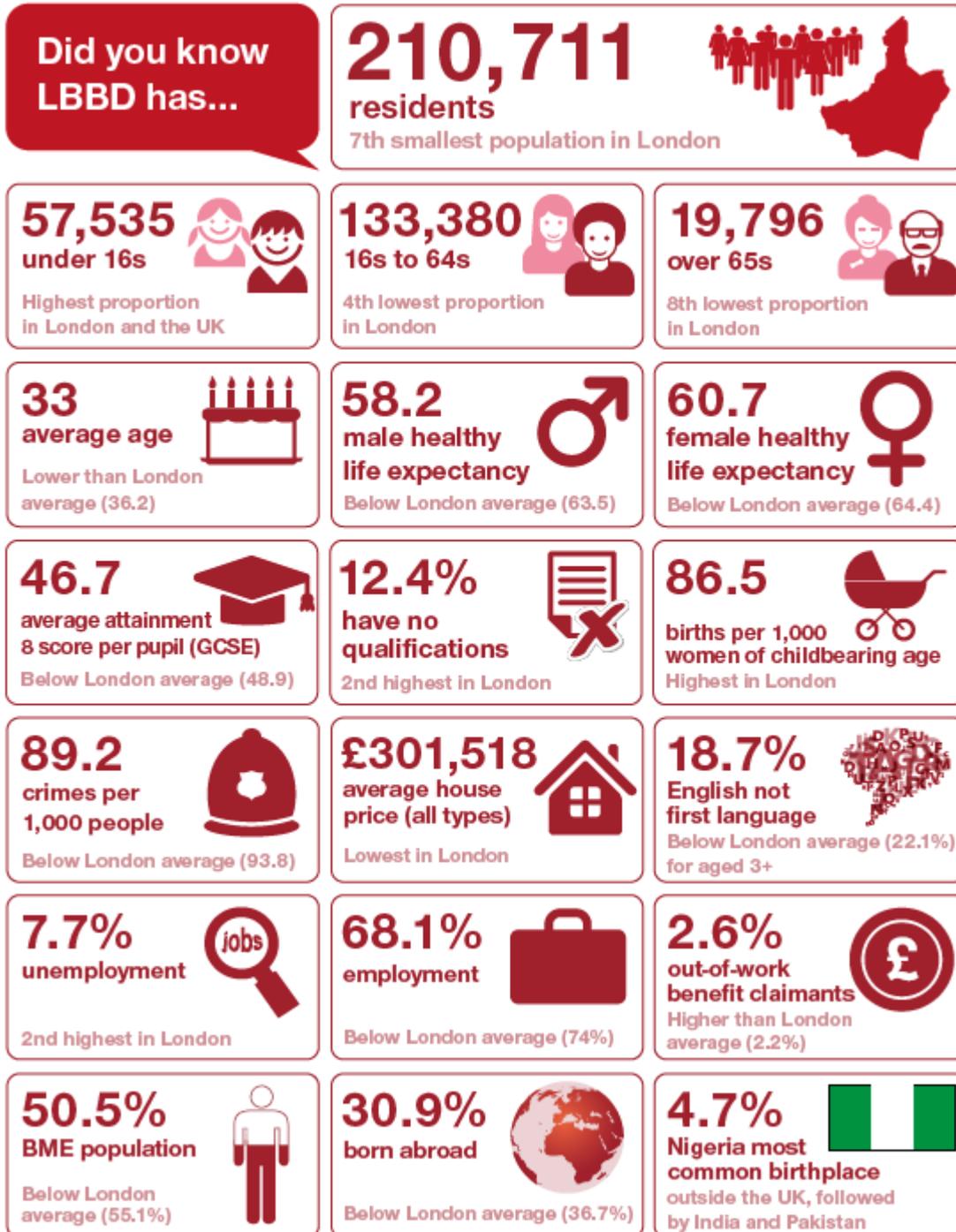
The population is also more diverse than 15 years ago. While the Borough was previously predominantly White British, since 2001 the proportion of the population from minority ethnic backgrounds has increased from 15% to 50%. The population is also very young - the birth rate is the highest in London and we have the highest proportion of 0-16 years in the UK.

The Borough faces great challenges – partly from the rate of change the community is experiencing but also long-standing challenges stemming from the loss of local industries and their associated employment opportunities.

People in our Borough are more likely to die earlier, have poorer health, and lower levels of education and skills, than across London. Too many are insufficiently skilled, too many are in low paid work, and too many struggle to find suitable homes that they can afford. Economic hardship combined with population diversification has challenged community cohesion in Barking and Dagenham.

The increasing mix of population increase, acute deprivation and austerity are increasing demand and putting pressure on the services. Austerity has slashed local government's budgets. Since 2010, Barking and Dagenham Council has made savings of £123m. A further £48m must be saved by 2021 for the Council to stay afloat. Rising demand for services, especially social care, means that local authorities are forced to do more with less. Barking and Dagenham Council took the decision to do things differently and invest in the future of the Borough to fundamentally transform the way services are delivered, adopting a root cause approach to empower residents, increase resilience, appease demand and improve outcomes.

# About the Borough



## Developing a shared vision for the Borough - The Borough Manifesto

In July 2017, Barking and Dagenham Together: The Borough Manifesto was launched. It was borne out of the Growth Commission recommendation to develop a long-term vision for the Borough, outlining how it will grow, prosper and be transformed into a place people are proud to live, work, study and stay. Over 3,000 residents came together to shape this shared, 20-year

vision, which is owned and delivered by stakeholders from the public, private and voluntary sectors through the Barking and Dagenham Delivery Partnership (BDDP).

The manifesto is structured around ten key themes:

- Employment, Skills and Enterprise
- Education
- Regeneration
- Housing
- Health and Social Care
- Community and Cohesion
- Environment
- Crime and Safety
- Fairness
- Arts Culture and Leisure.

The targets set out in the manifesto are ambitious. By 2037 the aim is to ensure that Barking and Dagenham residents have the same opportunities and life chances as others in the capital.

Our progress towards delivering the Borough Manifesto can be viewed in the Borough Data Explorer, along with a wide range of socioeconomic data about the Borough and the community, which can be viewed in this link:

[www.lbbd.gov.uk/boroughdataexplorer](http://www.lbbd.gov.uk/boroughdataexplorer)

To view the Borough Manifesto, visit this link:

[www.lbbd.gov.uk/borough-manifesto](http://www.lbbd.gov.uk/borough-manifesto)

### **Working in partnership**

Delivering the vision set out in the Borough Manifesto requires everyone to play their part. As an enabler and facilitator, the Council's and partners' job is to make the community's vision a reality. There are a number of themed partnership boards which bring partners together to work towards improving the Borough and the lives of residents. These include the Health and Wellbeing Board, Barking and Dagenham Delivery Partnership, and the Community Safety Partnership.

### **The Health and Wellbeing Strategy**

The Joint Health and Wellbeing Strategy 2019-2023 is a partnership strategy, owned by the Health and Wellbeing Board, which sets out our approach to improving the health and wellbeing of the community at every stage of the life course by combating long-standing health inequalities.

The strategy defines our approach across three priority themes decided by the Health and Wellbeing Board and informed by the 2017 Joint Strategic Needs Assessment: giving every resident the best start in life; early diagnosis and intervention; and enabling independence.

### **The Corporate Plan 2018-22**

The Corporate Plan sets out the Council's contribution over the next four years to deliver the Borough Manifesto, consolidating the progress made with the New Kind of Council and achieving real change for residents. The priorities and performance measures we are using to drive progress and improvement link directly to the aspirations, themes and targets of the Manifesto; ensuring that we have a co-ordinated and focused effort.

The Corporate Plan 2018-22 focuses on four key themes and sets out priorities within each theme:

- **A New Kind of Council** – including building a well-run organisation, ensuring relentlessly reliable services and developing place-based partnerships
- **Empowering People** – including enabling greater independence whilst protecting the most vulnerable, strengthening services for all and intervening earlier

## NARRATIVE REPORT

- **Inclusive Growth** – including developing an aspirational and affordable housing offer, shaping great places and strong communities through regeneration and encouraging enterprise and enabling employment.
- **Citizenship and Participation** – including harnessing culture and increasing opportunity, encouraging civic pride and social responsibility and strengthening partnerships, participation and a place-based approach.

Each priority has key accountabilities and key performance indicators that allow for performance to be monitored and are reported to Corporate Performance Group and Cabinet on a quarterly basis. The Corporate Plan forms the top layer of the Council's organisational business planning and informs all subsequent strategies, commissioning mandates and business plans, through to frontline service delivery. Building on the themes, work is currently underway to develop three overarching strategies around Inclusive Growth, People and Resilience, and Participation and Engagement.

### The Council

The Borough consists of 17 wards, each served by three elected Councillors. During 2018/19, all 51 Councillors were from the Labour Party.

The Council operates with a Leader and Cabinet. During 2018/19 there were 10 Cabinet members, including the Leader and two Deputy Leaders.

The Council's management is led by the Strategic Leadership Team, which during 2018/19 comprised:

- The Chief Executive (Head of Paid Service)
- Chief Operating Officer (Section 151 Officer)
- Director of People and Resilience
- Director of Inclusive Growth
- Director of Law and Governance (Monitoring Officer)
- Director of Policy & Participation

Each of these senior officers oversees the strategic management of service areas managed by commissioning directors, operational directors and heads of service. The Council employs 2,368 employees.

Performance against planned activity and budgets is reported quarterly at Corporate Performance Group (made up of the Strategic Leadership Team), and Cabinet, and to the Overview and Scrutiny Committee every six months.

The Council provides services itself, but also through associates and wholly owned companies. The Council has a partnership with Agilysis Ltd, Elevate East London LLP, which provides ICT, Revenues & Benefits, Procurement, and Accounts Payable services for the Council. The Council has a set of subsidiaries.

The Council has made considerable progress in its transformation programme which has significantly changed the way services are delivered. This New Kind of Council (shown below) created a raft of new service blocks and companies to fundamentally change the way we deliver public services and meet the needs of residents. These companies will generate vital revenues, protecting jobs and intervening in private markets that are failing both local workers and the wider community. It will combine the enduring core values of the public sector, with the community involvement and flexibility of the voluntary sector, and the commercial mindedness of the private sector.

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The New Kind of Council will help build resilience and provide residents with the tools to enable them to do more for themselves, enabling greater independence, and increasing the confidence and resilience within the community. It will enable the Council to intervene earlier in the lives of residents supporting them to get back on their feet when faced with adversity. This can help prevent the need for more costly interventions further down the line. It will also facilitate increased participation and engagement encouraging the community to be more active in civic life and have more of a say in decisions that affect them. And it will help deliver relentlessly reliable services that residents expect and deserve.

## Barking and Dagenham council's structure



The new kind of Council comprises a number of service delivery blocks described below:

### Community Solutions

The core of the Council's people-focused services, Community Solutions, identifies and resolves the root causes of an individual's or family's problems, by tackling the multiple needs of households in a joined-up way, and at an early stage. It brings together sixteen services into one – including parts of care and support, homelessness, housing and community safety, creating multi-disciplinary, multi-agency teams that collaborate closely with the voluntary and community sector and other partners to deliver early intervention and preventative support.

## NARRATIVE REPORT

Since going live in April 2018, Community Solutions has seen a number of improvements including an increase in the number of people who have been assisted in avoiding homelessness, reaching over 1,700 residents, an 18% reduction in the number of residents requiring temporary accommodation, helping over 800 residents into work, seeing the lowest levels of families that require support for no recourse to public funds, whilst also achieving over £3million in savings.

### Care and Support

Care and Support services have been developed to meet rising demand in a sustainable way. Care and Support brings together children's and adult social care and the new all-age disability service to provide seamless and continuing support to those who need it, to maximise the choice and control residents have over the services they use, and to safeguard vulnerable children, young people and adults from neglect, abuse and harm.

### Be First

Be First is the Council-owned company with the remit of accelerating the pace and scale of regeneration in the Borough, whilst delivering affordable housing and shaping inclusive, sustainable and healthy communities for the future. It launched in October 2017 and 2018/19 has been a year of significant progress. Be First finished the year in a profitable position and is on track to meet the Council's target of a cumulative £10.3m contribution by 2021 and annually thereafter. In addition to meeting these targets, Be First will deliver long-term revenue to LBBB through rental income, sales receipts and additional Council Tax from the delivery of the building programme. It will also continue to look for and identify new development opportunities, generating further benefits to the Borough.

### Barking & Dagenham School Improvement Partnership

Barking and Dagenham School Improvement Partnership (BDSIP) launched in April 2018. It is a new not-for-profit company jointly owned by local schools and the Council, providing a range of professional support services, both statutory and traded, which were previously delivered by the Council. As a schools-owned and led organisation, BDSIP places school-led improvement and peer support at the heart of the Borough's approach. 93% of the Borough's schools are currently signed up to the partnership.

### My Place

My Place is a new service which manages all of the Council's property, infrastructure and assets, including; Council buildings, schools, care homes, children's centres, housing, roads, parks and land to offer a better service to residents and create a more productive and effective workforce.

### Barking and Dagenham Reside Ltd

Reside is our Council-owned municipal housing company, providing genuinely affordable homes to local working people, catering for those on a range of different incomes. It already lets and manages over 800 affordable, flexible tenure properties, which will rise to around 3,000 by 2023.

### Beam Energy

Beam Energy is the newly established, Council-owned green energy company that offers sustainable heat and power to new housing developments within the Borough and surrounding areas. It was set up as part of the Council's drive to be the "green capital of the Capital" and was launched in January 2019. Several new customers and meter points have signed up so far.

# NARRATIVE REPORT

## Barking and Dagenham Trading Partnership

Barking and Dagenham Trading Partnership (BDTP) a Council-owned company that launched in April 2018. It delivers facilities management and repairs & maintenance services, and catering & cleaning services to the Council, schools and increasingly into the wider market.

## Performance – Progress so far and Covid-19

The 2018/19 year saw the Council make significant progress in achieving its vision. The infographic below sets out some of these key achievements.



The past few months have shown the strength of community within Barking and Dagenham in the way that we have collectively responded to the challenges of the Coronavirus pandemic. In the last few weeks of 2019/20 residents and businesses within the borough were affected as day-to-day life changed leading to a prolonged period of lockdown. The economic effects of the lockdown will continue to be felt by residents and businesses for many months as we look to recover and re-establish the way our community works.

The Council played a key role in the response to the pandemic by supporting the vulnerable within our community and will continue to do so. There are additional, unforeseen cost pressures that the Council faces as a result of the pandemic response. These costs have not had a dramatic impact on the 2019/20 financial outturn as the change in behaviour began in the final two weeks of March 2020 therefore the scale of the impact on the Council's finances will be largely felt during 2020/21.

## The Council's Medium Term Financial Strategy

The proposed budget for 2018/19 was presented and approved by the Council's Assembly in February 2018 as part of its updated Medium Term Financial Strategy.

In line with the Council's vision, the Council has a growth based Financial Strategy which seeks to invest in the Borough's future while making necessary savings to set a balanced budget. The 2018/19 budget therefore included provision for growth of £29m including investment in capital

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infrastructure and land acquisition, the rising costs of Homelessness and Adult Social Care and increasing spend on Waste Services.

Council tax was increased by 2.99% for general expenditure and 3% ringfenced Adult's Social Care precept – this complied with Central Government guidelines.

However, there was an overall decrease in income from grants and local taxation of £6.178m in 2018-19.

Overall the Council is predicting a gap of in the region of £60m during the period 2018-2021 (based on the latest Assembly approved MTFS). This level of savings will not be delivered by small economies or “salami-slicing” and such an approach would risk jeopardising the Council's ambitions for its residents. For this reason a Council wide strategic approach was needed and this led to the adoption of an ambitious Transformation Programme based on full scale service redesign, commercialisation and driving economic growth. This programme expected to deliver £32m of savings during the period 2018-21 leaving a net gap of £15.6m from 2018 to 2021.

In 2020/21 there are several service specific savings which largely are the final stage of the 2017-21 Transformation programme. The largest service saving is the Core Programme. The Council is unwinding its contract with Elevate and a range of services will be transferring back to the Council. At the same time, we are reviewing the services such as Finance, HR and Commissioning provided from the Corporate Centre. We are also considering how we can increase income to the Council and how we can collect debt better

The Council refreshes its Financial Strategy every year in July and again in November/December. This involves re-examining its performance and financial pressures and the expected funding available and setting the strategy to address any funding gaps in the next and subsequent years. This is confirmed by Cabinet and Assembly in February.

### Risks and Opportunities

Despite the ambitious nature of the Transformation programme and the success to date in finding additional savings, pressures still remain in the Medium Term. The MTFS gap is now estimated to be a further £11m (2019 to 2021). Moreover there remain further risks as the future of Local Government funding is still uncertain once the Revenue Support Grant system comes to an end in 2020.

From 2020 local authorities are expected to be 'self-financing', funding services through income from Council Tax, Business Rates, fees & charges and, for Housing Services, through the collection of rents. The Council is currently participating in a London-wide pilot scheme to assess the impact of new arrangements proposed by Government for Councils to be allowed to retain 100% of the Business Rates income they collect.

The MTFS planning process that is in place will continue to address these risks. It is likely however that a further savings programme could be required.

As a Public Body operating within a climate of austerity the Council also faces a broad range of inherent risks. These include:

Area	Issue
Safeguarding	Keeping vulnerable and young persons safe
Housing Strategy	Failure to deliver a coherent strategy could lead to an inability to meet local housing needs, resulting in a lack of affordable housing providing real alternatives to homelessness

## NARRATIVE REPORT

Extra demands caused by demographic pressures	Increased demand for school places and social care services. Housing growth will also drive increased demand for infrastructure and universal services such as waste collection.
Resilience	Budget reductions have resulted in lower staff numbers and lower staffing ratios. A failure to recognise this lower level of resilience or taking actions to mitigate could lead to service failure
Information Assurance	Lack of Information Governance could lead to a range of impacts from developing poorly informed plans to invasion of privacy or release of data resulting in a distrust of information communicated to stakeholders and a correspondingly adverse impact on the Councils reputation.
Asset Management	Failure to maintain proper maintenance procedures and inspections could lead to injury to staff &/or third party's resulting in public inquiries, adverse publicity & possible prosecution under Health & Safety legislation
Community Tensions	Failure to adequately monitor tension risks and to be seen to address concerns and grievances leads to community tensions, personal safety risks for minority populations, and reputational damage for the Council
Budget Delivery	Failure to deliver the approved budget will lead to a lack of resources to fund services and priorities and reduced ability to plan effectively in the medium and long term. Failure to increase value for money results in inconsistent service delivery and non-achievement of objectives and outcomes

### **The Impact of COVID 19**

The response to the CoVid 19 pandemic began around two weeks before the financial year end of 2020/21 and there was relatively little impact on the Council's finances in March 2020. All government funding relating to the situation will fall into the 2020/21 financial year. There is no impact on the reported 2018-19 figures within this document.

In the first quarter of 2020/21 however the Council was subject to both cost increases and lost of income as a result of lockdown. Cost pressures are made up of additional demand for services including some new responsibilities such as Test and Trace, support for those shielding and additional costs of providing services in a COVID safe way.

Income losses have been incurred across the Council with the almost total suspension of a range of normal activities during the period of lockdown. Enforcement has been particularly affected from the reduction in parking, licensing and market income. In addition the Council's leisure centres were closed and return to normal activity is expected to be slow resulting in the loss of the concession income from the managing partner company.

### **Financial Performance in 2018/19 - Revenue**

The final revenue outturn position on approved expenditure budgets is an overspend of £6.162m. This is offset by a £5.797m income surplus making a net variance of £0.365m.

This is the position after carry forward of income and transfers to and from earmarked reserves. Information about the transfers to/from reserves is provided below. Funding the net overspend will require a drawdown on the Council's budget support reserve. However there is sufficient funding in that reserve and so the general fund reserve balance will remain the same at £17m.

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The final outturn on the HRA was a surplus of £1.075m above budget. This has been partially used as a revenue contribution to the capital programme (reducing the requirement to use receipts) and the balance taken to the HRA reserve for use in future years.

### Departmental Variances

DEPARTMENT	BUDGET 18-19	OUTTURN 18-19	RESERVE TRANSFER TO/(FROM)	FINAL OUTTURN
	£'000	£'000	£'000	£'000
SDI COMMISSIONING	8,224	8,204	294	8,498
CORE	6,782	7,876	(436)	7,440
CENTRAL	35,306	23,121	5,664	28,785
EDUCATION, YOUTH & CHILDCARE	2,755	3,757	912	4,669
DEDICATED SCHOOLS GRANT	0	1,856	(1,856)	0
LAW, GOVERNANCE & HR	(1,023)	(2,094)	(526)	(2,620)
HOUSING REVENUE ACCOUNT	0	(995)	995	0
POLICY & PARTICIPATION	2,990	2,595	(93)	2,502
CARE & SUPPORT	68,001	77,725	215	77,940
INCLUSIVE GROWTH	(142)	59	250	309
COMMUNITY SOLUTIONS	9,544	10,820	185	11,005
MY PLACE	6,872	6,493	(275)	6,218
CONTRACTED SERVICES	6,059	6,784	0	6,784
<b>TOTAL</b>	<b>145,368</b>	<b>146,201</b>	<b>5,329</b>	<b>151,530</b>
COUNCIL TAX PRECEPT	(58,521)	(58,521)		(58,521)
BUSINESS RATES	(35,101)	(38,672)		(38,672)
GOVERNMENT GRANTS	(51,746)	(53,972)		(53,972)
<b>TOTAL</b>	<b>(145,368)</b>	<b>(151,165)</b>	<b>0</b>	<b>(151,165)</b>
<b>NET TOTAL</b>	<b>0</b>	<b>(4,964)</b>	<b>5,329</b>	<b>365</b>

### Financial Performance in 2018/19 - Capital Programme

The overall capital programme is £284.758m of which £186.612m is General Fund, £90.352m is HRA and £7.793m is Transformation. The two most significant areas of the capital programme are the provision of school places and housing. This reflects the needs of the Borough in terms of dealing with a high birth rate and high level of migration into the Borough. School expansion schemes are funded by Central Government (via the Education and Skills Funding Agency), and the HRA programme is self-financed by the HRA using a mixture of Government grants, capital receipts and HRA revenue funding. Therefore, they do not pose a pressure on the General Fund, in terms of needing to borrow and servicing the cost of borrowing.

Spend against the total programme is £223.677m. There is slippage on the General Fund capital programme of £29.960m – mostly relating to the Investment Strategy. In general, schemes under

## NARRATIVE REPORT

this strategy are profiled into the earliest possible year in order to ensure that funding is available when required. This avoids unnecessary delays but does create a risk of slippage.

There is an overspend of £6.835m on the Schools Programme largely as a result of accelerated spend on school expansion programmes. Funding can therefore be brought forward from future years to cover this.

The Adult's Care and Support programme has an underspend of £0.550m. This is largely due to the suspension of the Direct Payment Adaptations scheme for new applications while the scheme is reviewed.

Many programmes are underspending at year end. In most cases this will be carried forward and budgets realigned.

Two high profile programmes brought forward from last year: Youthzone and the demountable swimming pool at Beacontree Heath have both been completed this year.

The Capital Programme for the HRA was an outturn of £64.169m expenditure against a budget of £92.382m – slippage of £28.213m.

Capital Expenditure Programme.	Revised Budget £'000	Actual Expenditure £'000	Over / (Under) spend to date £'000
Care & Support	1,805	1,255	(550)
Community Solutions	349	146	(203)
Core	2,652	1,854	(798)
Education, Youth & Childcare	53,572	60,407	6,835
Enforcement	1,314	937	(377)
Culture, Heritage & Recreation	6,261	4,519	(1,742)
Investment & Acquisition Strategy	64,529	40,370	(24,159)
Growth & Homes & Regeneration	43,480	34,013	(9,467)
My Place	6,496	7,662	1,166
Public Realm	935	669	(266)
SDI Commissioning	3,190	2,791	(399)
<b>General Fund</b>	<b>184,583</b>	<b>154,623</b>	<b>(29,960)</b>
<b>Housing Revenue Account</b>	<b>92,382</b>	<b>64,169</b>	<b>(28,213)</b>
Transformation	7,793	4,885	(2,908)
<b>CAPITAL PROGRAMME 2018/19</b>	<b>284,758</b>	<b>223,677</b>	<b>(61,081)</b>

### Financial Performance - Pension Fund

Overall 2018/19 was a positive year for the Fund with an investment return, net of fund manager fees and custodian costs, of 5.2%, although this was 2.7% lower than its benchmark of 7.9%. Over three years the Fund has returned an annualised return of 9.4%, which 0.5% below the Fund's benchmark return of 9.9%.

Equities were the main driver of outperformance, with Baillie Gifford and Kempen providing a good return of 8.8% and 7.9% for the year. Property, passive bonds and Alternatives provided positive returns of between 2.9% and 7.2%. The Fund's credit manager and infrastructure manager were the only strategies that provided negative returns for the year, with credit providing a disappointing return of -4.7% and infrastructure providing a return of -1.9%.

A number of new employers were admitted to the Fund in 2018/19, including B&D Trading Partnership, BD Together, BD Corporate Cleaning, BD SIP, Lewis and Graves and Town and Country. The total number of active employers within the Fund was 33 as at year end.

## **2018/19 Statement of Accounts**

The pages which follow are the Council's Statement of Accounts for 2018/19. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

The financial statements comprise the following:

### **Statement of Responsibilities**

This sets out the respective responsibilities of the Council and the Section 151 Officer in respect of preparation of the Statement of Accounts. For the London Borough of Barking & Dagenham the Section 151 Officer is the Chief Operating Officer.

### **Movement in Reserves Statement**

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 'Unusable Reserves' (e.g. the Capital Adjustment Account; Revaluation Reserve; Pension Reserve).

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council'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 and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The "Net Increase/Decrease before Transfers to or from Earmarked Reserves" line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Council.

### **Comprehensive Income and Expenditure Statement**

This statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards (IFRS), 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. The Statement shows five significant values:

1. Cost of services (gross income and expenditure for each service)

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2. Other operating income and expenditure (including the surplus or deficit from property, plant and equipment sales)
3. Financing and investment income and expenditure
4. Taxation and non-specific grants (revenue from Council Tax, business rates and the Government)
5. Other income and expenditure – values not included elsewhere such as revaluations of property or actuarial gains or losses.

### Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council at the end of the financial year. 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 is '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 includes those that the Council is not able to use to provide services ('Unusable Reserves'). This category 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 & funding basis under regulations".

### Cash Flow Statement

The Cash Flow Statement shows the change in cash and cash equivalents of the Council during the financial year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as:

Operating activities;  
Investing activities; 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 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. Council borrowing).

### Additional Statements

#### Expenditure and Funding Analysis

The requirement to include an Expenditure and Funding Analysis (EFA) was introduced for the first time in financial year 2016/17. Its purpose is to report performance in a similar format used for reporting to management and members throughout the year.

The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to Council Tax (and rent) payers how the funding available to the Council (i.e. Government grants, rents, Council Tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices.

## NARRATIVE REPORT

The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's service portfolios. Income and expenditure accounted for under Generally Accepted Accounting Practices are shown more fully in the Comprehensive Income and Expenditure Statement.

### **The Housing Revenue Account**

This reflects a statutory obligation to separately account for housing provision. It shows the major elements of housing revenue expenditure - maintenance, administration and capital financing costs and how these are met from rents, subsidy and other income. This account is reported using two statements – the Housing Revenue Account Income and Expenditure Statement and the Movement on the Housing Revenue Account Statement.

### **The Collection Fund**

The London Borough of Barking & Dagenham acts as an agent in the collection of Council Tax and Non-Domestic Rates on behalf of other precepting authorities. As such the Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing Council in relation to the collection from taxpayers and ratepayers, and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates.

### **The Pension Fund Accounts**

The Barking & Dagenham Pension Fund is part of the Local Government Pension Scheme and is administered by the London Borough of Barking & Dagenham. The Fund is financed by contributions from members, employers and from interest and dividends on the Fund's investments.

### **The Annual Governance Statement**

This Statement summarises the systems and processes, cultures and values by which this Council is directed and controlled and through which it accounts to, engages with and where appropriate, leads the community. It identifies any gaps or weaknesses and implements responding action plans.

### **Notes to the Accounts**

The notes to the accounts provide additional disclosures in respect of the entries within the main financial statements. They explain the basis of the figures included in the accounts. The accounts can only be properly appreciated if the policies, accounting estimates and judgements, which have been followed in dealing with material items, are explained.

Philip Gregory  
Finance Director (Section 151)  
Barking Town Hall  
Town Hall Square  
1 Clockhouse Ave  
Barking  
IG11 7LU

Email: [Philip.Gregory@lbbd.gov.uk](mailto:Philip.Gregory@lbbd.gov.uk)

# STATEMENT OF RESPONSIBILITIES

## The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer) has responsibility for the administration of those affairs;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

## The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Council's [and the Group's] ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Council [and the Group] will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Council at 31 March 2019 and of its income and expenditure for the year then ended.

Philip Gregory  
Finance Director (Section 151)  
**Date:** XX September 2020

## Independent Auditor's Report to the Members of the London Borough of Barking & Dagenham

### Opinion on the financial statements

We have audited the financial statements of London Borough of Barking & Dagenham ("the Council") and its subsidiaries ("the group") for the year ended 31 March 2019 which comprise the following:

- Council and Group Movement in Reserves Statement;
- Council and Group Comprehensive Income and Expenditure Statement;
- Council and Group Balance Sheets;
- Council and Group Cash Flow Statements;
- Housing Revenue Account Income and Expenditure Statement;
- Movement on the Housing revenue Account Statement;
- Collection Fund Statement;
- and notes to the financial statements including a summary of significant accounting policies.

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

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

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

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

## INDEPENDENT AUDITOR'S REPORT

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

### Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts is consistent with the financial statements.

### Conclusion on use of resources

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, we are satisfied that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

We have nothing to report in respect of the following other matters which the Code of Audit Practice requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;  
or

## INDEPENDENT AUDITOR'S REPORT

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

### **Responsibilities of the Chief Financial Officer and the Council**

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

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

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

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

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

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

### **Auditor's responsibilities in respect of the Council's use of resources**

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criterion specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

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

# INDEPENDENT AUDITOR'S REPORT

## Use of our report

This report is made solely to the members of the London Borough of Barking & Dagenham, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

For and on behalf of BDO LLP, Appointed Auditor  
London, UK

XX September 2020

## EXPENDITURE AND FUNDING ANALYSIS

Net Expenditure Chargeable to the General Fund and HRA Balances	2017/18		Net Expenditure in the Comprehensive Income and Expenditure Statement		2018/19		
	Adjustments between the Funding and Accounting Basis				Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
					£000	£000	£000
10,424	776	<b>11,200</b>	SDI Commissioning		8,204	894	<b>9,098</b>
7,592	6	<b>7,598</b>	Core		9,220	32	<b>9,252</b>
16,630	(33,106)	<b>(16,476)</b>	Central		(315)	32,801	<b>32,486</b>
2,537	9,781	<b>12,318</b>	Education, Youth & Childcare		3,757	16,927	<b>20,684</b>
(1,447)	0	<b>(1,447)</b>	Dedicated Schools Grant (DSG)		1,855	0	<b>1,855</b>
(10,151)	9,857	<b>(294)</b>	Law, Governance & HR		(1,709)	267	<b>(1,442)</b>
(8,620)	(21,123)	<b>(29,743)</b>	Housing Revenue Account (HRA)		(10,435)	(4,824)	<b>(15,259)</b>
2,792	282	<b>3,074</b>	Policy & Participation		2,594	295	<b>2,889</b>
76,998	1,024	<b>78,023</b>	Care & Support		77,726	1,208	<b>78,934</b>
118	241	<b>359</b>	Inclusive Growth		59	112	<b>171</b>
12,174	3,014	<b>15,188</b>	Community Solutions		10,818	3,705	<b>14,523</b>
20,239	1,071	<b>21,310</b>	My Place		11,842	11,327	<b>23,169</b>
9,449	825	<b>10,274</b>	Contracted Services		6,784	392	<b>7,176</b>
<b>138,736</b>	<b>(27,352)</b>	<b>111,383</b>	<b>Net Cost of Services</b>		<b>120,401</b>	<b>63,135</b>	<b>183,536</b>
(8,617)	79,935	<b>71,318</b>	Other Operating Expenditure (Note 5)		12,538	(12,786)	<b>(248)</b>
23,114	9,963	<b>33,077</b>	Financing & Investment Income and Expenditure (Note 6)		13,261	10,541	<b>23,802</b>
(152,878)	(39,017)	<b>(191,895)</b>	Taxation & Non-specific Grant Income and Expenditure (Note 7)		(151,164)	(30,870)	<b>(182,032)</b>
<b>355</b>	<b>23,529</b>	<b>23,883</b>	<b>(Surplus) / Deficit on Provision of Services</b>		<b>(4,964)</b>	<b>30,020</b>	<b>25,058</b>
			Opening General Fund and HRA Balance		<b>90,155</b>		
			Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year		<b>4,964</b>		
			<b>Closing General Fund and HRA Balance at 31 March</b>		<b>95,119</b>		

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated - 2017/18			2018/19		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
31,519	(20,319)	<b>11,200</b>	27,522	(18,424)	<b>9,098</b>
12,056	(4,458)	<b>7,598</b>	11,911	(2,659)	<b>9,252</b>
127,630	(144,600)	<b>(16,970)</b>	165,046	(132,560)	<b>32,486</b>
22,562	(10,244)	<b>12,318</b>	30,742	(10,058)	<b>20,684</b>
266,382	(267,829)	<b>(1,447)</b>	291,599	(289,744)	<b>1,855</b>
10,129	(10,423)	<b>(294)</b>	11,798	(13,240)	<b>(1,442)</b>
79,621	(109,364)	<b>(29,743)</b>	91,388	(106,647)	<b>(15,259)</b>
4,751	(1,677)	<b>3,074</b>	5,495	(2,606)	<b>2,889</b>
109,733	(31,710)	<b>78,023</b>	118,521	(39,587)	<b>78,934</b>
4,676	(4,317)	<b>359</b>	9,527	(9,356)	<b>171</b>
41,513	(26,325)	<b>15,188</b>	43,844	(29,321)	<b>14,523</b>
28,624	(7,314)	<b>21,310</b>	32,954	(9,785)	<b>23,169</b>
11,694	(1,420)	<b>10,274</b>	8,442	(1,266)	<b>7,176</b>
<b>750,889</b>	<b>(639,506)</b>	<b>111,383</b>	<b>848,789</b>	<b>(665,253)</b>	<b>183,536</b>
		<b>71,318</b>			<b>(248)</b>
		<b>33,077</b>			<b>23,802</b>
		<b>(191,895)</b>			<b>(182,032)</b>
		<b>23,883</b>			<b>25,058</b>
		<b>(467,815)</b>			<b>(80,851)</b>
		<b>(26,281)</b>			<b>80,701</b>
		<b>(494,096)</b>			<b>(150)</b>
		<b>(470,212)</b>			<b>24,908</b>

\* Restated – See Note 35 to the Accounts

## MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
<b>Balance at 31 March 2017</b>	70,881	19,629	22,587	74,027	1,000	188,124	1,067,068	1,255,192
<b>Movement in reserves during 2017/18</b>								
Total Comprehensive Income and Expenditure	(62,173)	38,289				(23,884)	494,096	470,212
Adjustments between accounting basis & funding basis under regulations (Note 3)	65,598	(42,068)	8,138	1,787	(687)	32,768	(32,768)	0
<b>Increase/(Decrease) in 2017/18</b>	3,425	(3,779)	8,138	1,787	(687)	8,884	461,328	470,212
Balance at 31 March 2018	74,309	15,849	30,726	75,814	312	197,011	1,528,396	1,725,404
<b>Movement in reserves during 2018/19</b>								
Total Comprehensive Income and Expenditure	(45,165)	20,107				(25,058)	150	(24,908)
Adjustments between accounting basis & funding basis under regulations (Note 3)	49,131	(19,111)	350	(42,741)	(78)	(12,449)	12,449	0
<b>Increase/(Decrease) in 2018/19</b>	3,966	996	350	(42,741)	(78)	(37,507)	12,599	(24,908)
<b>Balance at 31 March 2019</b>	78,275	16,845	31,076	33,073	234	159,504	1,540,995	1,700,499
<b>General Fund analysed over:</b>								
Amounts earmarked (Note 4)	61,244							
Amounts uncommitted	17,031							
<b>Total GF Balance at 31 March 2019</b>	<b>78,275</b>							
<b>Housing Revenue Account analysed over:</b>								
Amounts earmarked (Note 4)		5,546						
Amounts uncommitted		11,299						
<b>Total HRA Balance at 31 March 2019</b>		<b>16,845</b>						

## BALANCE SHEET

31 March 2018 (Restated)	Note	31 March 2019
£'000		£'000
2,559,513	Property, Plant and Equipment * (Note 35) 8	2,755,031
6,622	Heritage Assets	6,689
61,606	Investment Property 10	62,057
6,954	Intangible Assets 9	8,527
273,953	Long Term Debtors & Investments 11	293,081
<u>2,908,648</u>	<b>Long Term Assets</b>	<u>3,125,385</u>
42,000	Short Term Investments 11	63,100
2,784	Assets Held for Sale	2,500
478	Inventories	411
94,397	Short Term Debtors 12	136,692
11,825	Cash and Cash Equivalents 13	15,280
<u>151,484</u>	<b>Current Assets</b>	<u>217,982</u>
(46,000)	Short Term Borrowing 11	(101,000)
(99,079)	Short Term Creditors 14	(83,542)
(406)	Receipts in Advance - Grants	(6,678)
(526)	Provisions 15	0
<u>(146,011)</u>	<b>Current Liabilities</b>	<u>(191,220)</u>
(140,463)	Long Term Creditors 11	(136,567)
0	Receipts in Advance - Long Term Grants	(406)
(9,868)	Long Term Provisions 15	(11,055)
(595,146)	Long Term Borrowing 11	(746,613)
(443,240)	Pensions Liability 30	(557,010)
<u>(1,188,717)</u>	<b>Long Term Liabilities</b>	<u>(1,451,651)</u>
<u>1,725,404</u>	<b>Net Assets</b>	<u>1,700,497</u>
(197,008)	Usable Reserves	(159,504)
(1,528,396)	Unusable Reserves 17	(1,540,993)
<u>(1,725,404)</u>	<b>Total Reserves</b>	<u>(1,700,497)</u>

\* Restated – See Note 35

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

Philip Gregory  
Finance Director (Section 151)  
Date:

## CASH FLOW STATEMENT

2017/18 £000	Note	2018/19 £000
(23,884) Net Surplus or (Deficit) on the Provision of Services		(25,058)
Adjustments to Net Surplus or Deficit on the Provision of Services for		
92,624 Non-cash Movements	18a	78,140
Adjustments for Items Included in the Net (Surplus) or Deficit on the		
(55,711) Provision of Services that are Investing and Financing Activities	18a	(58,122)
<u>13,029</u> <b>Net Cash Flows from Operating Activities</b>		<u>(5,040)</u>
(99,057) Investing Activities	18b	(195,481)
<u>96,046</u> Financing Activities	18c	<u>203,977</u>
<u>10,018</u> <b>Net Increase or Decrease in Cash and Cash Equivalents</b>		<u>3,455</u>
<u>1,807</u> Cash and Cash Equivalents at the beginning of the Reporting Period	11	<u>11,825</u>
<u>11,825</u> <b>Cash and Cash Equivalents at the end of the Reporting Period</b>	11	<u>15,280</u>



# Notes to the Accounts

for the year ended  
31st March 2019

# NOTES TO THE ACCOUNTS

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# NOTES TO THE ACCOUNTS

## 1. Expenditure & Funding Note

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

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement (CIES) amounts	Adjustments for Capital Purposes (Note i)	Net change for the Pensions Adjustments (Note ii)	Other Differences (Note iii)	Total Adjustments
	£000	£000	£000	£000
SDI Commissioning	894			894
Core	32			32
Central	15,297	19,435	(1,931)	32,801
Education, Youth & Childcare	16,927			16,927
Dedicated Schools Grant (DSG)				0
Law, Governance & HR	267			267
Housing Revenue Account (HRA)	(6,253)	1,438	(9)	(4,824)
Policy & Participation	295			295
Care & Support	1,208			1,208
Inclusive Growth	112			112
Community Solutions	3,705			3,705
My Place	11,327			11,327
Contracted Services	392			392
<b>Net Cost of Services</b>	<b>44,202</b>	<b>20,873</b>	<b>(1,940)</b>	<b>63,135</b>
Other Operating Expenditure	(12,786)			(12,786)
Financing and Investment Income and Expenditure	(1,656)	12,196		10,540
Taxation and Non-specific Grant Income and Expenditure	(35,671)		4,801	(30,870)
<b>Difference between General Fund surplus or deficit and CIES Surplus or Deficit on the Provision of Services</b>	<b>(5,911)</b>	<b>33,069</b>	<b>2,861</b>	<b>30,019</b>

## NOTES TO THE ACCOUNTS

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

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement (CIES) amounts	Adjustments for Capital Purposes (Note i)	Net change for the Pensions Adjustments (Note ii)	Other Differences (Note iii)	Total Adjustments
	£000	£000	£000	£000
SDI Commissioning	776			776
Core	6			6
Central	(47,731)	14,625		(33,106)
Education, Youth & Childcare	9,781			9,781
Dedicated Schools Grant (DSG)	0			0
Law, Governance & HR	9,857			9,857
Housing Revenue Account (HRA)	(22,577)	1,454		(21,123)
Policy & Participation	282			282
Care & Support	4,038			4,038
Inclusive Growth	241			241
Community Solutions	0			0
My Place	1,071			1,071
Contracted Services	825			825
<b>Net Cost of Services</b>	<b>(43,431)</b>	<b>16,079</b>	<b>0</b>	<b>(27,352)</b>
Other Operating Expenditure	79,935			79,935
Financing & Investment Income and Expenditure	(2,135)	12,098		9,963
Taxation & Non-specific Grant Income and Expenditure	(36,715)		(2,302)	(39,017)
<b>Difference between General Fund surplus or deficit and CIES Surplus or Deficit on the Provision of Services</b>	<b>(2,346)</b>	<b>28,177</b>	<b>(2,302)</b>	<b>23,529</b>

### Note (i) - Adjustments for Capital Purposes

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

- **Other operating expenditure** - adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** - the statutory charges for capital Financing ie Minimum Revenue Provision and other Revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** - capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivables in the year to those receivables without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### Note (ii) - Net Change for the Pensions Adjustments

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

- For **services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure** - the net interest on the defined benefit liability is charged to the CIES.

### Note (iii) - Other Differences

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

- For **services** this represents a portion of salaries that relate to unused entitlement of accumulated leave on 31 March.
- The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## NOTES TO THE ACCOUNTS

### 2. Expenditure & Income Analysed by Nature

The Council's expenditure and income are analysed as

	2017-18 £000	2018-19 £000
<b>Expenditure</b>		
Employee benefits expenses	326,917	315,237
Other services expenses	450,957	474,336
Depreciation, amortisation, impairment	18,767	88,451
Interest payments	25,859	29,219
Precepts and levies	12,053	12,537
Payments to Housing Capital Receipts pool / Weavers	1,519	2,108
Loss on the disposal of assets	52,410	0
<b>Total expenditure</b>	888,482	921,888
<b>Income</b>		
Fees, charges and other service income	(256,038)	(279,230)
Interest and investment income	(4,995)	(8,879)
Income from council tax and non-domestic rates	(75,431)	(92,388)
Gain on the disposal of assets	0	(14,894)
Government grants and contributions	(528,134)	(501,439)
<b>Total income</b>	(864,598)	(896,830)
<b>Surplus or Deficit on the Provision of Services</b>	23,884	25,058

### 3. Adjustments Between Accounting and Funding Basis

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

#### 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

## NOTES TO THE ACCOUNTS

The authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

### **Capital Receipts Reserve**

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

### **Capital Grants Unapplied**

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

## NOTES TO THE ACCOUNTS

### 3. Adjustments between accounting basis and funding basis under regulations (con't)

2018/19	Usable Reserves				
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000
<b>Adjustments to the Revenue Reserve</b>					
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>					
- Pension costs (transferred to/from the Pensions Reserve)	(30,389)	(2,680)			
- Council tax and NDR (transfers to/from Collection Fund Adjustment Account)	(4,801)				
- Holiday pay (transferred to the Accumulated Absences Reserve)	1,931	9			
- Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	(30,270)	(41,358)			(35,672)
<b>Total</b>	<b>(63,529)</b>	<b>(44,029)</b>			<b>(35,672)</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	2,228	29,685	(31,913)		
Payments to the government housing receipts pool	(1,299)		1,299		
Payments to Weavers	(810)		810		
Posting of HRA resources from revenue to the Major Repairs Reserve		33,456		(33,456)	
Statutory provision for the repayment of debt	10,298				
Capital expenditure financed from revenue balances	3,980				
<b>Total</b>	<b>14,398</b>	<b>63,141</b>	<b>(29,805)</b>	<b>(33,456)</b>	
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts Reserve to finance capital expenditure			29,455		
Use of the Major Repairs Reserve to finance capital expenditure				33,534	
Application of capital grants to finance capital expenditure					78,413
<b>Total</b>			<b>29,455</b>	<b>33,534</b>	<b>78,413</b>
<b>Total Adjustments</b>	<b>(49,131)</b>	<b>19,112</b>	<b>(350)</b>	<b>78</b>	<b>42,741</b>

## NOTES TO THE ACCOUNTS

### 3. Adjustments between accounting basis and funding basis under regulations (con't)

2017/18	Usable Reserves				
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000
<b>Adjustments to the Revenue Reserve</b>					
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>					
- Pension costs (transferred to/from the Pensions Reserve)	28,177				
- Council tax and NDR (transfers to/from Collection Fund Adjustment Account)	2,302				
- Holiday pay (transferred to the Accumulated Absences Reserve)	1,793				
- Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	(102,542)	(37,002)			(38,723)
<b>Total</b>	<b>(70,270)</b>	<b>(37,002)</b>	<b>0</b>	<b>0</b>	<b>(38,723)</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	1,533	37,432	(38,965)		
Payments to the government housing receipts pool	(1,519)		1,519		
Payments to Weavers	(5,336)		5,336		
Posting of HRA resources from revenue to the Major Repairs Reserve		(46,226)		(46,226)	
Statutory provision for the repayment of debt	9,482	588			
Capital expenditure financed from revenue balances	512	3140			
<b>Total</b>	<b>4,672</b>	<b>(5,066)</b>	<b>(32,110)</b>	<b>(46,226)</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts Reserve to finance capital expenditure			23,972		
Use of the Major Repairs Reserve to finance capital expenditure				45,539	
Application of capital grants to finance capital expenditure					36,936
<b>Total</b>	<b>0</b>	<b>0</b>	<b>23,972</b>	<b>45,539</b>	<b>36,936</b>
<b>Total Adjustments</b>	<b>(65,598)</b>	<b>(42,068)</b>	<b>(8,138)</b>	<b>(687)</b>	<b>(1,787)</b>

## NOTES TO THE ACCOUNTS

### 4. Transfers to / (from) Earmarked Reserves

This note sets out the amounts set aside from the General Fund (GF) and Housing Revenue Account (HRA) balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet GF and HRA expenditure in 2018/19.

	Balance at 31/03/2017 £000	Transfers in £000	Transfers out £000	Balance at 31/03/2018 £000	Transfers in £000	Transfers out £000	Balance at 31/03/2019 £000
<b>General Fund</b>							
Balances held by schools under a scheme of delegation:							
- Local Management of Schools	9,154	15,282	(15,537)	8,899	-	(2,957)	5,942
- Dedicated Schools Grant	3,674	1,702	-	5,376	1,173	(72)	6,477
PFI reserve	10,623	1,344	-	11,967	661	-	12,628
Departmental Reserves	2,748	726	-	3,474	235	(2,527)	1,182
Budget Support	11,199	1,426	-	12,625	6,308	(8,768)	10,165
Corporate Restructuring	2,006	735	(2,006)	735	-	-	735
Collection Fund Equalisation Reserve	1,581	-	(435)	1,146	3,403	(1,044)	3,505
Other Miscellaneous	905	92	(365)	590	5,578	(40)	6,128
Insurance	1,639	-	-	1,639	-	-	1,639
Capital Investment Reserve	3,575	-	-	3,575	-	-	3,575
Public Health	161	72	-	233	330	-	563
Legal Trading Reserve	1,015	-	(200)	815	-	-	815
LEP Housing Rental Reserve	1,394	-	(528)	866	-	(662)	204
Elections Reserve	223	-	-	223	180	(106)	297
VAT Market Repayment	211	39	(78)	172	-	(4)	168
Council's Entities	1,444	1,205	-	2,691	662	(2,580)	773
Investment Reserve	-	-	-	-	4,333	-	4,333
Education, Youth and Childcare	-	1,250	-	1,250	890	(1,239)	901
Corporate Infrastructure	-	1,000	-	1,000	214	-	1,214
<b>Total General Fund</b>	<b>51,552</b>	<b>24,873</b>	<b>(19,149)</b>	<b>57,276</b>	<b>23,966</b>	<b>(19,998)</b>	<b>61,244</b>
<b>HRA</b>							
Leasehold Repairs	8,972	-	(3,779)	5,193	353	-	5,546
<b>Total HRA</b>	<b>8,972</b>	<b>-</b>	<b>(3,779)</b>	<b>5,193</b>	<b>353</b>	<b>-</b>	<b>5,546</b>

## NOTES TO THE ACCOUNTS

### 5. Other Operating Expenditure

	2017/18	2018/19
	£000	£000
Levies	12,053	12,537
Payments to the Government Housing Capital Receipts Pool	1,519	1,299
Payments to B&D Reside Weavers LLP	5,336	810
(Gains)/losses on the disposal of non-current assets	52,410	(14,894)
<b>Total</b>	71,318	(248)

### 6. Financing and Investment Income and Expenditure

	2017/18	2018/19
	£000	£000
Interest payable and similar charges	25,066	29,219
Net interest on the net defined benefit liability	13,268	12,196
Interest receivable and similar income	(3,790)	(8,880)
Income and expenditure in relation to investment properties	(2,510)	(6,642)
Changes in fair value of investment properties	2,135	(1,707)
(Gains)/Losses on Trading Accounts	(1,091)	(384)
<b>Total</b>	33,078	23,802

### 7. Taxation and Non-Specific Grant Income

	2017/18	2018/19
	£000	£000
Council Tax income & Retained Business Rates	(76,721)	(92,389)
Non-ring fenced Government Grants	(74,786)	(53,972)
Capital Grants & Contributions	(40,388)	(35,671)
<b>Total</b>	(191,895)	(182,032)

### 8. Property, Plant and Equipment

The movements in the Council's Property, Plant and Equipment for the year 2018/19 are set out in the table below. Estimated asset lives and depreciation rates are set out in the Accounting Policies.

The Council revalues its Property, Plant and Equipment on a five year basis (20% each of the last five years of the programme and an impairment review at the end of the financial year) using its valuers, Wilks, Head & Eve.

The Council's social housing stock has been valued in line with the Ministry of Housing, Communities and Local Government's (MHCLG, formerly DCLG) "Stock Valuation for Resource Accounting Guidance for Valuers" which is based on the Existing Use Value for Social Housing (EUV-SH). This methodology is a departure from International Accounting Standards but is in accordance with current CIPFA and Treasury guidance.

## NOTES TO THE ACCOUNTS

2018/19

	Council Dwellings £000	Other Land & Buildings £000	Vehicles Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Asset £000	Total PPE £000	PFI Included in PPE £000
<b>Cost or Valuation at 1 April 2018</b>	<b>1,156,867</b>	<b>1,196,666</b>	<b>33,121</b>	<b>193,744</b>	<b>10,586</b>	<b>55,874</b>	<b>31,247</b>	<b>2,678,105</b>	<b>152,434</b>
Additions	57,659	23,920	3,461	9,369	3,595	120,272		218,276	1,538
Revaluations recognised in the Revaluation Reserve	49,771	(81,817)			85,995			53,949	
Revaluations recognised in the Provision of Services	(26,551)	(29,525)			7,223		(884)	(49,737)	(13,131)
De-recognition due to disposals	(14,155)	(1,003)	(1,513)					(16,671)	
Reclassifications to other assets	29,403	20,199	1,163		2,546	(54,817)	1,789	283	
<b>Cost or Valuation at 31 March 2019</b>	<b>1,252,994</b>	<b>1,128,440</b>	<b>36,232</b>	<b>203,113</b>	<b>109,945</b>	<b>121,329</b>	<b>32,152</b>	<b>2,884,205</b>	<b>140,841</b>
<b>Accumulated Depreciation at 1 April 2018</b>	<b>-</b>	<b>(3,071)</b>	<b>(28,932)</b>	<b>(86,587)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(118,590)</b>	<b>-</b>
Depreciation charge	(15,933)	(20,038)	(1,724)	(10,061)				(47,756)	(2,955)
Depreciation written out to the Provision of Services	7,455	1,909						9,364	2,955
Depreciation written out to the Revaluation Reserve	8,478	18,422						26,900	
Reclassifications to other assets								-	
De-recognition due to disposals			908					908	
	-	(2,778)	(29,748)	(96,648)	-	-	-	(129,174)	-
<b>Accumulated Depreciation at 31 March 2019</b>	<b>-</b>	<b>(2,778)</b>	<b>(29,748)</b>	<b>(96,648)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(129,174)</b>	<b>-</b>
<b>Net Book Value at: 31 March 2019</b>	<b>1,252,994</b>	<b>1,125,662</b>	<b>6,484</b>	<b>106,465</b>	<b>109,945</b>	<b>121,329</b>	<b>32,152</b>	<b>2,755,031</b>	<b>140,841</b>

## NOTES TO THE ACCOUNTS

2017/18

	Council Dwellings £000	Other Land & Buildings £000	Vehicles Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Asset: £000	Total PPE £000	PFI Included in PPE £000
<b>Cost or Valuation at 1 April 2017</b>	<b>1,090,821</b>	<b>737,341</b>	<b>32,486</b>	<b>180,488</b>	<b>10,597</b>	<b>98,396</b>	<b>1,860</b>	<b>2,151,989</b>	<b>49,166</b>
Additions	69,218	20,202	635	13,256	133	52,379	9,407	<b>165,230</b>	397
Donations	-							-	
Revaluations recognised in the Revaluation Reserve	(2,842)	436,726			(7)		2,974	<b>436,851</b>	55,157
Revaluations recognised in the Provision of Services	(5,927)	33,614			(137)		(3,721)	<b>23,830</b>	47,714
De-recognition due to disposals	(16,762)	(85,032)						<b>(101,794)</b>	
Transfer to subsidiary								-	
Reclassifications to other assets	22,359	53,815				(94,901)	20,727	<b>2,000</b>	
<b>Cost or Valuation at 31 March 2018</b>	<b>1,156,868</b>	<b>1,196,666</b>	<b>33,121</b>	<b>193,744</b>	<b>10,586</b>	<b>55,874</b>	<b>31,247</b>	<b>2,678,105</b>	<b>152,434</b>
<b>Accumulated Depreciation at 1 April 2017</b>	-	<b>(6,041)</b>	<b>(26,386)</b>	<b>(77,189)</b>	-	-	-	<b>(109,616)</b>	-
Depreciation charge	(14,997)	(14,142)	(2,548)	(9,399)				<b>(41,086)</b>	(1,002)
Depreciation written out to the Provision of Services	5,130	3,777					86	<b>8,993</b>	1,002
Depreciation written out to the Revaluation Reserve	9,867	13,249						<b>23,116</b>	
Reclassifications to other assets		86					(86)		
De-recognition due to disposals								-	
<b>Accumulated Depreciation at 31 March 2018</b>	<b>(0)</b>	<b>(3,071)</b>	<b>(28,934)</b>	<b>(86,588)</b>	-	-	<b>(0)</b>	<b>(118,593)</b>	-
<b>Net Book Value at: 31 March 2018</b>	<b>1,156,867</b>	<b>1,193,595</b>	<b>4,187</b>	<b>107,156</b>	<b>10,586</b>	<b>55,874</b>	<b>31,247</b>	<b>2,559,512</b>	<b>152,434</b>

# NOTES TO THE ACCOUNTS

## Property Plant and Equipment (PPE) (continued)

At 31 March 2019 the Council had entered into the following contracts amounting to £67.0m (2017/18 £111.3m) for the construction or enhancement of its Property, Plant and Equipment in 2019/20 and future years. The major contractual commitments are:

	<b>£000</b>
<b><u>Education, Youth and Childcare</u></b>	
Lymington Fields School 2016	15,080
New Gascoigne Secondary School	6,745
Roding Fire	1,678
	<b>23,503</b>
<b><u>Investment Strategy</u></b>	
Purchase of Welbeck Wharf	17,755
Becontree Heath New Build	9,793
Land Acquisitions 2017-19	1,514
Gascoigne East Ph2	943
	<b>30,005</b>
<b><u>Regeneration</u></b>	
Gascoigne West (Housing Zone)	1,121
Sebastian Court - Redevelop	745
	<b>1,866</b>
<b><u>Housing</u></b>	
Modular programme 2016-18	5,192
Fire safety improvement works	2,056
Central Heating	895
Decent Homes (North) 2015-16	933
Gascoigne East	1,383
External Fabric – Blocks	1,223
	<b>11,684</b>
<b>TOTAL</b>	<b>67,057</b>

The valuations per asset category in each year of the rolling programme are shown below:

	Council Dwellings £000	Other Land & Buildings £000	Vehicles Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Assets £000	Total PPE £000
Valued at Historic Cost	0	1,156	6,484	106,465	5,304	121,329	0	<b>240,738</b>
Valued at current value in:								
2018/19	1,252,994	1,066,812	0	0	104,641	0	32,152	<b>2,456,599</b>
2017/18	0	19,324	0	0	0	0	0	<b>19,324</b>
2016/17	0	8,568	0	0	0	0	0	<b>8,568</b>
2015/16	0	12,662	0	0	0	0	0	<b>12,662</b>
2014/15	0	17,140	0	0	0	0	0	<b>17,140</b>
	1,252,994	1,125,662	6,484	106,465	109,945	121,329	32,152	<b>2,755,031</b>

## 9. Intangible Assets

	2017/18	2018/19
<b>Balance at Start of the Year</b>		
	Gross Carrying Amount	11,041
	Accumulated Amortisation	(4,320)
Net Carrying Amount at the Start of the Year	6,721	6,954
Additions	2,186	3,668
Amortisation for the period	(1,954)	(2,095)
Net Carrying Amount at the End of the Year	233	1,573
<b>Closing Net Book Value</b>	<b>6,954</b>	<b>8,527</b>

## NOTES TO THE ACCOUNTS

### 10. Investment Properties

Investment Properties are assets owned by the Council and are held solely to earn rentals or for capital appreciation or both. The following items of income and expense have been accounted for in the Comprehensive Income and Expenditure Statement:

	2017/18	2018/19
	£000	£000
Rental income from investment property	5,352	7,183
Direct operating expenses arising from investment property	(2,842)	(541)
<b>Net gain</b>	2,510	6,642

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.

Investment properties are shown at fair value at the balance sheet date and are subject to revaluation annually and any changes in valuation are reflected in the fair value of assets.

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

	2017/18	2018/19
	£000	£000
Balance at start of the year	65,673	61,606
Additions	69	0
Disposals	0	(1,256)
Reclassifications	(2,000)	0
Net gains/(losses) from fair value adjustments/revaluations	(2,135)	1,707
<b>Balance at end of the year</b>	61,606	62,057

### Fair Value Hierarchy

All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes (See Accounting Policy for an explanation of the fair value levels).

### Valuation Techniques Used to Determine Level 2 Fair Values for Investment Property

The fair value of investment property has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's Investment Asset portfolio.

Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised as level 2 on the fair value hierarchy.

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

### Highest and Best Use

In estimating the fair value of the Council's investment properties, they are valued at the higher of current use and potential alternative use (if different to current use).

## NOTES TO THE ACCOUNTS

### Valuation Process for Investment Properties

The Council's investment properties have been valued by Wilks, Head & Eve in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

### 11. Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

Long Term	Short Term		Long Term	Short Term
2017/18	2017/18		2018/19	2018/19
£000	£000		£000	£000
<b>Financial Assets at Amortised Cost</b>				
199,309	42,000	<b>Investments</b>	215,741	63,100
-	10,593	<b>Cash and Cash Equivalents (see Note 13)</b>	-	15,280
<b>Debtors</b>				
74,644	92,563	Debtors as per Balance Sheet (see Note 12)*	77,340	134,465
	1,834	Accrued Interest Receivable		2,227
<b>Total Debtors</b>				
-	(37,452)	Adjustments for statutory debtors - not qualifying as financial assets at amortised cost	-	(65,984)
74,644	56,945	<b>Total debtors qualifying as Financial Assets at Amortised Cost</b>	77,340	70,708
<b>273,953</b>	<b>109,538</b>	<b>Total Financial Assets</b>	<b>293,081</b>	<b>149,088</b>
<b>Financial Liabilities at Amortised Cost*</b>				
595,146	46,000	<b>Borrowings</b>	746,613	101,000
<b>Creditors</b>				
130,527	3,053	PFI and finance lease liabilities*	136,567	2,274
-	92,627	Creditors as per Balance Sheet (See Note 14)	-	76,820
	3,407	Accrued Interest Payable		4,448
-	(24,081)	Adjustments for statutory short term creditors (not qualifying)	-	(24,645)
130,527	75,006	<b>Total creditors qualifying as financial liabilities at amortised cost</b>	136,567	58,897
725,673	121,006	<b>Total Financial Liabilities</b>	<b>883,180</b>	<b>159,897</b>

\* Financial Liabilities at Amortised Costs were previously classified as Loans and Receivables. This change did not lead to any further reclassification of the Council's financial assets or liabilities

**Note** - Assets arising purely from statutory provisions such as Council Tax, NNDR and general rates are exempt from the definition of financial assets, which requires a contractual basis.

## NOTES TO THE ACCOUNTS

The following shows an analysis of borrowing by type of debt:

Long Term 2017/18 £000	Current 2017/18 £000		Long Term 2018/19 £000	Current 2018/19 £000
		<b>Borrowings</b>		
445,477		PWLB	601,508	
30,000		LOBO's	30,000	
119,669		Other market debt	115,104	
	46,000	Short Term Loans		101,000
595,146	46,000	<b>Total</b>	746,612	101,000

## NOTES TO THE ACCOUNTS

### Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2017/18			2018/19		
Financial Liabilities measured at amortised cost	Assets and Liabilities at Fair Value through Profit and Loss	Total	Financial Liabilities measured at amortised cost	Assets and Liabilities at Fair Value through Profit and Loss	Total
£000	£000	£000	£000	£000	£000
(25,859)	0	(25,859)	(29,219)	0	(29,219)
0	0	0	0	0	0
0	(30)	(30)	0	(145)	(145)
0	4,120	4,120	0	8,879	8,879
<hr/>					
(25,859)	4,090	(21,769)	(29,219)	8,734	(20,485)
<hr/>					

\* Interest Income and Expenditure include HRA

\*\* Fee Expense includes brokerage costs for longer term loans

## NOTES TO THE ACCOUNTS

### Fair Value of Assets and liabilities carried at Amortised Cost

Financial liabilities, financial assets, long-term debtors and creditors are carried in 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:

- estimated ranges of interest rates at 31 March 2019 of 1.48% to 2.23% for loans from the PWLB
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The Council has a continuing ability to borrow at a concessionary rate from the PWLB rather than from the markets, termed the PWLB certainty rate (NL rate). The Fair Value calculations in the table below are based on the NL Rate.

The fair values calculated are as follows:

31 March 2018			31 March 2019	
Carrying Amount	Fair Value based on New Loan Rate		Carrying Amount £000's	Fair Value based on New Loan Rate
£000's	£000's	Financial Assets	£000's	£000's
241,310	241,524	- Investments	278,841	280,927
10,593	10,593	- Cash & Cash Equivalents	15,280	15,280
71,238	71,238	Long-term debtors	77,340	77,340
91,637	91,637	ST Debtors (excluding Interest Receivable)	68,481	68,481
1,834	1,834	Interest Receivable Accrual	2,227	2,227
416,612	416,826	<b>Total</b>	442,169	444,255
£000's	£000's	Financial Liabilities	£000's	£000's
445,478	523,376	- PWLB	601,508	693,036
149,669	167,261	- Market Loans	145,104	164,556
46,000	46,000	- Temporary Loans	101,000	100,508
133,579	163,544	PFI & Finance Lease (*)	138,841	160,944
92,627	92,627	ST Creditors (excluding Interest Payable)	52,175	52,175
3,407	3,407	Interest Payable Accrual	4,448	4,448
870,760	996,215	<b>Total</b>	1,043,076	1,175,667

(\*) – The Fair Value of the PFI has been restated for the prior year comparator (31<sup>st</sup> March 2018). Please see Note 35 for further information.

The rates quoted in the above valuation were obtained by the Council's treasury management consultants, Link Asset Services, from the market on 31 March 2019 using bid prices where applicable. The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates.

## NOTES TO THE ACCOUNTS

The valuation basis adopted for Fair Value calculation uses Level 2 inputs, which are inputs other than quoted prices that are observable for the financial asset / liability.

### Nature and Extent of Risks Arising for Financial Instruments

The Council's activities expose it to a variety of financial risks:

**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 commitments 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; and

**Market risk** – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

### Overall Procedures for Managing Risk in Financial Markets

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

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice;  
- By the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;  
- By approving annually in advance prudential and treasury indicators for the following three years limiting the Council's overall borrowing:

- its maximum and minimum exposures to fixed and variable rates;
- its maximum and minimum exposures to the maturity structure of its debt;
- its maximum annual exposures to investments maturing beyond a year; and
- 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 budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The Annual Treasury Management Strategy which incorporates the prudential indicators and the Investment Strategy was approved by the Assembly and is available on the Council website.

The key issues within the strategy were:

- the revised authorised borrowing limit (GF and HRA) of £1.102bn for 2018/19, which includes £266m for the HRA self-financing debt settlement; and  
- to approve the annual investment strategy and creditworthiness policy for 2018/19 outlining the investments that the Council may use for the prudent management of its investment balances

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies, Treasury Management Practices (TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's credit ratings and CDS data which it receives from its advisers Link Asset Services as a basis for assessing credit risk as well as other market information. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after these initial criteria and full details of the Investment Strategy can be found on the Council's website.

The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. Sector does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

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

In the past five years the Council has not experienced any exposure to credit risk, based on the levels of default assessed by the ratings agencies and its advisors. The Council does not allow credit for its trade debtors further reducing its exposure to credit risk and has not experienced any defaults in the last five years on its investments.

The carrying value of the exposure by financial instrument is summarised below:

## NOTES TO THE ACCOUNTS

	Criteria	Amount Invested at 31 March 2019 £000
Deposits with Banks	A' rated	99,718
Deposits with Building Societies	A' rated	0
Deposits with Money Market Funds	AAA' rated	0
UK Government Risk	Local Authority	181,302
Commercial Loans	See Below	76,670
<b>Total Investments</b>		<b>357,690</b>

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from the non-performance by any of its counterparties in relation to deposits.

During the year the Council did not give or receive any collateral as security for a financial instrument.

The Council generally requires trade debtors to be settled within 30 days; the aged debtor analysis of unpaid invoices issued through the accounts receivable system is as follows:

### Trade and Other Receivables

At 31 March 2019, the lifetime Expected Loss Provision (ECL) for trade receivables is as follows:

	Current	More than 30 days past due date	More than 60 days past due date	More than 90 days past due date	Total
	£000	£000	£000	£000	£000
Expected loss rate	1%	3%	10%	50%	
Gross carrying Amount	29,543	1,227	694	6,723	38,186
Loss Provision	295	37	69	3,361	3,763

At 31 March 2018 the lifetime Expected Loss Provision (ECL) for trade receivables is as follows:

	Current	More than 30 days past due date	More than 60 days past due date	More than 90 days past due date	Total
	£000	£000	£000	£000	£000
Expected loss rate	1%	3%	10%	50%	
Gross carrying Amount	18,346	3,030	945	5,138	27,459
Loss Provision	183	91	95	2,569	2,938

### Amounts Arising from ECL for Investments and Loans

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

## NOTES TO THE ACCOUNTS

Under the general approach used in IFRS9, a financial asset is in one of three stages in order to determine both the amount of ECL to recognise as well as how interest income should be recognised.

**Stage 1** is where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, entities are required to recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.

**Stage 2** is where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2 entities are required to recognise lifetime ECL but interest income will continue to be recognised on a gross basis.

**Stage 3** is where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event under the IAS 39 model. For financial assets in stage 3, entities will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. This means that interest income will be calculated based on the gross carrying amount of the financial asset less ECL. The table below summarises the general approach.

There are currently 10 loans totalling £76.6m. The loans are predominantly loans to Reside and these are secured against a number of properties held with Reside. In addition another of the loans is for the purchase of LEUK and is secured against the land the company owns. The Authority undertook due diligence on the credit quality of these third parties during the awarding of the loans and there is no indication of credit impairment or default at the time these accounts were finalised. During 2018/19 none of the counterparties experienced any financial problems. £150k in loss allowance based on the 12 month ECL basis. The changes in loss allowance for investments at amortised cost during the year are as follows, with all loans currently in stage 1:

### Loss allowance by Asset Class

Investments and Loans at amortised	12mth Expected Credit
<b>Opening balance as at 1 April 2018</b>	-
	<b>£000s</b>
Individual financial assets transferred to 12mth ECL (stage 1)	151
Amounts written off	-
Changes in models/risk parameters	-
<b>As at 31 March 2019</b>	<b>151</b>

### Liquidity Risk

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 a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures 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.

## Refinancing and Maturity Risk

The Council maintains a significant 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 the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets. The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

	Actual 31-Mar-18	Actual 31-Mar-19
	£000	£000
Less than one year	46,000	<b>101,000</b>
Between 1 and 2 years		<b>14,000</b>
Between 2 and 5 years	19,000	
Between 5 and 10 years		
More than 10 years	576,146	<b>732,613</b>
<b>Total</b>	641,146	<b>847,613</b>

The maturity analysis of all financial assets, including trade payables and receivables, held by the Council is under one year.

## Market Risk

### Interest Rate Risk

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

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus of Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate

## NOTES TO THE ACCOUNTS

borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable. According to this assessment strategy, at 31 March 2019 if interest rates had been 1% higher with all other variables held constant, the financial effect for 2018/19 would be:

<b>Interest Rate Risk – 1% Increase</b>	<b>£000</b>
Increase in interest payable on variable rate borrowings*	-
Increase in interest receivable on variable rate investments	<u>2,315</u>
Impact on Surplus or Deficit on the Provision of Services	<u><u>2,315</u></u>
 <b>Interest Rate Risk – 1% Decrease</b>	 <b>£000</b>
Decrease in interest payable on variable rate borrowings*	-
Decrease in interest receivable on variable rate investments	<u>2,243</u>
Impact on Surplus or Deficit on the Provision of Services	<u><u>2,243</u></u>

\*The Council did not hold any variable rate borrowings as at 31 March 2019 and therefore the effect of an increase or decrease in the rate would be nil.

### Price Risk

Excluding the Pension Fund, the Council does not generally hold equity shares. As at 31 March 2019 the Council did not hold any Certificates of Deposit.

### Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

## NOTES TO THE ACCOUNTS

### 12. Debtors

	2017/18	2018/19
	£000	£000
Central Government Bodies	1,712	3,660
Other Local Authorities	2,626	2,291
NHS Bodies	49	388
Housing Benefits Overpayments (net of BDP)	6,868	6,656
Housing Rents (net of BDP)	1,208	2,594
Leaseholder Service Charge	1,149	3,587
Payments in Advance	22,346	40,439
Court Costs	4,030	4,438
VAT	13,272	16,092
Other Entities and Individuals	41,137	56,547
<b>Total</b>	94,397	136,692

### 13. Cash and Cash Equivalents

	2017/18	2018/19
	£000	£000
Cash held by the Authority	77	25
Bank current accounts	10,280	8,075
Deposits at Call	1,468	7,180
<b>Total</b>	11,825	15,280

The Cash and Cash Equivalent 2018/19 balance includes a forecasted amount for Q4 in relation to schools due to the timing of producing the financial statements. The total amount of Schools Cash balance for 2018/19 was £8,941k (2017/18: £11,230k).

### 14. Creditors

	2017/18	2018/19
	£000	£000
Central Government Bodies	(12,558)	(9,949)
Other Local Authorities	(4,209)	(4,774)
NHS Bodies	(1,298)	(1,709)
Other Entities and Individuals	(81,014)	(67,110)
<b>Total</b>	(99,079)	(83,542)

## NOTES TO THE ACCOUNTS

### 15. Provisions

	Balance at 1 April 2018 £000	Amount used or reversed £000	Provisions made during year £000	Balance at 31 March 2019 £000
Insurance	(5,422)	4,427	(4,096)	<b>(5,091)</b>
Redundancy	(526)	1,091	(565)	<b>0</b>
NDR Appeals	(3,456)	5,533	(8,041)	<b>(5,964)</b>
Other	(990)	990		<b>0</b>
<b>Total</b>	<b>(10,394)</b>	<b>12,041</b>	<b>(12,702)</b>	<b>(11,055)</b>

### Insurance Claims

Provision is made for those claims where it is deemed probable that the Council will have to make a settlement, based on past experience of court decisions about liability and the amount of damages payable. The Council may be reimbursed by its insurers, but until claims are actually settled no income is recognised as the insurers will only reimburse amounts above a £150,000 excess.

### Business Rates Appeals

The amount provided for business rates appeals (Council's share) is £5,964k. The provision is based on data and trends that reflect local circumstances. This is made to meet the estimated costs repayable to ratepayers as a result of reductions in rateable values following successful appeals against valuation.

### 16. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

### 17. Unusable Reserves

2017/18 £000	Unusable Reserves	2018/19 £000
960,043	Revaluation Reserve	<b>1,034,265</b>
1,008,453	Capital Adjustment Account	<b>1,063,461</b>
(443,240)	Pensions Reserve	<b>(557,010)</b>
6,556	Collection Fund Adjustment Account	<b>1,754</b>
(3,417)	Accumulated Absences Account	<b>(1,477)</b>
0	Financial Instruments Adjustment Account	<b>0</b>
<u>1,528,395</u>	<b>Total</b>	<u><b>1,540,993</b></u>

The breakdowns of materially significant reserves are provided below.

### 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:

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

## NOTES TO THE ACCOUNTS

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

2017/18 £000	Revaluation Reserve	2018/19 £000
526,513	<b>Balance at 1 April 2018</b>	<b>960,043</b>
495,538	Upward revaluation of assets	<b>210,399</b>
(33,117)	Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services	<b>(129,547)</b>
(25,605)	Accumulated gains or losses on assets disposed of in year	<b>(4,427)</b>
(3,286)	Difference between fair value depreciation and Historical cost depreciation	<b>(2,203)</b>
<u>960,043</u>	<b>Balance at 31 March 2019</b>	<u>1,034,265</u>

### Capital Adjustment Account

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

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

Note 2 provide details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

## NOTES TO THE ACCOUNTS

2017/18	Capital Adjustment Account	2018/19
£000		£000
979,002	<b>Balance at 1 April 2018</b>	<b>1,008,453</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(41,114)	Charges for depreciation and impairment of non-current assets	<b>(47,689)</b>
31,083	Revaluation gains/(losses) on Property, Plant and Equipment	<b>(40,373)</b>
(1,954)	Amortisation of intangible assets	<b>(2,095)</b>
(6,257)	Revenue expenditure funded from capital under statute	<b>(1,830)</b>
(101,794)	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	<b>(17,020)</b>
30,792	Adjusting amounts written out of the Revaluation Reserve	<b>6,629</b>
	<b>Capital financing applied in the year:</b>	
23,972	Use of the Capital Receipts Reserve to finance new capital expenditure	<b>29,455</b>
45,539	Use of the Major Repairs Reserve to finance new capital expenditure	<b>33,534</b>
1,666	Capital grants and other contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	<b>0</b>
36,936	Application of grants to capital financing from the Capital Grants Unapplied Account	<b>78,413</b>
10,070	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	<b>10,298</b>
512	Capital expenditure charged against the General Fund and HRA balances	<b>3,980</b>
	Movements in market value of Investment Properties	<b>1,706</b>
1,008,453	<b>Balance at 31 March 2019</b>	<b>1,063,461</b>

### 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.

Statutory arrangements require benefits earned to be financed as the Council make the 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.

## NOTES TO THE ACCOUNTS

2017/18 £000	Pension Reserve	2018/19 £000
(441,344) <b>Balance at 1 April 2018</b>		<b>(443,240)</b>
26,281 Remeasurements of the net defined benefit liability/asset		<b>(80,701)</b>
(53,337) 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		<b>(61,593)</b>
25,160 Employer pensions' contributions and direct payments to pensioners payable in the year		<b>28,524</b>
<b>(443,240) Balance at 31 March 2019</b>		<b>(557,010)</b>

## NOTES TO THE ACCOUNTS

### 18. Cash Flow Statement – Net Cash Flows from Operating Activities

#### 18a. Net Cash Flows from Operating Activities

2017/18 £000	2018/19 £000
(23,884) Net Surplus/(Deficit) on the Provision of Services	(25,058)
<b>Adjust net surplus or deficit on the provision of services for non cash movements</b>	
(41,086) Depreciation	(47,757)
28,641 Impairment and downward / (upward) valuations	56,498
(1,954) Amortisation	(2,095)
3,054 Increase/(Decrease) in Interest Creditors	1,040
5,653 Increase / (Decrease) in Creditors	(82,811)
(1,554) (Increase)/Decrease in Interest and Dividend Debtors	(552)
(7,799) (Increase)/Decrease in Debtors	136,098
32 (Increase)/Decrease in Inventories	67
28,177 Movement in Pension Liability	33,069
1,720 Contributions to/(from) Provisions	661
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(17,020)
Donated Asset - credited to Taxation & Non Specific Grant	
0 Income	0
Other non cash items charged to the net surplus or deficit on the PoS	942
(2,899) PoS	
<b>116,267</b>	<b>78,140</b>
<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</b>	
Capital Grants credited to surplus or deficit on the provision of services	(32,748)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(31,913)
302 Council tax and NNDR adjustments	6,539
<b>13,332 Net Cash Flows from Operating Activities</b>	<b>(5,040)</b>

#### 18b. Cash Flow Statement - Investing Activities

2017/18 £000	2018/19 £000
(165,030) Purchase of PPE, investment property and intangible assets	(222,940)
38,965 Proceeds from sale of PPE, investment property and intangible assets	31,913
(719,312) Purchase of short and long term investments	(155,000)
705,933 Proceeds of short and long term investments	117,094
40,388 Capital Grants	32,748
(99,056)	(196,185)

## NOTES TO THE ACCOUNTS

### 18c. Cash Flow Statement - Financing Activities

	2017/18		2018/19
	£000		£000
(3,100) Cash payments for the reduction of the outstanding liabilities			(2,490)
(376,925) (Repayment) of short and long-term borrowing			(509,721)
<u>475,769</u> Cash receipts of short-term and long-term borrowing			<u>716,188</u>
<u>95,744</u>			<u>203,977</u>

### 18d. Analysis of Borrowings related cashflows

	2016/17	Financing Cashflows	Non-Cash Changes		2017/18
	£000	£000	Acquisition £000	Other £000	£000
Long Term Borrowings	(457,272)	(137,874)			(595,146)
Short Term Borrowings	(85,030)	39,030			(46,000)
Lease Liabilities	(87,361)	1,392			(85,969)
On Balance Sheet PFI	(49,318)	1,708			(47,610)
<b>TOTAL</b>	<b>(678,981)</b>	<b>(95,745)</b>	<b>0</b>	<b>0</b>	<b>(774,725)</b>

	2017/18	Financing Cashflows	Non-Cash Changes		2018/19
	£000	£000	Acquisition £000	Other £000	£000
Long Term Borrowings	(595,146)	(151,467)			(746,613)
Short Term Borrowings	(46,000)	(55,000)			(101,000)
Lease Liabilities	(85,969)	790			(85,180)
On Balance Sheet PFI	(47,610)	1,700			(45,910)
<b>TOTAL</b>	<b>(774,725)</b>	<b>(203,977)</b>	<b>0</b>	<b>0</b>	<b>(978,702)</b>

IAS 7 Statement of Cash Flows: Disclosure Initiative – the CODE has adopted this new requirement for the financial year beginning 1 April 2018. This standard relates to presentation of Cash Flow Statement and does not materially impact on the 2018/19 Financial Statement.

### 19. Pooled Budgets

The Better Care Fund is a pool of NHS and Council monies intended to support an increase in the scale and pace of integration and promote joint planning for the sustainability of local health and care economies. On 4 April 2014 the Council agreed a pooled budget arrangement with the Barking and Dagenham Clinical Commissioning Group. The pooled budget is hosted by the Council on behalf of the two partners to the agreement

## NOTES TO THE ACCOUNTS

	2017/18	2018/19
	£000	£000
Funding provided to the pooled budget:		
the Council	8,344	10,567
the CCG	13,415	13,670
	21,759	24,237
Expenditure met from the pooled budget:		
the Council	(8,344)	(10,567)
the CCG	(13,374)	(13,670)
	(21,718)	(24,237)
Total Net Surplus / (Deficit) of the pooled budget	41	0
Net surplus / (deficit) for the Council	0	0
Net surplus / (deficit) for the CCG	41	0

### 20. Members Allowances

The Council paid the following amounts to members of the Council during the year.

	2017/18	2018/19
	£000	£000
Basic Allowances	507	518
Special Responsibility Allowances	243	292
Expenses	0	0
Employer's NI	49	46
<b>Total</b>	799	856

For further details, please visit the following website:

<https://www.lbbd.gov.uk/council/councillors-and-committees/councillors/councillors-allowances-and-attendance/overview/>

### 21. Senior Officers' Remuneration (including Teachers)

The disclosure requirements comprise the following:

- (a) An analysis of the number of employees whose remuneration is in excess of £50k in bands of £5k;
- (b) An additional requirement listing those senior employees whose salary is £50k or more per year but less than £150k by way of job title. This includes statutory officers and non-statutory officers who report direct to the head of paid service; and
- (c) A list of those employees whose salary is in excess of £150k by name and job title.

Remuneration is defined as all amounts paid to or receivable by a person and includes sums due by way of expenses allowance (insofar as those sums are chargeable to United Kingdom income tax) and the estimated monetary value of any benefits received by an employee other than in cash (e.g. benefits in kind).

Salary is generally accepted as the amount received under a contract of employment for services rendered (before the deduction of pension contributions) other than bonuses, allowances, benefits in kind or compensation payments.

#### a) Senior Officers' Remuneration (including Teachers)

## NOTES TO THE ACCOUNTS

Remuneration is defined as all amounts paid to or receivable by a person, and includes sums due by way of expenses allowance (insofar as those sums are chargeable to United Kingdom income tax) and the estimated monetary value of any benefits received by an employee other than in cash (e.g. benefits in kind).

Salary is generally accepted as the amount received under a contract of employment for services rendered (before the deduction of pension contributions) other than bonuses, allowances, benefits in kind or compensation payments.

Analysis of employees whose remuneration is in excess of £50,000

	2017/18		2018/19	
	Non-Teaching Employees	Teaching Employee s	Non- Teaching Employees	Teaching Employee s
£50,000 - £54,999	51	205	47	202
£55,000 - £59,999	37	119	34	156
£60,000 - £64,999	21	71	17	75
£65,000 - £69,999	12	45	20	55
£70,000 - £74,999	9	27	9	27
£75,000 - £79,999	9	21	2	21
£80,000 - £84,999	3	15	9	15
£85,000 - £89,999	4	15	1	12
£90,000 - £94,999	8	3	1	10
£95,000 - £99,999	0	6	6	4
£100,000 - £104,999	2	4	3	1
£105,000 - £109,999	0	3	4	3
£110,000 - £114,999	6	2	3	1
£115,000 - £119,999	0	1	0	2
£120,000 - £124,999	0	1	3	2
£125,000 - £129,999	0	0	1	2
£130,000 - £134,999	0	0	0	0
£135,000 - £139,999	1	1	0	0
£140,000 - £144,999	1	1	0	1
£145,000 - £149,999	1	0	1	1
£150,000 - £154,999	1	0	0	0
£155,000 - £159,999	0	0	0	0
£160,000 - £164,999	0	0	0	0
£165,000 - £169,999	1	1	0	0
£170,000 - £174,999	0	0	2	0
£175,000 - £179,999	0	0	0	0
£180,000 - £184,999	0	0	0	0
£185,000 - £189,999	0	0	0	1
<b>Total</b>	167	541	163	591

## NOTES TO THE ACCOUNTS

### b) Senior Officers who salary is between £50,000 and £150,000 per year.

Post Held	Year	Notes	Salary, Fees & Allowances	Compensation for Loss of Employment	Sub-total	Employer's Pension Contribution	Total (including pension contributions)
Director of People and Resilience	2018/19	1	36,613		36,613	8,604	45,216
Strategic Director Service Development and Improvement	2018/19	1	107,772		107,772	25,326	133,098
	2017/18		146,450		146,450	34,782	181,232
Commissioning Director of Education	2018/19		113,063		113,063	26,570	139,633
	2017/18		110,846		110,846	26,326	137,172
Chief Operating Officer, Customer, Commercial and Service Delivery	2018/19		149,070		149,070	35,104	184,174
	2017/18		143,083		143,083	33,978	177,061
Transformation Director	2018/19		113,063		113,063	26,570	139,633
	2017/18		110,846		110,846	26,326	137,172
Director Law, Governance and HR (Monitoring Officer)	2018/19		124,861		124,861	29,342	154,203
	2017/18		114,701		114,701	27,232	141,933
Director of Inclusive Growth Strategic Director Growth and Homes	2018/19	2	98,822		98,822	23,427	122,249
	2017/18		112,005	27,065	139,070	26,657	165,728
Finance Director	2018/19	5	51,269		51,269	0	51,269
	2017/18		94,628	60,235	154,863	28,561	183,424
Director of Community Solutions	2018/19	3	124,861		124,861	29,342	154,203
	2017/18		34,223		34,223	8,042	42,265
Director of Policy and Participation	2018/19	3	113,063		113,063	26,570	139,633
	2017/18		36,949		36,949	8,683	45,632
Director of My Place	2018/19	3	122,400		122,400	28,764	151,164
	2017/18		114,333		114,333	27,112	141,445
Operational Officer of Enforcement	2018/19	4	84,615		84,615	19,423	104,038
	2018/19	4	31,325		31,325	0	31,325
	2017/18	3	103,231		103,231	24,517	127,748
Director of Public Health	2018/19	6	109,336		109,336	15,723	125,058
	2017/18		88,269		88,269	12,693	100,962

## NOTES TO THE ACCOUNTS

- Note 1 The Strategic Director of Service Development and Improvement left the organisation in July 2018 and was replaced by the Director of People and Resilience who joined the Council in June 2018. This has been reflected in the split of 2018/19 figures.
- Note 2 The Strategic Director of Growth and Homes left the organisation in February 2018 and was replaced by the Director of Inclusive Growth who joined the Council in May 2018.
- Note 3 As part of the restructure within the organisation, four senior posts were created in 2017/18:
- Director of Community Solutions created in December 2017
  - Director of Policy and Participation created in December 2017
  - Director of My Place created in May 2017
  - Operational Office of Enforcement created in April 2017
- All positions have now been active for a full year hence the variance from 2017/18 to 2018/19.
- Note 4 The Operational Officer of Enforcement left the organisation at the start of February 2019. An Interim Operational Director has been in place since the end of February 2019.
- Note 5 The Finance Director left the organisation in March 2018. An Interim Finance Director has been in place since November 2018 on a part time basis.
- Note 6 The salary for the Director of Public Health in 2018/19 includes £16,984 of back pay for previous years.

## NOTES TO THE ACCOUNTS

### c) Senior Officers whose salary is £150,000 or more per year

Post Held	Year	Notes	Salary, Fees & Allowance s £	Bonuses £	Expense Allowance s £	Compensatio n for Loss of Employment £	Sub -total £	Employer's Pension Contributio n £	Total (including pension contribution s) £
Chief Executive of the Council <b>Christopher Naylor</b>	2018/19		171,683				171,683	40,346	212,029
	2017/18		168,317				168,317	39,975	208,292
Head Teacher - Jo Richardson <b>Ges Smith</b>	2018/19	1	187,411				187,411	31,455	218,866
	2017/18		144,654				144,654	23,839	168,493

#### Note 1

Salary of Mr Ges Smith, Head teacher of Jo Richardson School also includes a salary relating to executive cover of Dagenham Park School. The split is as follows:

- Jo Richardson Salary of £149,929 with pension contributions of £24,556 – Start of Employment April 2002
- Dagenham Park Salary of £37,482 with pension contributions of £6,900 – Executive cover started February 2018

## NOTES TO THE ACCOUNTS

### d) Exit Packages

The numbers of exit packages with total cost per band and total cost of the compulsory redundancies and other exit packages are set out in the table below. The costs include liabilities in respect of the strain on the Pension Fund.

(a) Exit package cost band	(b) Number of compulsory		(c) Number of other		(d) Total number of exit		(e) Total cost of exit	
	2017/18	<b>2018/19</b>	2017/18	<b>2018/19</b>	2017/18	<b>2018/19</b>	2017/18	<b>2018/19</b>
£0 – £20,000	49	<b>14</b>	36	<b>9</b>	85	<b>23</b>	563,294	<b>237,773</b>
£20,001–£40,000	14	<b>16</b>	1	<b>1</b>	15	<b>17</b>	402,145	<b>493,304</b>
£40,001–£60,000	8	<b>9</b>	1	<b>1</b>	9	<b>10</b>	447,504	<b>506,294</b>
£60,001–£80,000	2	<b>2</b>	0	<b>0</b>	2	<b>2</b>	123,815	<b>128,395</b>
£80,001 +	4	<b>7</b>	0	<b>0</b>	4	<b>7</b>	576,479	<b>678,819</b>
<b>Total</b>	<b>77</b>	<b>48</b>	<b>38</b>	<b>11</b>	<b>115</b>	<b>59</b>	<b>2,113,237</b>	<b>2,044,584</b>

## NOTES TO THE ACCOUNTS

### 22. External Audit costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts and the certification of grant claims.

	2017/18	2018/19
	£000	£000
Fees payable for audit of the authority	166	128
Fees payable for certification of grant claims	32	27
<b>TOTAL</b>	198	155

### 23. Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded primarily by the Dedicated Schools Grant (DSG) from the Department of Education. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the Schools Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual School Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG received for 2018/19 is below:

		Central Costs £000	ISB £000	Total 2018/19 £000
Total 2017/18 £000				
253,886	Final DSG for year before Academy recoupment			264,909
40,566	<b>Less:</b> Academy figure recouped			(46,568)
213,320	Total DSG after Academy recoupment			218,341
3,675	Brought forward from previous year			5,378
0	<b>Less:</b> Carry forward agreed in advance			0
216,995	Agreed initial budget distribution in year	<b>23,881</b>	<b>199,838</b>	<b>223,719</b>
-287	In year adjustments		(427)	(427)
216,708	Final budget distribution for the year	<b>23,881</b>	<b>199,411</b>	<b>223,292</b>
24,095	<b>Less:</b> Actual central expenditure	(18,361)		(18,361)
187,235	Actual ISB deployed to schools		(199,411)	(199,411)
5,378	Total carry forward	<b>5,520</b>	<b>0</b>	<b>5,520</b>

## NOTES TO THE ACCOUNTS

### 24. Grant Income

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

	2017/18	2018/19
	£000	£000
<b>Taxation and Non Specific Grant Income</b>		
RSG (Includes Business Rates Retention Scheme)	65,194	44,353
New Homes Grant	4,993	3,710
Housing & Council Tax Benefits Admin Grant	1,345	1,340
Other grants individually less than £1 million	1,495	4,590
NNDR Compensation grants	1,759	-21
<b>Total</b>	74,786	53,972
<b>Capital Grants</b>	40,388	35,672
<b>Direct to Services</b>		
Dedicated Schools Grant (DSG)	210,361	217,914
Education and Skills Funding Agency	20,962	22,486
Pupil Premium	12,650	12,029
Public Health England	17,353	16,906
Department of Work and Pensions	1,446	2,029
Department for Education	1,332	411
Skills Funding Agency - now merged with EFA	2,250	0
Ministry of Housing, Communities and Local Government	10,539	14,531
Youth Justice Board	415	415
Home Office	1,327	2,016
Mayor's Office for Policing and Crime	481	710
GLA	0	25
Department for Transport	14	14
Department of Health	139	1,053
Other	2,427	4,055
	281,695	294,594
<b>Housing Benefit</b>		
Mandatory Rent Allowances: Subsidy	72,001	64,972
Mandatory Rent Rebates outside HRA	10,479	9,750
Rent Rebates granted to HRA tenants: Subsidy	47,462	42,479
	129,942	117,200

The Council has received a number of grants that have yet to be recognised as income as the conditions attached to them that have not yet been satisfied. The balances at the year-end are as follows:

	2017/18	2018/19
	£000	£000
<b>Capital Grants Received in Advance</b>		
Long Term (Section 106)	(9,772)	(406)
Short Term	(406)	(6,452)

## 25. 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 it. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### Central Government

Central government has effective control over the general operations of the Council and is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received during the year are further analysed in Note 24.

### Members

Members of the Council have direct control over the Council's financial and operating policies.

The total of Members' allowances paid in 2018/19 is shown in Note 20. During 2018/19, no works or services were commissioned from companies in which members had an interest. There have been three declarations by members of personal Related Parties Transactions with the Council in 2018/19. These related to Eastbury Manor House which was hired by Cllr Evelyn Carpenter, Cllr Muhammed Saleem rents a property owned by the council and Cllr Simon Perry purchased 70% of a share ownership property from B&D Reside Regeneration LLP.

### Officers

During 2018/19 the Senior Officers of the Council held no pecuniary interests in accordance with section 117 of the Local Government Act 1972 in contracts entered into by the Council.

There have been no declarations by officers of personal Related Parties Transactions with the Council in 2018/19.

### Other Public Bodies

The Council has a pooled budget arrangement with North East London NHS Foundation Trust for the provision of mental health and social services and a pooled Better Care Fund budget arrangement with the Barking and Dagenham Clinical Commissioning Group. Transactions and balances are detailed in Note 19.

### Pension fund

The Council is the administering body of the Barking and Dagenham Pension Fund and has made arrangements for the proper administration of its financial affairs through the appointment of one of its officers.

### BDSIP Ltd.

It is a company partly owned by the Council established to advance the education of pupils. It will do this by delivering consistently excellent services to educational institutions and promoting efficiency and effectiveness of the application of resources.

### B&D Reside Weavers LLP

It is a company partly owned by the Council established to manage the rental of affordable housing in Barking.

### Wholly owned subsidiaries:

#### B&D Energy Ltd

## NOTES TO THE ACCOUNTS

B&D Energy Ltd is established to drive the Borough to become the “green capital of the capital”. It aims to do this through the delivery of low carbon and zero energy carbon projects throughout the Borough and east London area.

### **Barking and Dagenham Reside Ltd**

This provides 477 affordable rented properties in the Barking area. The properties are based at the Eastern End of Thames View and William Street Quarter and rents range from 50% - 80% of market rent.

### **Barking and Dagenham Reside Roding Ltd**

This was set up to build and sell 146 properties to London & Quadrant (formerly East Homes Ltd). The homes have been built on the Gascoigne Estate as part of a regeneration project for the area. The homes were completed and sold during 2019 as planned and are being sold as Shared Ownership properties. The Company had a loan facility for the construction works, with its parent company, the London Borough of Barking & Dagenham.

### **Barking and Dagenham Reside Regeneration Ltd**

This is a partner in the letting and management of 144 affordable homes in the Barking area. The Company is a partner in Barking & Dagenham Reside Abbey Roding LLP. The Company is also a partner in B&D Reside Regeneration LLP, who have built and manage 45 shared ownership homes and have a lease for a further 27 shared ownership properties at Kingsbridge in Barking.

### **Barking and Dagenham Reside Regeneration LLP**

This is a partnership which has built and manages 46 shared ownership homes with a lease for a further 27 shared ownership properties at Kingsbridge in Barking.

### **Barking and Dagenham Reside Abbey Roding LLP**

Barking and Dagenham Abbey Roding LLP is a partnership which is 99% owned by the Council. It provides 144 affordable rented properties in Abbey Road in Barking, at 80% of market rent.

### **TPFL Regeneration Ltd**

This was set up to build 477 new homes, which were completed in May 2014, that are now managed by Barking and Dagenham Reside Ltd.

### **Barking and Dagenham Trading Partnership Ltd**

This is the parent company of a group of five wholly owned subsidiaries summarised below, which was established to provide cleaning, catering and repairs and maintenance services. The group provides competitively priced services to the Council and to external entities with the aim of delivering dividends to the Council.

#### *BD Management Services Ltd.*

It provides repairs and maintenance services to the Council through a mixture of management of the Council's own labour force and sub-contracting.

#### *BD Service Delivery Ltd.*

At present it is a dormant company, with plans to deliver repairs and maintenance services to the Council and external clients.

#### *BD Together Ltd.*

It provides catering, cleaning and data Services to Schools and private organisations within the Borough.

#### *BD Corporate Cleaning Ltd.*

It provides cleaning services to the Council.

## NOTES TO THE ACCOUNTS

### Londoneast-UK Ltd.

It provides serviced offices, facilities management and support services to businesses in the Borough.

### **Be First (Regeneration) Ltd**

Be First has the remit of accelerating the pace and scale of regeneration in the Borough, whilst delivering affordable housing and shaping inclusive, sustainable and healthy communities for the future.

### **Joint Venture**

#### **Elevate East London LLP**

Established in 2010 as a partnership with Agilisys to provide core support services such as procurement, accounts payable & receivable and ICT to the council and others. The Council is entitled to up to 50% board representation, with unanimous consent required for decisions on reserved matters which amount to the 'relevant activities' of Elevate, as define by the Council's reporting framework. Profit sharing proportions are 50:50. These key factors support Elevate being treated as a joint venture for accounting purposes.

#### **Directorships or Trusteeships**

A number of elected members are either Directors or Trustees of a number of bodies that deliver services to the community or work in partnership with the Council.

Below are details of payments made to and received from the related parties with which the Council had material transactions:

Party	Income	Expenditure	Creditors	Debtors	Loans
B&D Energy Ltd.	84,471	20,517			2,345,347
Barking & Dagenham Citizen's Advice Bureau	12,354	512,565			
Barking & Dagenham Trading Partnership - Group	562,405	21,573,506	2,203,442		21,836,088
BDSIP Ltd.		794,420	2,854,988	2,490,534	
Be First (Regeneration) Ltd.	711,864	7,533,297	3,981,010	560,490	4,107,784
East London Waste Authority	1,504,033	14,866,924		3,750	
Local Government Association		40,142			
London Councils	183,059	1,129,704			
BD Reside Ltd	57,471		82,862,413	17,981	
BD Reside Roding Ltd	884,713			408,123	
BD Reside Regen LLP				2,524,000	6,901,913
BD Reside Abbey LLP	1,654,815			382,875	

## NOTES TO THE ACCOUNTS

### 26. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts - see notes 27 and 28), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

<b>Capital Financing Requirement</b>	2017/18	2018/19
	£000	£000
<b>Opening Capital Financing Requirement (restated *)</b>	619,486	<b>674,534</b>
 <b>Capital investment</b>		
- Property, Plant and Equipment	165,030	<b>216,738</b>
- Property Plant and Equipment - Finance Lease additions	111	<b>0</b>
- Property Plant and Equipment - PFI Additions	88	<b>1,538</b>
- Investment Properties	69	<b>0</b>
- Intangible Assets	2,186	<b>3,668</b>
- Heritage Assets	0	<b>0</b>
- Revenue Expenditure Funded from Capital under Statute	6,257	<b>1,830</b>
 <b>Sources of Finance</b>		
Capital receipts	(23,972)	<b>(29,455)</b>
Government grants and other contributions	(38,601)	<b>(78,413)</b>
Sums set aside from revenue:		
- Direct revenue contributions	(512)	<b>(3,980)</b>
- MRP/loans fund principal	(10,070)	<b>(10,298)</b>
Major Repairs Reserve	(45,539)	<b>(33,534)</b>
<b>Increase in Capital Financing Requirement</b>	55,048	<b>68,095</b>
 <b>Closing Capital Financing Requirement</b>	 674,534	 <b>742,629</b>

\* 2017/18 Opening has been restated by £704k due to incorrect figure used in 2016/17

<b>Explanation of Movements in Year</b>	2017/18	2018/19
	£000	£000
Increase in underlying need to borrow (unsupported by government financial	54,849	<b>66,557</b>
Assets acquired under finance leases	111	<b>0</b>
Assets acquired under PFI/PPP contracts (lifecycle costs)	88	<b>1,538</b>
<b>Increase in Capital Financing Requirement</b>	55,048	<b>68,095</b>

## NOTES TO THE ACCOUNTS

### 27. Leases

#### Council as Lessee

##### Finance Leases

The Council has acquired vehicles under finance leases. The Council has also entered into an arrangement with Reside Ltd to provide new social housing. Both the vehicles and the Reside homes are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

<b>Net Book Value of Assets acquired under a finance lease</b>	2017/18	2018/19
	£000	£000
Property, Plant and Equipment	123,323	126,803

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the assets 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:

<b>Minimum Lease Payments</b>	2017/18	2018/19
	£000	£000
Finance Lease Liabilities (net present value of minimum lease payments)		
- Current	730	478
- Non-current	83,383	82,906
	84,113	83,383
Finance Costs Payable in Future Years	130,648	127,209
Minimum Lease Payments	214,762	210,592

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

<b>Finance Lease Payment profile</b>	<b>Minimum Lease</b>		<b>Finance Lease</b>	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
Not later than one year	4,170	3,876	730	478
Later than one year and not later than five years	15,363	15,297	1,914	1,938
Later than five years	195,229	191,419	81,470	80,967
	214,762	210,592	84,113	83,383

##### Operating Leases

The Council has acquired property and IT equipment under operating leases. The future minimum lease payments due under non-cancellable leases in future years are:

## NOTES TO THE ACCOUNTS

<b>Operating Lease Payment profile</b>	2017/18	2018/19
	£000	£000
Not later than one year	426	303
Later than one year and not later than five years	920	755
Later than five years	1,836	1,525
	3,182	2,583

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to operating leases was:

<b>Operating Lease costs</b>	2017/18	2018/19
	£000	£000
Operating Lease payments	5,486	4,592

**There were no contingent rents or sublease payments.**

### Council as Lessor

#### Operating Leases

The Council leases out property under operating leases for investment purposes. These assets are classed as investment properties within the Balance Sheet. The future minimum lease payments receivable under non-cancellable leases in future years are:

<b>Future Minimum Lease Payments Receivable</b>	2017/18	2018/19
	£000	£000
Not later than one year	4,983	6,852
Later than one year and not later than five years	11,923	16,550
Later than five years	39,307	45,388

### 28. Private Finance Initiatives and similar contracts

#### a) PFI Schemes – Eastbury and Jo Richardson Schools

On 30 March 2004, the Council contracted with Bouygues (UK) Ltd to provide secondary school and community facilities for the Jo Richardson Community School at Castle Green Park and refurbishment works and services at Eastbury Comprehensive School under a Private Finance Initiative (PFI). The schools opened in September 2005 and provide the necessary suitable places to cater for steadily increasing pupil numbers in the Borough.

#### **Changes in the arrangements during the year (Property, Plant and Equipment)**

The assets used to provide services at the schools are recognised on the Council's Balance Sheet and movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 9.

## NOTES TO THE ACCOUNTS

### Payments

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2019 (excluding any estimation of inflation and availability/ performance deductions) are as follows:

	Reimburseme				Total
	Total Payment for	nt of Capital		Interest	
	2017/18	Services	Expenditure	£000	2018/19
	£000	£000	£000	£000	£000
Payable within one year	6,261	1,777	1,010	3,474	6,261
Payable within two to five years	25,044	7,563	5,199	12,282	25,044
Payable within six to ten years	31,305	10,568	10,159	10,578	31,305
Payable within eleven to fifteen years	18,783	3,054	4,703	4,765	12,522
<b>Total</b>	<b>81,394</b>	<b>22,962</b>	<b>21,071</b>	<b>31,099</b>	<b>75,132</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable.

The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

<b>Contractor Liability</b>	2017/18	2018/19
	£000	£000
Balance outstanding at 1 April 2018	22,817	21,987
Payments during the year	(829)	(915)
<b>Balance outstanding at 31 March 2019</b>	<b>21,988</b>	<b>21,072</b>

### b) PFI Scheme – Dagenham Park School

On 28th October 2010, the Council signed an agreement for the Local Educational partnership (LEP) to deliver two new school buildings and ICT provision at Dagenham Park and Sydney Russell School. Dagenham Park School is a PFI scheme. The school opened on the 9th March 2012 and the contract will be in place for 25 years, after which time the school will be owned by the Council.

### Changes in the arrangements during the year (Property Plant and Equipment)

The assets used to provide services at the schools are recognised on the Authority's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 9.

### Payments

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2019 (excluding any estimation of inflation and availability/ performance deductions) are as follows:

## NOTES TO THE ACCOUNTS

	Total 2017/18 £000	Payment for Services £000	Reimbursement of Capital £000	Interest £000	Total 2018/19 £000
Payable within one year	4,193	579	937	2,677	<b>4,193</b>
Payable within two to five	16,774	2,317	4,246	10,211	<b>16,774</b>
Payable within six to ten	20,967	2,896	7,165	10,907	<b>20,968</b>
Payable within eleven to	20,967	2,896	10,161	7,910	<b>20,967</b>
Payable within sixteen to	16,774	1,738	8,311	2,531	<b>12,580</b>
<b>Total</b>	<b>79,676</b>	<b>10,426</b>	<b>30,820</b>	<b>34,236</b>	<b>75,482</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay to the contractor for capital expenditure incurred is as follows:

<b>Contractor Liability</b>	2017/18 £000	2018/19 £000
Balance outstanding at start of year	28,152	<b>27,420</b>
Payments during the year	(821)	<b>(881)</b>
Capital expenditure incurred in the year	88	<b>96</b>
<b>Balance outstanding at year-end</b>	<b>27,419</b>	<b>26,635</b>

### 29. Pensions Schemes accounted for as Defined Contribution Schemes

The Council employs teachers and public health staff who are members of the Teachers' Pension Scheme (administered by the Department for Education) and the NHS Pension Scheme respectively. These schemes provide specified benefits upon retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Schemes are technically defined benefit schemes. However, they are unfunded and use a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2018/19, the Council paid £12.8m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.4% of pensionable pay. The figures for 2017/18 were £13.3m and 16.4% respectively. There were no contributions remaining payable at the year-end. For NHS staff in 2018/19 the figures were £0.1m and 14.3%. In 2017/18 the figures were £0.1m and 14.3% respectively.

It is expected the Council will pay around £15m for 2019/20 in respect of teachers' retirement benefits.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 30.

## 30. Defined Benefit Pension Schemes

### Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose at the time that employees earn their future entitlement. In 2018/19 the Council participated in two post-employment schemes:

- The Local Government Pension Scheme (LGPS), 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 pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement: this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. There have been no new awards during the year.
- The pension scheme is operated under the regulatory framework for the LGPS and the governance of the scheme is the responsibility of the Pension Panel of the Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the Pension Panel.
- The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

\* From 1 April 2014 the defined benefit final salary scheme ceased and was replaced with a defined benefit career average scheme.

### Guaranteed Minimum Pension (GMP) Equalisation

On 22 January 2018, the Government published the outcome of its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age before 6 April 2021. An approximate allowance for the impact of GMP equalisation changes of 0.22% of total liabilities has been calculated by the Actuary, which corresponds to an additional liability of £2,836,000.

### McCloud Judgement

The McCloud court case relates to possible age discrimination within the New Judicial Pension Scheme. An allowance for the McCloud judgement of 0.3% of total liabilities has been calculated by the actuary, which corresponds to an additional liability of £3,786,000.

### Discretionary Post-retirement Benefits

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

## NOTES TO THE ACCOUNTS

### Transaction Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against Council Tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefit is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement.

### LGPS Relating to the Subsidiaries

The Council has TUPE transferred staff to a number of companies, including Be First, BS SIP, BD Corporate Cleaning Ltd, BD Together Ltd and BD Management Services Ltd. Passthrough pension arrangements have been agreed for all of these companies. Passthrough is achieved because the council substantially retains pension risk under the arrangements, as a result it is appropriate for the Council to report each of the contracting companies' share of the pension assets/liabilities under IAS19.

The passthrough arrangement effectively mean that, for the purposes of the administration and valuation of the Scheme and the calculation of any payments due to or from the Fund under the prevailing Admission Agreement and the 2013 Regulations, all liabilities of the Fund in respect of the Eligible Employees will continue to be treated as liabilities which are attributable to the Council, and the corresponding assets held within the Fund which relate to those liabilities will continue to be treated as allocated to the Council's notional sub-fund within the Fund on and from the Commencement Date.

The companies will account for contributions through charging these to the profit and loss account in the period to which they relate. The following transactions have been made in the CIES and the General Fund Balance via the Movement in Reserves Statement during the year:

	LGPS	
	2017/18	2018/19
	£'000	£'000
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services:</b>		
Current Service Cost	(41,266)	<b>(42,539)</b>
Past Service Costs (including curtailments)	(412)	<b>(6,858)</b>
Interest Income on scheme assets	18,410	<b>19,817</b>
Interest cost on defined benefit obligation	(30,069)	<b>(32,013)</b>
<b>Total Post-Employment Benefits charged to the Surplus or Deficit on the provision of services</b>	<b>(53,337)</b>	<b>(61,593)</b>
<b>Remeasurement of the net defined benefit liability:</b>		
Change in demographic assumptions	0	0
Change in financial assumptions	24,496	<b>(81,986)</b>
Other experience	(1,812)	(392)
Return on assets excluding amounts included in net interest	3,597	<b>18,609</b>
<b>Total Post-Employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>26,281</b>	<b>(63,769)</b>
<b>Movement in Reserve Statement:</b>		
Reversal of net charges made to the Surplus or Deficit on the provision of services for post-employment benefits in accordance with the code	53,337	<b>61,593</b>
Employer's contributions payable to scheme	(23,912)	(28,524)

## NOTES TO THE ACCOUNTS

### Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation) and fair value of the scheme (plan):

	<b>LGPS</b>	
	2017/18	2018/19
	£'000	£'000
<b><u>Scheme Liabilities</u></b>		
<b>Opening balance at 1 April</b>	1,150,144	1,175,173
Current Service Cost	41,266	42,539
Interest Cost	30,069	32,013
Contributions by scheme participants	7,004	7,304
Actuarial (gains)/losses	(22,684)	99,310
Benefits paid	(29,334)	(29,002)
Discretionary Benefits	(1,704)	(1,703)
Past Service Cost including curtailments	412	6,858
Business Contribution	0	0
Curtailments	0	0
Settlements	0	0
<b>Closing Balance at 31 March</b>	1,175,173	1,332,492
	2017/18	2018/19
	£'000	£'000
<b><u>Scheme Assets</u></b>		
<b>Opening balance at 1 April</b>	707,191	731,933
Interest Income	18,410	19,817
Return on assets excluding amounts included in net interest gain/(loss)	3,597	18,609
Employer contributions	25,065	26,821
Contributions by scheme participants	7,004	7,304
Benefits paid	(29,334)	(29,002)
Unfunded benefits paid	(1,704)	(1,703)
Contributions in respect of unfunded benefits	1,704	1,703
Curtailments		
Settlements		
<b>Closing Balance at 31 March</b>	731,933	775,482
<b>Pensions Assets and Liabilities Recognised in the Balance Sheet</b>	2017/18	2018/19
	£'000	£'000
<b>Local Government Pension Scheme</b>		
Fair value of plan assets	731,933	775,482
Present value of the defined benefit obligation	(1,175,173)	(1,332,492)
<b>Net liability arising from defined benefit obligation</b>	(443,240)	(557,010)

The liability shows the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

## NOTES TO THE ACCOUNTS

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. Before payments fall due), as assessed by the scheme actuary;
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

It is important to recognise that the IAS19 valuation is based on the assumptions that are set as part of the accounting standard and do not reflect the funding strategy of the fund nor the payments made for the employers in 2018/19.

The more important Triennial Valuation is the statutory basis for assessing the Fund's liabilities and for setting the employer's contribution rate. The last triennial valuation took place in March 2016, (effective from 1 April 2017), showed a funding level of 77.2% for the whole fund. The pension fund investment strategy is seeking a fully funded position within 16 years. This long-term strategy allows for short-term market volatility. The next triennial valuation will take place in 2019, (effective from 1 April 2020).

The actuarial process involves sophisticated modelling techniques that look far ahead at the level and flow of pensions out of the Fund and the performance of its assets and contributions from employees and the Council. The IAS19 valuation, however, is a far more basic approach and only refers to a specific point in time.

### **Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the LGPS and Discretionary Benefits liabilities have been assessed by Hymans Robertson LLP, an independent firm of Actuaries, estimates for the Pension Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

	<b>LGPS</b>	
<b>Mortality Assumptions:</b>	2017/18	2018/19
Longevity at 65 for current pensioners:		
• Men	22.0 yrs	<b>22.0 yrs</b>
• Women	24.7 yrs	<b>24.7 yrs</b>
Longevity at 65 for future pensioners		
• Men	24.0 yrs	<b>24.0 yrs</b>
• Women	26.4 yrs	<b>26.4 yrs</b>
<b>Actuarial Assumptions:</b>		
Rate of Increase in Salaries	2.8%	<b>3.00%</b>
Rate of Increase in Pensions	2.4%	<b>2.50%</b>
Rate of Discounting Scheme Liabilities	2.7%	<b>2.40%</b>

### **Sensitivity Analysis**

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

## NOTES TO THE ACCOUNTS

Change in assumptions at year ended 31 March 2019	Approximate % increase to Employer Liability	Appropriate monetary amount (£000)
0.5% Decrease in Real Discount Rate	10.0%	138,225
0.5% Increase in the Salary Increase Rate	1.0%	16,204
0.5% Increase in the Pension Increase Rate	9.0%	119,990

### Notes:

In order to quantify the impact of a change in the financial assumptions used, we have calculated and compared the value of the scheme liabilities as at 31 March 2019 on varying bases. The approach taken is consistent with that adopted to derive the IAS19 figures provided in this report.

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, we estimate that a one-year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

Please note the above figures have been derived based on the membership profile of the Employer as at the date of the most recent actuarial valuation.

### Local Government Pension Scheme assets comprised:

	2017/18 £'000	2018/19 £'000
<b>Equity Securities (Quoted prices in active market)</b>	<b>389,501</b>	<b>412,675</b>
<b>Bonds</b>	<b>26,343</b>	<b>27,911</b>
<b>UK Property</b>	<b>46,312</b>	<b>49,068</b>
<b>Investment Funds and Unit Trusts</b>		
Hedge Funds	22,571	23,913
Infrastructure	48,789	51,692
Other	188,950	200,123
<b>Sub-total</b>	<b>260,310</b>	<b>275,728</b>
<b>Cash and Cash Equivalents</b>		
Cash	9,467	10,100
<b>Total Assets</b>	<b>731,933</b>	<b>775,482</b>

### Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contribution at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 16 years. Funding levels are reviewed on an annual basis.

## NOTES TO THE ACCOUNTS

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2020 is estimated to be £25.829m.

### 31. Accounting standards that have been issued but have not yet been adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021. The Council is still assessing the impact.
- IAS 40 Investment Property: Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of the amendment.
- IFRIC 23 Uncertainty over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the single entity accounts and minimal impact on the group accounts.
- IFRS 9 Financial instruments: prepayment features with negative compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to whom this will apply.
- IFRS 15 Revenue from Contracts with Customers: The Council has performed a risk assessment to assess material income streams and concluded that there is no adjustment required.

### 32. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in this document, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The two key critical judgements made in the Statement of Accounts are:

There is a high degree of uncertainty about future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. 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 Council's group boundaries have been assessed using the criteria outlined in the Code of Practice. There is a number of interests which fall within the group boundary on the grounds of control and significant influence. As a result, the Council has produced a set of Group Accounts. The Council continues to disclose the relationships and transactions with the entities in the Related Parties note.

## NOTES TO THE ACCOUNTS

The Council transferred services and employees to three companies which, under TUPE arrangements, participate in the London Borough of Barking and Dagenham Pension Fund as admitted bodies. Admission agreements that set out the terms of scheme participation and crucially establish where pension risk lays for IAS 19 reporting purposes, were signed after the balance sheet date. It is the Council's judgement that entering the admission agreements amounts to an adjusting post balance sheet event.

IAS 10 - Events After The Reporting Period defines adjusting events as those that provide evidence of conditions that existed at the end of the reporting period. Independent legal advice has been obtained that confirms the admission agreements can be backdated, from a legal perspective, to a commencement date that precedes the balance sheet date. Signing the agreements did not change the obligations of the parties as all parties had been operating as though the agreement was in place from the legal commencement date. On this basis, the Council's view is that the agreements merely confirm conditions in place during the reporting period and this is reflected in the Council's IAS 19 reporting.

### **33. 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 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

## NOTES TO THE ACCOUNTS

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment (PPE)	<p>Non-current asset valuations are a significant estimate included on the Council's balance sheet and are subject to market uncertainties and various assumptions, based on the professional judgement of experts. These valuations are carried out by qualified external valuers, with all material assets subject to valuation valued as at the balance sheet date and other assets valued over a 5 year rolling programme.</p> <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 authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. Useful lives are regularly reviewed by the external valuers as part of the valuation process.</p>	<p>Any increase/decrease in valuation will either increase/decrease the level of the Revaluation Reserve, and the amount shown under Other Comprehensive Income and Expenditure or will affect the Net Cost of Services. There is no impact on usable reserves from valuation adjustments as these are reversed in line with statutory guidance.</p> <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. There is no impact on usable reserves from depreciation.</p>
Investment Properties	<p>Investment properties are measured at Fair Value under IFRS13 as at 31<sup>st</sup> March annually by qualified external valuers, using valuation techniques to determine the fair value.</p> <p>This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, or the best information available. Changes in assumptions and professional judgements used could affect the fair value of investment properties.</p>	<p>Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date. Any movements in the fair value of investment properties affect the balance sheet value of the asset and are also charged through Financing and Investment Income and Expenditure, but with no impact on usable reserves.</p>
Pensions Liability	<p>Adjustments would be required to the assumptions regarding employers' contribution rates if the amendment was deemed material. The effect on the net pension liability of changes in individual assumptions can be measured.</p>	<p>For instance, a decrease of 0.5% in the real discount rate assumption would result in an increase in the pension liability of £138.2m. A 0.5% increase in the pension rate would increase the pension liability by £120.0m.</p>

### 34. Events after the Reporting Period

Since 31 March 2019, the Council and group companies have continued with the implementation of their business plans. The outturn for 2019-20 did not show a significant deviation from plans in budgetary terms other than the reported overspend. The most significant area of capital expenditure is the Investment Strategy Programme, which spent £119.2m in 2019-20 (mostly funded from borrowing as planned) and is now progressing in 2020/21.

The presence of the Covid-19 pandemic has caused significant strain on the economy and stringent measures to be taken to subdue the outbreak by policy-makers. We are unable to

## NOTES TO THE ACCOUNTS

forecast the financial consequence of this pandemic, as it cannot be quantified at this time. We have however produced scenarios to help us plan ahead.

The valuation of land, buildings, housing dwellings and investment property assets will be difficult in 2020. Initial valuations for 31st March 2020 provided by the Council's valuer show reductions in value of 4% (£53.8m) for Council Dwellings and an increase of 6% (£3.8m) for Investment Properties. While these draft movements in value will include some amounts which are not due to changes in market conditions they reflect the general trend in valuations to 31st March 2020.

Given the uncertain economic situation, the valuers have reported a material uncertainty statement to the valuation report, however, the Council has no plans to dispose of assets in the short term and expects valuations to rise in the medium to long term. There is no indication of impairment in the carrying value of investments in subsidiaries, or credit impairment on the loans to subsidiaries, given the long term nature of the business plans.

The draft actuarial assessment of the net pension liability as at 31 March 2020 is that there has been a reduction from £538m to £433m. This is due to change in the actuarial assumptions reflecting the triennial review in 2019.

### 35. Prior Year Adjustments

There have been two prior year adjustments for the primary statements. Both are detailed below:

#### Property, Plant & Equipment (PPE)

A number of assets were identified as incorrectly classified as assets under construction and have been transferred into Council Dwellings in operational PPE. All the affected assets were HRA housing assets, mostly relating to the Estate Renewal project. The adjustment to correct this in prior years is set out below:

Balance 1/4/17 (as per 2017/18 SoA) £000	Adjustment to 2017/18 opening balance £000	Restated Balance 1/4/17 £000	Asset Category	Balance 31/3/18 (as per 17/18 SoA) £000	Adjustment to 2017/18 closing balance £000	Restated Balance 31/3/18 £000
1,061,116	29,705	1,090,821	Council Dwellings	1,127,162	29,705	1,156,867
128,101	-29,705	98,396	Assets Under Construction	85,578	-29,705	55,873
1,189,217	0	1,189,217	<b>TOTAL RESTATEMENT</b>	1,212,740	0	1,212,740

#### Dedicated Schools Grant (DSG)

During the course of accounts audit, it was noted that both the income and expenditure of DSG in the Comprehensive Income & Expenditure Statement (CIES) have been double counted up in both years of 2017/18 (£168,108k) and 2018/19 (£176,808k) with nil impact on the net position. The CIES have been restated to reflect this.

#### Fair Value of PFI Liabilities

In Note 11 (Financial instruments), the figure of PFI liabilities has been restated for 31<sup>st</sup> March 2018 to correctly record the fair value of the liabilities.

### 36. Basis of Preparation

The Covid-19 pandemic has resulted in increased costs to the Council from March 2020 in responding to the crisis. There have also been reductions in income collected from fees and charges and expected reductions in commercial rent as the country was required to lockdown and businesses were closed. The impact in 2020/21 has been modelled. The cost to the council of the

## NOTES TO THE ACCOUNTS

COVID-19 pandemic response at the time of writing is £41.3m in 2020/21. Government emergency grant funding of £12.1m has been received leaving a residual cost pressure to the council of £29.2m. If Council Tax and Business Rates income losses of £13.0m are excluded the pressure reduces to £16.2m (Council Tax and Business Rates losses are accounted for within the Collection Fund where deficits are accounted for in future financial years). The Council can manage this cost pressure of £16.2m by utilising reserve balances. This will provide sufficient headroom to enable the Council to fund its operations over the next two years based on the modelling of the financial impact of Covid-19 on the Council's reduced income and additional spending and therefore the use of the going concern principle is considered applicable.

## 37. Statement of Accounting Policies

### i. General Principles

The Statement of Accounts provides a true and fair view of the Council's transactions for the 2018/19 financial year and its financial position at the year end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19, supported by International Financial Reporting Standards (IFRS).

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

### ii. Accruals of Income and Expenditure

Activity is accounted for in the year when 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 rewards and risks 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; and
- The above policies are applied in an appropriate manner to avoid material misstatement in the financial statements. For the financial year in question, a de minimis of £10,000 was applied to both debtors and creditors.

### iii. Cash and Cash Equivalents

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

## NOTES TO THE ACCOUNTS

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 Council's cash management strategy.

### iv. Exceptional Items

When items of income or expenditure are material, their nature and value are disclosed separately 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 understanding the Council's financial performance.

### v. 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, ie 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 otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the 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.

### vi. 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 non-current assets during the year:

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

The Council 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. Minimum Revenue Provision (MRP) is equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses, and amortisations are therefore replaced by the MRP contribution in the General Fund Balance. This is done by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two (MRP is one amount, with depreciation, revaluation and impairment losses, or amortisations being the other amount).

### vii. Council Tax and Business Rates

The Council acts as agents, collecting Council Tax and Business Rates on behalf of the preceptors and, as principals, collecting Council Tax and Business Rates for themselves. The Council is required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and Business Rates. Under the legislative framework for the Collection Fund, the Council, major preceptors and central government share

## NOTES TO THE ACCOUNTS

proportionately the risks and rewards that the amount of Council tax and Business Rates collected could be less or more than predicated.

### **viii. Accounting for Council Tax and Business Rates**

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

The Balance Sheet includes the Council's share of the end of year balances in respect of Council Tax and Business Rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

### **ix. Employee benefits**

#### **a) Benefits Payable During Employment**

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and any non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render services to the Council.

An accrual is made for the cost of annual leave entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that annual leave entitlements are charged to revenue in the financial year in which the absence occurs.

#### **b) 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 in exchange for those benefits and are charged on an accruals basis to the relevant service, or where applicable, to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructure.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council 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.

## NOTES TO THE ACCOUNTS

### c) Post Employment Benefits – Teachers’ and NHS Pensions

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

- The Teachers’ Pension Scheme, administered by Capita Teachers’ Pensions on behalf of the Department for Education (DfE);
- The NHS Pension Scheme, administered by NHS Pensions and
- The Local Government Pensions Scheme, administered by London Borough of Barking and Dagenham Pension Fund.

All schemes provided defined benefits to members, earned as employees of the Council.

The arrangements for the Teachers’ and NHS Pension Schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they had been 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 was charged with the employer contributions payable to Teachers’ Pensions in the year, while NHS pension contributions are included in the Public Health line.

### d) The Local Government Pension Scheme

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

The liabilities of the London Borough of Barking and Dagenham 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, and projections of projected earnings for current employees.

Liabilities are measured on an actuarial basis discounted to present value, using the projected unit method. The discount rate to be used is determined in reference to market yields at balance sheet date of high quality corporate bonds.

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

- quoted securities - current bid price;
- unquoted securities - professional estimate;
- unitised securities - current bid price;
- property - market value; and
- limited partnerships - fair value on net asset value.

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

Service costs comprising:

- current service cost - the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost - the increase in liabilities arising from decisions taken in the current year but whose financial effect is derived from years of service earned in earlier years;
- net interest on the net defined benefit liability (asset), ie net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of

## NOTES TO THE ACCOUNTS

the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Contributions paid to the London Borough of Barking and Dagenham 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 transfers 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.

### e) Discretionary Benefits

The Council 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.

### x. Events after the Reporting Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. There are two types of events, adjusting and non-adjusting:

• Where the event is supported by evidence of conditions that existed at the end of the reporting period the Statement of Accounts is adjusted to reflect the impact of the event; and

• Where the event is supported by evidence of conditions that arose after the reporting period the Statement of Accounts is not adjusted, but where the impact of the event is material the nature of the event is disclosed in a separate note setting out the nature of the event and the estimated financial impact.

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

### xi. Financial Instruments

## NOTES TO THE ACCOUNTS

Financial instruments are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

### Financial Liabilities

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest).

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The Council's loan portfolio at year end consisted of Public Works Loan Board (PWLB), market debt and temporary borrowing. Other types of financial liabilities the Council has include service concession arrangements (PFI Schemes), finance leases and trade payables (creditors).

### Financial Assets

Financial assets are now classified into one of three categories:

**Financial assets held at amortised cost.** These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.

**Fair Value Through Other Comprehensive Income (FVOCI).** These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of. The Council did not hold any FVOCI at 31 March 2019.

**Fair Value Through Profit and Loss (FVTPL).** These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur. The Council did not hold any FVTPL at 31 March 2019.

### Expected Credit Loss Model (ECL)

The ECL implications for those financial assets not treated as fair value are minimal for the majority of the treasury investment as the Council adopts strict credit quality arrangements in accordance with the CIPFA Treasury Management Code of Practice. In addition to the day to day treasury investments the Council also has outstanding loan agreements with a number of third parties, including a number of its wholly owned subsidiaries.

Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

## 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

## NOTES TO THE ACCOUNTS

- 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 that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

### **xiii. Community Infrastructure Levy**

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

### **xiv. Interest in Companies and Other Entities**

The authority has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### **xv. Investment Properties**

Investment properties are those that are used solely to earn rentals (to generate a minimum yield of 6% in accordance with the Council's Standing Orders) 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 (operational assets) or is held for sale (assets for disposal).

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are re-valued annually according to market

## NOTES TO THE ACCOUNTS

conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

### **xvi. 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.

#### **The Council 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 Council 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, 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 (MRP is one amount, with depreciation, revaluation and impairment losses, or amortisations being the other amount).

##### **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 Council 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 start 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 (eg 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.

### xvii. 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 2018/19 (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.

## xviii. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment. It should be noted that Voluntary-aided schools are not recorded in the Council's balance sheet.

### 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. Any expenditure which does not add value to the asset is written off in accordance with the accounting policy on impairment as set out below. 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; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction. 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.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account.

Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

## NOTES TO THE ACCOUNTS

Infrastructure, Assets Under Construction	Depreciated Historical Cost
Community Assets	Depreciated Historical Cost or Valuation
Council Dwellings	Existing use value - social housing (EUV - SH)
Other Land & Buildings, Vehicles Plant & Equipment	Existing use value (EUV) or depreciated replacement cost (DRC) using the 'instant build' approach if EUV cannot be determined
Surplus Assets	Fair value applying the same assumptions relating to the level of usage etc, as those of the most recent revaluation as an operational asset

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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 Surplus or Deficit on the Provision of Services 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 inception, 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.

## NOTES TO THE ACCOUNTS

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 (ie freehold land and certain community assets) and assets that are not yet available for use (ie 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 – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- 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 components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on the 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 (ie 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 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

## NOTES TO THE ACCOUNTS

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

### **xix. Private Finance Initiatives (PFI)**

PFI 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 PFI contractor. As the authority is deemed to control the services that are provided under its PFI schemes, 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.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five 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 on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and 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 PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)

### **xx. Reserves**

The authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies [not Scotland]. Reserves are created by transferring amounts out of the General Fund Balance. 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 transferred back into the General Fund Balance 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, local taxation, retirement and employee benefits and do not represent usable resources for the authority – these reserves are explained in the relevant policies.

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

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to

the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### **xxii. Schools**

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

### **xxiii. 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.

### **xxiv. Fair Value Measurement**

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

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

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

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

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.



# Housing Revenue Account

for the year ended

31st March 2019

# HOUSING REVENUE ACCOUNT

## Housing Revenue Account Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Statement of Movement on the HRA Statement.

2017/18 £000	Expenditure	2018/19 £000
15,444	Repairs & Maintenance	17,932
41,684	Supervision & Management	45,307
323	Rent, Rates, Taxes & Other Charges	16
19,494	Depreciation and revaluation of non-current assets (note 5)	27,203
1,018	Movement in the allowance for bad debts	289
77,963	<b>Total Expenditure</b>	90,747
	<b>Income</b>	
(88,521)	Dwelling rents	(85,871)
(705)	Non-dwelling rents	(545)
(16,403)	Charges for services and facilities	(20,274)
0	Contributions towards expenditure	
(105,629)	<b>Total Income</b>	(106,690)
	<b>Net cost of HRA Services as included in the Council's</b>	
(27,666)	<b>Comprehensive Income &amp; Expenditure Statement</b>	(15,944)
685	HRA services' share of Corporate & Democratic Core	685
(26,981)	<b>Net Cost/(Surplus) for HRA</b>	(15,259)
	<b>HRA share of the operating income and expenditure</b>	
	<b>included in the Comprehensive Income and Expenditure</b>	
	<b>Statement:</b>	
(20,670)	Gain on sale of HRA non-current assets	(15,530)
9,692	Interest Payable and similar charges	9,690
(330)	Interest & Investment Income	(250)
0	Net interest on the net defined benefit liability	1,242
(38,289)	<b>(Surplus) / Deficit for the year of HRA Services</b>	(20,107)

## HOUSING REVENUE ACCOUNT

### Movement on the Housing Revenue Account Statement

The overall objectives for Movement on the HRA Statement and the general principles for its construction are the same as those generally for the Movement in Reserves Statement, into which it is consolidated. The statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

2017/18 £'000		2018/19 £'000
(10,656)	<b>Balance at 1 April</b>	(10,656)
	(Surplus)Deficit for the year on the HRA Income & Expenditure Statement	(20,107)
(38,289)	Adjustments between accounting basis and funding basis under statute	
<u>42,068</u>		<u>19,112</u>
3,779	Net increase before transfers to/from reserves	(995)
(3,779)	Transfers to / (from) reserves	188
0	(Increase) / decrease in year on the HRA	(807)
<u>(10,656)</u>	<b>Balance at 31 March</b>	<u>(11,463)</u>
	<b>Adjustments between accounting basis and funding basis under statute</b>	
2017/18 £'000		2018/19 £'000
20,670	Gain/(loss) on HRA - Non Current Assets	15,530
(5,537)	Revaluation/Impairment of Housing Assets	(12,628)
618	Repayment of principal for capital finance lease	0
(39)	Holiday pay accruals and other accumulating compensated absences	9
0	IAS 19 Pension costs adjustment	(2,680)
26,356	Transfer to the Major Repairs Reserve	18,880
<u>42,068</u>		<u>19,112</u>

# HOUSING REVENUE ACCOUNT

## Notes to the Housing Revenue Account

### 1. Council Housing Stock

The Council was responsible for managing an average of 17,698 dwellings units during 2018/19

**At 31 March 2019, the stock was made up as follows:**

Dwelling type	units	Year of construction	units
Low rise flats	2,180	Pre 1919	270
Medium rise flats	1,576	1919 - 1944	8,590
High rise flats	9,468	1945 - 1964	3,618
Houses and bungalows	4,392	Post 1964	5,144
Multi Occupied	6		
	<b>17,622</b>		<b>17,622</b>

The change in stock can be summarised as follows:

	2017/18	2018/19
	units	units
Stock at 1 April	17,923	17,774
Sales - Right to Buy	(219)	(201)
Additions	70	69
Adjustment (Review of Stock)	0	20
Demolitions (Decant Programme)	0	0
<b>Stock at 31 March</b>	<b>17,774</b>	<b>17,662</b>

The balance sheet value of land, houses and other property within the HRA is as follows:

	2017/18	2018/19
	£000	£000
Dwellings	990,178	1,072,650
Other Land and Buildings	5,993	6,167
Vehicles Plant and Equipment	588	1,343
Assets Under Construction	20,482	16,215
	<b>1,017,241</b>	<b>1,096,375</b>

### 2. Vacant Possession Value

The vacant possession value of dwellings within the HRA at 31 March 2019 was £4.1 billion (£3.8 billion 31 March 2018).

The balance sheet value of dwellings, which is stated at Existing Use Value - Social Housing (EUW - SH), is lower than the vacant possession value. This shows the economic cost to the government in providing council housing at less than the open market rental value.

## HOUSING REVENUE ACCOUNT

### 3. Major Repairs Reserve

The following is an analysis of the Major Repairs Reserve (MRR):

Major Repairs Reserve	2017/18 £000	2018/19 £000
<b>Balance at 1 April</b>	(998)	(311)
Amount transferred to MRR (Depreciation)	(13,957)	(14,576)
Debits to the MRR in respect of capital expenditure on HRA land and Transfers from HRA to MRR	41,000	33,534
	(26,356)	(18,880)
<b>Balance at 31 March</b>	(311)	(234)

### 4. Capital Expenditure and Receipts

The following analyses HRA capital expenditure and the source of funding used.

During 2018-19:

	Capital Receipts £000	Major Repairs Reserve £000	Total £000
Houses	12,584	32,706	45,290
Vehicles, plant & equipment	1,343		1,343
Other property		216	216
Assets Under Construction	17,004	611	17,615
<b>Total</b>	<b>30,931</b>	<b>33,533</b>	<b>64,464</b>

During 2017-18:

	Borrowing Approvals £000	Grant & S106 £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Total £000
Houses		420	13,786	37,612	51,818
Land					0
Other property			853	433	1,286
Assets Under Construction	3,200		4,583	7,494	15,277
<b>Total</b>	<b>3,200</b>	<b>420</b>	<b>19,222</b>	<b>45,539</b>	<b>68,381</b>

Capital receipts derived from disposals of land, houses and other property within the HRA during 2018/19 are summarised as follows:

	2017/18 £000	2018/19 £000
Houses	38,864	29,685
<b>Total</b>	<b>38,864</b>	<b>29,685</b>

## 5. Depreciation and Impairment

The total charge for depreciation to the HRA was £13.6 million for dwellings and £1.0 million for other property (2017/18 £13.957 million and £0.992 million, respectively). Revaluation loss of £12.6m million have also been charged to the HRA.

The Council commissioned an impairment review of all its assets from its valuers, Wilks Head & Eve. The conclusion of the valuers was that no impairment allowance should be applied to the value of the housing stock.

## 6. Rent Arrears

	2017/18	2018/19
	£000	£000
Dwelling rents	5,717	3,762
Other charges/adjustments	1,149	<b>2,507</b>
	6,866	<b>6,269</b>

## 7. IAS 19 – Retirement Benefits

The Authority considers it to be proper accounting practice to allow the HRA to be charged with an attributable share of current and past service costs. From 2005/06, the HRA has also been charged with an attributable share of pensions interest costs, less expected return on pensions assets. However, as Local Authorities can only charge actual employer contributions and payments against the HRA, the IAS 19 entries are reversed out in the Movement on the HRA Statement and replaced by actual employers' contributions payable to the scheme.

## 9. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Revenue expenditure funded from capital under statute on the HRA in 2018/19 was nil (2017/18: nil).



# Collection Fund Account

for the year ended

31st March 2019

## COLLECTION FUND ACCOUNT

	2018/19				2017/18			
	NNDR Supplement £000	NNDR £000	Council Tax £000	Total £000	NNDR Supplement £000	NNDR £000	Council Tax £000	Total £000
<b><u>Income</u></b>								
Council Tax Receivable			(76,956)	(76,956)			(71,342)	(71,342)
Business Rates Receivable		(59,910)		(59,910)		(60,552)		(60,552)
Business Rate Supplement	(1,529)			(1,529)	(1,493)			(1,493)
Transitional Protection Payments		3,835		3,835				0
	<b>(1,529)</b>	<b>(56,075)</b>	<b>(76,956)</b>	<b>(134,560)</b>	<b>(1,493)</b>	<b>(60,552)</b>	<b>(71,342)</b>	<b>(133,387)</b>
<b><u>Expenditure - Precepts, Demands and Shares</u></b>								
Central Government		0		0		18,831		18,831
Greater London Authority	1,523	21,926	14,353	37,802	1,485	21,113	13,237	35,835
Billing Authority		38,977	58,521	97,498		17,119	53,505	70,624
	<b>1,523</b>	<b>60,903</b>	<b>72,874</b>	<b>135,300</b>	<b>1,485</b>	<b>57,063</b>	<b>66,742</b>	<b>125,290</b>
<b><u>Apportionment of Previous Year Surplus/(Deficit)</u></b>								
Central Government		(129)		(129)		534		534
Greater London Authority		(323)	(756)	(1,079)		214	2,454	2,668
Billing Authority		(194)	6,085	5,891		321	611	932
	<b>0</b>	<b>(646)</b>	<b>5,329</b>	<b>4,683</b>	<b>0</b>	<b>1,069</b>	<b>3,065</b>	<b>4,134</b>
<b><u>Charges to Collection Fund</u></b>								
Write Offs of uncollectable amounts		57	315	372		3	(108)	(105)
Inc/(Dec) in Bad Debt Provision		637	1,532	2,169		1,488	936	2,424
Inc/(Dec) in Provision for Appeals		(2,201)		(2,201)		1,896		1,896
Cost of Collection	14	204		218	0	203		203
	<b>14</b>	<b>(1,303)</b>	<b>1,847</b>	<b>558</b>	<b>0</b>	<b>3,590</b>	<b>828</b>	<b>4,418</b>
<b>(Surplus)/Deficit arising during the year</b>	<b>8</b>	<b>2,879</b>	<b>3,094</b>	<b>5,981</b>	<b>(8)</b>	<b>1,170</b>	<b>(707)</b>	<b>455</b>
<b>(Surplus)/Deficit at 1st April</b>	<b>(8)</b>	<b>(390)</b>	<b>(6,035)</b>	<b>(6,433)</b>	<b>0</b>	<b>(1,560)</b>	<b>(5,328)</b>	<b>(6,888)</b>
<b>(Surplus)/Deficit at 31st March</b>	<b>0</b>	<b>2,489</b>	<b>(2,941)</b>	<b>(452)</b>	<b>(8)</b>	<b>(390)</b>	<b>(6,035)</b>	<b>(6,433)</b>
<b>(Surplus)/Deficit Balance Attributable to:</b>								
London Borough of Barking & Dagenham		634	(2,387)	(1,753)		(117)	(4,648)	(4,765)
Greater London Authority		928	(554)	374		(78)	(1,387)	(1,465)
Central Government		927		927		(195)		(195)

# COLLECTION FUND ACCOUNT

## 1. Council Tax Base

The tax base used to determine this figure was Band 'D' equivalent.

Band	Number of Properties after Discounts and Exemptions	Band 'D' Equivalent Properties
A (Disabled)	0.2	0.1
A	3,776.1	2,517.4
B	7,870.4	6,121.4
C	35,461.1	31,520.9
D	7,960.1	7,960.1
E	1,525.2	1,864.2
F	304.8	440.2
G	40.3	67.2
H	3.0	6.0
<b>Total Band 'D' equivalents for 2018/19</b>		<b>50,497.48</b>
Projected changes in discounts and growth		
Less in year non-collection allowance		(3,282.34)
Add arrears collection		1,567.17
<b>Council Tax Base for 2018/19</b>		<b>48,782.31</b>
Council Tax Base for 2017/18		47,273.15

## 2. National Non-Domestic Rates (NNDR)

Under the arrangements for NNDR, the Council collected rates in the Borough are based on rateable values assessed by the District Valuer, and multiplied by a uniform rate in the pound set each year by the government.

From 1 April 2010, those ratepayers with a Rateable Value in excess of £55k were subject to an additional levy from the Greater London Authority on their Business Rates to fund the Crossrail project. In 2017/18 the Rateable Value was increased to £70,000.

	2017/18 £'000s	2018/19 £'000s
Rateable Value at 31 March	154,873	154,447
Business rates multiplier for premises with rateable values (RV) of £25,500 and above	47.9p	49.3p
Small business rates multiplier for premises with RV below £25,500	46.6p	48.0p
Additional Crossrail NNDR Supplement multiplier for premises with a RV above £70,000 in 2017/18, £55,000 in 2016/17	2.0p	2.0p

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# Pension Fund Accounts

for the year ended  
31st March 2019

## PENSION FUND ACCOUNTS

### London Borough of Barking and Dagenham Pension Fund Account

	Note	2017/18 £000	2018/19 £000
<b>Dealings with members, employers and others directly involved in the scheme</b>			
Contributions	8	44,781	45,570
Transfers in from other pension funds	9	2,761	2,372
		47,542	47,942
Benefits	10	(38,240)	(40,216)
Payments to and on account of leavers	11	(4,216)	(2,765)
		(42,456)	(42,981)
<b>Net additions from dealings with members</b>		5,086	4,961
Management expenses	12	(4,708)	(5,957)
<b>Net Additions/(Withdrawals) including Fund Management Expenses</b>		378	(996)
<b>Returns on Investments</b>			
Investment Income	13	18,618	9,759
Profit (losses) on disposal of investments and changes in the market value of investments	15	31,893	44,767
<b>Net returns on investments</b>		50,511	54,526
<b>Net increase in the net assets available for benefits during the year</b>		50,889	53,530

#### Net Assets Statement as at 31 March 2019

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

	Note	2017/18 £000	2018/19 £000
<b>Investment Assets</b>	17	967,696	1,041,927
<b>Investment Liabilities</b>	17	0	(226)
<b>Current Assets</b>	18	1,590	825
<b>Current Liabilities</b>	18	(910)	(20,624)
<b>Net asset of the fund available to fund benefits at the end of the reporting period</b>		968,376	1,021,902

# PENSION FUND ACCOUNTS

## Notes to the Pension Fund Accounts for the year ended 31 March 2019

### 1. Introduction

The Barking and Dagenham Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (“LGPS”) and is administered by the London Borough of Barking and Dagenham (“LBBD”). The Council is the reporting entity for this Fund. The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- i. The LGPS Regulations 2013 (as amended)
- ii. The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- iii. The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is operated as a funded, defined benefit scheme which provides for the payment of benefits to former employees of LBBD and those bodies admitted to the Fund, referred to as “members”. The benefits include not only retirement pensions, but also widow’s pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividends on the Fund’s investments.

The objective of the Fund’s financial statements is to provide information about the financial position, performance and financial adaptability of the Fund and show the results of the Council’s stewardship in managing the resources entrusted to it and for the assets at the period end.

The Fund is overseen by the Fund’s Pension Committee, which is a Committee of LBBD.

Overall 2018/19 was a positive year for the Fund with a positive investment return, net of fund manager fees and custodian costs, of 5.2%, 2.7% lower than its benchmark of 7.9%. Over three years the Fund has returned an annualised return of 9.4%, which is 0.5% below the Fund’s benchmark return of 9.9%.

Equities were the main driver of outperformance, with Baillie Gifford and Kempen providing a good return of 8.8% and 7.9% for the year. Property, passive bonds and Alternatives provided positive returns of between 2.9% and 7.2%. The Fund’s credit manager and infrastructure manager were the only strategies that provided negative returns for the year, with credit providing a disappointing return of -4.7% and infrastructure providing a return of -1.9%.

A number of new employers were admitted to the Fund in 2018/19, including, B&D Trading Partnership, BD Together, BD Corporate Cleaning, BD SIP, Lewis and Graves and Town and Country. The total number of active employers within the Fund was 33 as at year end.

### 2. Format of the Pension Fund Statement of Accounts

The day to day administration of the Fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Operating Officer.

The following description of the Fund is a summary only. For more details, reference should be made to the Fund’s Annual Report for 2018/19, which can be obtained from the Council’s website: <http://www.lbbdpensionfund.org>

The statutory powers that underpin the scheme are the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) regulations, which can be found at: [www.legislation.gov.uk](http://www.legislation.gov.uk).

## PENSION FUND ACCOUNTS

### a) Membership

All local government employees (except casual employees and teachers) are automatically enrolled into the Scheme. However, membership of the LGPS is voluntary and employees are free to choose whether to opt out, remain in the Scheme or make their own personal arrangements outside the Scheme. Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A list of the Fund's scheduled and admitted employers are provided below. Not Active employers do not have any current members but have either deferred or pensioners. The obligations and assets for these employers have been absorbed by the Council.

<b>Scheduled Bodies</b>	<b>Admitted Bodies</b>
<p style="text-align: center;"><b>Active</b></p> <p>LBBB Barking College Dorothy Barely Academy Eastbury Academy Elutec Goresbrook Free School Greatfields Free School James Campbell Primary Partnerships Learning Riverside Bridge Riverside Free School Riverside School St Margarets Sydney Russell Thames View Infants Academy Thames View Junior Academy University of East London Warren Academy</p>	<p style="text-align: center;"><b>Active</b></p> <p>Aspens B&amp;D Citizen's Advice Bureau BD Corporate Cleaning BD Schools Improvement Partnership BD Together Be First BD Trading Partner Cleantech Elevate East London LLP Laing O'Rourke Lewis and Graves Schools Offices Services Ltd Sports Leisure Management The Broadway Theatre Town and Country Cleaners</p>
<p><b>Not Active</b></p> <p><i>Magistrates Court (not active)</i></p>	<p><b>Not Active</b></p> <p><i>Abbeyfield Barking Society (not active)</i> <i>Age UK (not active)</i> <i>Council for Voluntary Service (not active)</i> <i>Disablement Assoc. of B&amp;D (not active)</i> <i>East London E-Learning (not active)</i> <i>London Riverside (not active)</i> <i>May Gurney (not active)</i> <i>RM Education (not active)</i></p>

## PENSION FUND ACCOUNTS

A breakdown of the Fund's member by employer type and by member type is included in the table below:

	2017/18	2018/19
<b>Number of Employers with active members</b>	27	33
<b>Number of Employees in scheme</b>		
<b>London Borough of Barking and Dagenham</b>		
Active members	4,754	4,298
Pensioners	4,361	4,687
Deferred pensioners	4,468	4,731
Undecided and other members	425	231
	14,008	13,947
<b>Admitted and Scheduled Bodies</b>		
Active members	1,558	1,978
Pensioners	912*	965
Deferred pensioners	1,335	1,466
Undecided and other members	60	62
	4,262	4,471

\* 2017/18 Admitted and Scheduled body Pensioners have been restated from 1,335 to 912 as the original number included non-fund members who had a Guaranteed Minimum Pension.

### b) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service as summarised below:

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

The benefits payable in respect of service from 1 April 2014 are based on career average devalued earnings and the number of years of eligible service. The accrual rate is 1/49 and the benefits are index-linked to keep pace with inflation. From 1 April 2011, the method of indexation changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI).

### 3. Basis of preparation

The accounts summarise the transactions and net assets for the Fund's transactions for the 2018/19 financial year and its position as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2018/19. The financial statements do not reflect any liabilities to pay pension or other benefits occurring after 31 March 2019. Such items are reported separately in the Actuary's Report provided in Note 19 to the Fund's accounts.

The accounts have been prepared on an accruals basis (that is income and expenditure are recognised as earned or incurred, not as received and paid) except in the case of transfer values which are included in the accounts on a cash basis. The Pension Fund Accounts have been prepared on a going concern basis.

## 3.1 Contributions (see Note 8)

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

Secondary contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

## 3.2 Transfers to and from other schemes (see Note 9)

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Transfer Values to/from other funds, for individuals, are included in the accounts based on the actual amounts received and paid in the year.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

## 3.3 Investment income (see Note 13)

- i) Interest income - Interest income is recognised in the Fund account as it accrues. Interest from financial assets that are not carried at fair value through profit and loss, i.e. loans and receivables, are calculated using the effective interest basis.
- ii) Dividend income - Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- iii) 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/loss during the year.

## 3.4 Net Assets Statement at market value is produced on the following basis (see note 14):

- i) Quoted investments are valued at bid price at the close of business on 31 March 2019;
- ii) Unquoted investments are based on market value by the fund managers at year end in accordance with accepted guidelines;
- iii) Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income, which is reinvested in the fund, net of applicable withholding tax;

## PENSION FUND ACCOUNTS

- iv) Investments held in foreign currencies have been valued in sterling at the closing rate ruling on 31 March 2019. All foreign currency transactions are translated into sterling at exchange rates ruling at the closing rate of exchange; and
- v) Limited partnerships are valued at fair value on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

### 3.5 Management expenses (see note 12)

#### Administration Expenses

All administration expenses are accounted for on an accrual basis. Staff costs associated with the Fund are charged to the Fund, with management, accommodation and other overheads apportioned in accordance with LBBD's policy.

#### Investment management expenses

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

External manager fees, including custodian fees, are agreed in the respective mandates governing their appointments, which are broadly based on the market value of the Fund's investments under their management. Therefore, investment management fees increase / decrease as the value of these investments change.

The Fund does not include a performance related fees element in any of their contracts. Where it has not been possible to confirm the investment management fee owed by the balance sheet date, an estimate based on the market value has been used.

Most the Fund's holdings are invested in pooled funds which include investment management expenses, including actuarial, trading costs and fund manager fees, within the pricing mechanism.

The Council has made a prepayment of employer pension contributions to the Fund, totalling £40m. The interest costs associated with this prepayment are included as an investment management expense.

### 3.6 Taxation

The Fund is a registered public-sector 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 proceed of investments sold.

Taxation agreements exist between Britain and other countries whereby all or a proportion of the tax deducted locally from investment income may be reclaimed. Non-recoverable deductions are classified as withholding tax.

Value Added Tax is recoverable on all Fund activities by the administering authority.

### 3.7 Foreign currency transactions

Dividends, interest, 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.

## 3.8 Cash and cash equivalents

Cash comprises cash in-hand and on-demand deposits.

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.

## 3.9 Present Value of Liabilities

These accounts do not include the Fund's liabilities to pay pensions and other benefits, in the future, to all the present contributors to the Fund. These liabilities are taken account of in the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined at these valuations.

## 3.10 Actuarial present value of promised retirement benefits (see note 18)

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement

## 3.11 Contingent assets and liabilities

Contingent assets and liabilities are not recognised in the Fund's Balance Sheet but are disclosed as a note to the accounts. They arise as a result of past events but are only confirmed by the occurrence of one or more uncertain future events which are not entirely within the Fund's control.

Contingent liabilities arise from a present obligation arising from past events but only where it is not probable that a transfer of economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured with sufficient reliability.

## 4. Critical Judgements in applying accounting policies

In applying the accounting policies set out in Note 2, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events.

A critical judgement made within the accounts is for the Pension Fund liability, which is calculated every three years by the appointed Actuary and is included in Note 20 but is not included in the net asset statement. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into consideration historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. There were no items in the Statement of Accounts 2018/19 for which there is a significant risk of material adjustment in the forthcoming financial years.

## PENSION FUND ACCOUNTS

All investments are measured at fair value and by necessity unquoted investments involve a degree of estimation. Notes 14 and 21 provide information about valuation methodology and the assumptions made in deriving the estimates.

### 6. Additional Voluntary Contributions (AVC)

AVCs administered by the Prudential, made by LBBB employees during the year amounted to **£267k** (2017/18 £338k). In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts. AVCs were valued by Prudential at a market value of **£4.0m** (2017/18 £4.3m).

### 7. Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Cost incurred in the administration and the Fund's oversight and governance are included in Note 12.

### 8. Contributions

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007, ranging from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employer contributions, which are set based on triennial actuarial funding valuations. Currently employer contribution rates range from 15.6% to 43.0%.

Pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in year but unpaid will be classed as a current financial asset.

The Council uses a mechanism to stabilise the contribution rates. This was agreed following the actuary, Hymans Robertson, completing a stochastic modelling of the long-term funding position. Eligibility for stabilisation is dependent on reasonable consistency in an employer's membership profile. The primary contribution rate for the financial year ending 31 March 2019 was 23.5%. Contributions shown in the revenue statement may be categorised as follows:

<b>Contributions</b>	2017/18	2018/19
<b>Members normal contributions</b>	£000	£000
Council	6,941	<b>6,710</b>
Admitted bodies	434	<b>959</b>
Scheduled bodies	2,118	<b>1,913</b>
<b>Total contributions from members</b>	<b>9,493</b>	<b>9,582</b>
<b>Employers normal contributions</b>		
Council - Normal	18,055	<b>17,878</b>
Council - Deficit Recovery	5,782	<b>5,726</b>
Admitted bodies - Normal	1,423	<b>3,750</b>
Admitted bodies- Deficit Recovery	16	<b>23</b>
Scheduled bodies - Normal	5,726	<b>5,235</b>
Scheduled bodies- Deficit Recovery	2,295	<b>1,948</b>
Pension Strain	1,991	<b>1,428</b>
<b>Total contributions from employers</b>	<b>35,288</b>	<b>35,988</b>
<b>Total Contributions</b>	<b>44,781</b>	<b>45,570</b>

## PENSION FUND ACCOUNTS

### 9. Transfers in from other pension funds

	2017/18 £000	2018/19 £000
<b>Individual Transfers</b>	2,761	2,372
	2,761	2,372
	2,761	2,372

### 10. Benefits

Benefits payable and refunds of contributions have been brought into the accounts based on all valid claims approved during the year.

	2017/18				2018/19			
	Council £000	Admitted Bodies £000	Scheduled Bodies £000	Total £000	Council £000	Admitted Bodies £000	Scheduled Bodies £000	Total £000
<b>Pensions</b>	26,152	389	5,084	31,625	26,913	462	5,678	33,053
<b>Lump sums</b>	3,229	37	2,110	5,376	4,934	226	1,216	6,376
<b>Death grants</b>	835	-	404	1,239	599	1	187	787
	30,216	426	7,598	38,240	32,446	689	7,081	40,216
	30,216	426	7,598	38,240	32,446	689	7,081	40,216

### 11. Payments to and on account of leavers

	2017/18 £000	2018/19 £000
Individual Transfers	3,966	2,439
Refunds	250	326
	4,216	2,765
	4,216	2,765

### 12. Management Expenses

	2017/18 £000	2018/19 £000
Administration and Processing	723	773
Management Fees	3,027	3,587
Custody Fees	28	25
Oversight and Governance Fees	251	239
Other Costs	679	1,333
	4,708	5,957
	4,708	5,957

### 13. Investment Income

	2017/18 £000	2018/19 £000
Fixed Interest Securities	423	421
Equity Dividends	16,123	6,252
Pooled Property Income	1,875	2,759
Interest - Manager's Cash	1	184
Interest - LBBD balance	31	120
Other Income	165	23
	18,618	9,759
	18,618	9,759

## PENSION FUND ACCOUNTS

### 14. Investments

The movement in the opening and closing value of investments during the year, together with related direct transaction costs were as follows:

	Value 31/03/2018 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2019 £000
<b>Pooled Unit Trusts</b>	778,268	5,649	-	41,381	-	825,298
<b>Property Unit Trusts</b>	63,662	39,570	(39,571)	490	-	64,151
<b>Pooled Alternatives</b>	55,488	26,209	(18,456)	5,540	-	68,781
<b>Infrastructure</b>	67,077	7,207	-	135	-	74,419
<b>Other Investments</b>	802	-	-	(155)	-	647
<b>Derivative Contracts</b>						
<b>Futures</b>	400	233,930	(231,908)	(2,648)	-	(226)
<b>Cash Deposits</b>						
<b>Custodian</b>	1,073	287,587	(284,595)	24	-	4,089
<b>In-House</b>	632	-	-	-	3,900	4,532
<b>Total</b>	<b>967,402</b>	<b>600,152</b>	<b>(574,530)</b>	<b>44,767</b>	<b>3,900</b>	<b>1,041,691</b>

	Value 31/03/2017 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2018 £000
<b>Pooled Unit Trusts</b>	715,607	43,634	(300)	19,327	-	778,268
<b>Property Unit Trusts</b>	61,208	-	(1,498)	3,952	-	63,662
<b>Pooled Alternatives</b>	51,285	31,926	(27,653)	(70)	-	55,488
<b>Infrastructure</b>	75,761	-	(14,463)	5,779	-	67,077
<b>Other Investments</b>	2,607	-	(1,812)	7	-	802
<b>Derivative Contracts</b>						
<b>Futures</b>	424	198,879	(201,731)	2,828	-	400
<b>Cash Deposits</b>						
<b>Custodian</b>	2,928	-	-	70	(1,925)	1,073
<b>In-House</b>	5,288	-	-	-	(4,656)	632
<b>Total</b>	<b>915,108</b>	<b>274,439</b>	<b>(247,457)</b>	<b>31,893</b>	<b>(6,581)</b>	<b>967,402</b>

The change in fair value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investment and changes in the sterling value of assets caused by changes in exchange rates. In the case of pooled investment vehicles changes in market value also includes income, net of withholding tax, which is reinvested in the Fund.

The cost of purchases and the sales proceeds are inclusive of transaction costs, such as broker fees and taxes. In addition to transaction costs, indirect costs are incurred through the bid offer spread on investments within pooled investment vehicles. The amount of indirect cost is not separately provided to the Fund. The Fund employs specialist investment managers with mandates corresponding to the principle asset classes. The managers as at 31 March 2019 are highlighted below:

## PENSION FUND ACCOUNTS

A list of the Fund's Fund Manager, their mandate and asset type is outlined in the table below:

Investment Manager	Mandate	Asset Type
Aberdeen Asset Management	Active	Diversified Alternatives
Mellon Corporation	Active	Global Credit
London CIV: Baillie Gifford	Active	Global Equity (Pooled)
London CIV: Pyrford	Active	Absolute Return
London CIV: Newton	Active	Absolute Return
London CIV: Other	Passive	None
BlackRock	Active	Property Investments (UK)
Hermes	Active	Infrastructure (LLP)
Kempen	Active	Global Equity (Pooled)
Prudential/M&G	Active	Alternatives - UK Companies Financing
RREEF	Active	Property Investments (UK)
Schroders	Active	Property Investments (UK Fund of Funds)
UBS	Passive	Global Equity (Pooled)
UBS	Passive	All Share Fixed Income (Pooled)

The value of the Fund, by manager, as at 31 March 2019 was as follows:

Fund by Investment Manager	2017/18		2018/19	
	£000	%	£000	%
Aberdeen Asset Management	55,889	5.8	68,555	6.6
BlackRock	39,031	4.0	39,651	3.8
Hermes	67,078	6.9	74,419	7.1
Kempen	153,324	15.8	165,846	16.0
Other Cash Balances	1,707	0.2	8,621	0.8
Prudential/M&G	653	0.1	498	0.0
RREEF	348	0.0	338	0.0
Schroders	24,283	2.5	24,162	2.3
Mellon Corporation	66,403	6.9	63,364	6.1
UBS Passive Bonds	35,990	3.7	37,324	3.6
UBS Passive Equity	171,957	17.9	183,816	17.7
London CIV	150	0.0	150	0.0
London CIV - Baillie Gifford	186,184	19.2	202,492	19.5
London CIV - Pyrford	99,780	10.3	103,188	9.9
London CIV - Newton	64,625	6.7	69,267	6.6
<b>Total</b>	<b>967,402</b>	<b>100.0</b>	<b>1,041,691</b>	<b>100.0</b>

### 15. Cash

The cash balance held at 31 March 2019 is made up as follows:

Cash balances held by Investment Managers	2017/18 £000	2018/19 £000
Aberdeen Asset Management	928	1,541
Prudential / M&G	0	184
Schroders	26	862
BlackRock	74	1,499
Other balances	46	3
In-house Cash	633	4,532
<b>Total Cash</b>	<b>1,707</b>	<b>8,621</b>

## PENSION FUND ACCOUNTS

### 16. Securities

	2017/18 £000's	2018/19 £000's
<b>Investment Assets</b>		
<b>Pooled funds - UK</b>		
UK fixed Income Unit Trust	35,990	37,324
UK Equity Unit Trust	358,291	386,458
UK Absolute Return	164,405	172,455
UK Property Unit Trust	24,631	24,500
UK Unit Trust	653	498
<b>Pooled funds - Overseas</b>		
Overseas Fixed Income Unit Trust	66,403	63,364
Overseas Equity Unit Trust	153,324	165,846
Overseas Property Unit Trust	39,031	39,651
Other Investment - Infrastructure	67,078	74,419
Other Investment - Private Equity	22,720	34,714
Other Investment - Hedge Funds	32,770	34,067
Other Investment – Tax Recoverable	294	10
<b>Cash</b>	1,707	8,621
<b>Futures</b>	400	0)
<b>Total Investment Assets</b>	967,696	1,041,701
<b>Investment Liabilities</b>		
<b>Futures</b>	0	(226)
<b>Total Investment Liabilities</b>	0	(226)
<b>Current Assets: Debtors</b>	1,590	825
<b>Current Liabilities: Creditors</b>	(910)	(20,624)
<b>Total Net Assets</b>	968,376	1,021,902

### 17. Debtors and Creditors

The following amounts were debtors or creditors for the Fund at 31 March 2019:

	2017/18 £000	2018/19 £000
<b>Debtors</b>		
<b>Other Investment Balances</b>		
Tax recoverable	294	10
<b>Current Assets</b>		
Other local authorities	1,130	347
Other entities and individuals	460	478
Total Current Assets	1,590	825
<b>Total Debtors</b>	1,884	835
<b>Current Liabilities</b>		
Other local authorities	725	382
LBBB Prepayment	-	20,000
Other entities and individuals	185	242
<b>Total Creditors</b>	910	20,624

## PENSION FUND ACCOUNTS

### 18. Holdings

All holdings within the Fund as at 31 March 2019 were in pooled funds or Limited Liability Partnerships (LLP), with no direct holdings over 5% of the net assets of the scheme. As at 31 March 2019 the following pooled funds and LLPs were over 5% of the scheme's net assets:

Security	Market Value as at 31 March 2019	% of Total Fund
	£000	%
London CIV - Baillie Gifford	202,492	19.5
UBS Passive Equity	183,816	17.7
Kempen	165,846	16.0
London CIV - Pyrford	103,188	9.9
Hermes	74,419	7.1
London CIV - Newton	69,267	6.7
Mellon Corporation	63,364	6.1

### 19. Investment Strategy Statement

An Investment Strategy Statement was agreed by the Council's Investment Committee on 15 March 2018 and is updated periodically to reflect changes made in Investment Management arrangements. The nature and extent of risk arising from financial instruments and how the Fund manages those risks is included in the Investment Strategy Statement.

Copies can be obtained from the Council's Pension website: <http://www.lbbdpensionfund.org>

### 20. Actuarial position

#### Actuarial assumptions

The 2016 triennial review of the Fund took place as at 31 March 2016 and the salient features of that review were as follows:

- The funding target is to achieve a funding level of at least 100% over a specific period;
- Deficit recovery period reduced from 20 years in 2013 to 17 years in 2016;
- The key financial assumptions adopted at this valuation are:
  - Future levels of price inflation are based on the Consumer Price Index (CPI);
  - Funding discount rate based on an Asset Outperformance target of 1.7% p.a. above the yield on fixed interest (nominal) and index-linked (real) Government bonds;
  - The resulting discount rate of 4.1% (4.7% as at 31 March 2013).
- Market value of the scheme's assets at the date of the valuation were £772 million;
- The past service liabilities at the rate of the valuation were £1,001 Million;
- The resulting funding level was 77.2% (70.6% as at 31 March 2013); and
- The use of an appropriate asset outperformance assumption is based on available evidence and is a measure of the degree of prudence assumed in the funding strategy.

The valuation has made assumptions about member longevity and has used the following average future life expectancies for pensioners aged 65 at the valuation date:

Longevity Assumptions	2013	2013	2016	2016
at 31 March	Male	Female	Male	Female
Average future life expectancy (in years for a pensioner)	21.8	24.0	<b>22.0</b>	<b>24.7</b>
Average future life expectancy (in years) at age 65 for non-pensioner assumed to be aged 45 at the valuation date	24.1	26.5	<b>24.0</b>	<b>26.4</b>

## PENSION FUND ACCOUNTS

The key financial assumptions adopted by the actuary for the valuation of members' benefits at the 2016 valuation are set out below:

Financial assumptions	31 March 2013	31 March 2016
Discount rate		
Return on long-dated gilts	3.0%	2.2%
Asset Outperformance Assumption	1.7%*	1.9%*
<b>Discount rate</b>	<b>4.7%</b>	<b>4.1%</b>
Benefit increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Assumed RPI/CPI gap	(0.8%)*	(1.0%)*
<b>Benefit increase assumption (CPI)</b>	<b>2.5%</b>	<b>2.1%</b>
Salary increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Increases in excess of RPI	0.5%*	(0.6%)*
<b>Salary increase assumption</b>	<b>3.8%</b>	<b>2.6%</b>

*\*Adjustments are applied arithmetically in 2013 and geometrically in 2016*

### Funding level and position

The table below shows the detailed funding level for the 2016 valuation:

Employer contribution rates	As at 31 March	
	2013	2016
Primary Rate (net Employer Future Service Cost)	18.7%	<b>18.2%</b>
Secondary Rate (Past Service Adjustment – 17-year spread)	12.7%	<b>6.8%</b>
<b>Total Contribution Rate</b>	31.4%	<b>25.0%</b>

The Primary rate above includes an allowance for administration expenses of 0.4% of pay. The employee average contribution rate is 6.7% of pay. The table below shows the funding position as at 31 March 2016.

Past Service Funding Position at 31 March	As at 31	As at 31
	March 2013	March 2016
Past Service Liabilities	£m	£m
Employees	(316)	<b>(324)</b>
Deferred Pensioners	(180)	<b>(221)</b>
Pensioners	(406)	<b>(456)</b>
	(902)	<b>(1,001)</b>
Market Value of Assets	636	<b>772</b>
<b>Funding Deficit</b>	<b>(266)</b>	<b>(228)</b>
<b>Funding Level</b>	<b>70.6%</b>	<b>77.2%</b>

### Present value of funded obligation

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 Employee Benefits (IAS 19) assumptions, is estimated to be **£1,676m** as at 31 March 2019 (31 March 2018: £1,487m). This figure is used for statutory accounting purposes by the Pension Fund and complies with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans. The assumptions underlying the figure are as per the IAS 19 assumptions above.

## PENSION FUND ACCOUNTS

The figure is prepared for the purposes of IAS 26 and has no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund, which is carried out on a triennial basis.

During 2018/19 the Court of Appeal upheld two claims concerning age discrimination within the transitional arrangements of the judges and firefighters pension schemes. The impact of the Court of Appeal rulings would be to increase the pension liabilities of both schemes. The Government is considering whether to seek leave to appeal the judgements to the Supreme Court and it is uncertain as to the outcome of any such appeal. The Local Government Pension Scheme has similar transitional arrangements to the judges and firefighters' schemes. The gross pension liability of £1,676m takes account of the two rulings.

### Total contribution rate

The table below shows the minimum total contribution rates, expressed as a percentage of pensionable pay, which was applied to the 2018/19 accounting period:

Scheduled Bodies	Rate %	Admitted Bodies	Rate %
Barking College	25.3	Aspens	31.3
Dorothy Barely Academy	18.7	B&D Citizen's Advice Bureau	43.0
Eastbury Academy	23.6	BD Corporate Cleaning	27.8
Elutec	20.0	BD Schools Improvement Partnership	27.7
Goresbrook Free School	15.6	BD Together	27.8
Greatfields Free School	23.5	Be First	27.0
James Cambell Academy	22.8	Cleantech	28.1
LBBB	23.5	Elevate East London LLP	21.3
Partnership Learning	21.9	Laing O'Rourke	28.1
Riverside Bridge	17.7	Lewis and Graves	23.5
Riverside Free School	17.6	Schools Offices Services Ltd	24.4
Riverside School	17.3	Sports Leisure Management	22.2
St Margarets Academy	23.0	The Broadway Theatre	31.1
Sydney Russell	20.5	Town and Country Cleaners	24.7
Thames View Infants Academy	18.1		
Thames View Junior Academy	20.0		
University of East London	28.6		
Warren Academy	24.4		

The financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

### 21. Valuation of financial instruments carried 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. There were no transfers between levels during 2018/19.

#### 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. One of the Fund's absolute return mandates, Pyrford, holds a mixture of quoted equities and fixed income that is traded on an active market and have therefore been classified as Level 1.

## PENSION FUND ACCOUNTS

Listed investments are shown as bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange. The total financial instruments held by the **Fund at Level 1 were £834.6m**

### 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 use inputs that are based significantly on observable market data. For the Fund these investments includes pooled property holdings, the Fund's absolute return manager Newton, where some of the assets, although liquid, do not readily have a market value. The Fund did not hold any Level 2 investments as at 31 March 2019.

### Level 3

Financial instruments at Level 3 are those where at least one input 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 or funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The Fund's infrastructure manager has been classified as level 3 as valuations are based on a variety of assumptions and the assets held do not have a readily identifiable market.

The values of the investment in infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The total financial instruments held by the Fund at **Level 3 were £207.4m**.

### Asset Valuation Hierarchy and Basis of Valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs
Fixed Income Unit Trusts	Level 1	Published bid market price ruling on the final day of the accounting period	Not required
Equity Unit Trust	Level 1	Market value based on current yields	Not required
Absolute Return Funds	Level 1	Closing bid value on published exchanges	Not required
Property Unit Trust	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis
Other Investment - Infrastructure	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis
Other Investment - Private Equity	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis
Other Investment - Hedge Funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis

## PENSION FUND ACCOUNTS

### Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Description of asset	Assessed valuation range	Value at 31 March 2019	Value on Increase	Value on Decrease
	%	£000s	£000s	£000s
Property Unit Trust	10	64,151	70,566	57,736
Other Investment - Infrastructure	15	74,419	81,861	63,256
Other Investment - Private Equity	15	34,714	38,185	29,507
Other Investment - Hedge Funds	15	34,068	37,475	28,958
		207,352	228,087	179,457

The potential movement of 10% for Property Unit Trusts represents a combination of the following factors, which could all move independently in different directions:

- Rental increases +/- 4%
- Vacancy levels +/- 2%
- Market prices +/- 3%
- Discount rates +/-1%

All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 15% is caused by how this profitability is measured since different methods (listed in the first table of Note 21 above) produce different price results

#### 22. Events after the Reporting Period

None

#### 23. Related parties

The Fund is a related party of the Council as the following transactions are controlled by the Council. Pension administration and investment management costs of **£751.1k** (2017/18: £658.2k) are charged by the Council.

#### 24. Contingent Asset and liabilities

As at 31 March 2019 there were no contingent assets or liabilities.

#### 25. Compensation of key management personnel

Compensation of key management personnel, including members of the Pension Committee, the Chief Operating Officer, the Director of Finance, the Investment Fund Manager, Pension Fund Accountant and Senior Treasury Accountant, charged to the Fund are provided below:

	2017/18	2018/19
	£000	£000
Short Term employee benefits	243.0	231.7
<b>Total</b>	243.0	231.7

## PENSION FUND ACCOUNTS

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

	Designated as fair value through profit and loss	Financial assets at amortise d cost 2017/18	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Financial assets at amortise d cost 2018/19	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
Pooled Fixed Income Unit Trusts	102,393	-	-	<b>100,688</b>	-	-
Equities	511,615	-	-	<b>552,304</b>	-	-
Property Unit Trusts	63,663	-	-	<b>64,151</b>	-	-
Cash		1,707	-		<b>8,620</b>	-
Other investments	288,318	-	-	<b>315,938</b>	-	-
<b>Total Financial Assets</b>	965,989	1,707	-	<b>1,033,081</b>	<b>8,620</b>	-
<b>Financial Assets - Debtors</b>			1,590			<b>825</b>
<b>Financial liabilities - Creditors</b>			(910)			<b>(20,624)</b>
<b>Total Net Assets</b>	965,989	3,297	(910)	<b>1,033,081</b>	<b>8,620</b>	<b>(19,799)</b>

### 27. Nature and extent of risks arising from Financial Instruments

The Fund activities expose it to a variety of financial risks, including:

- **Market risk** – the possibility that financial loss might arise from the Fund's as a result of changes in such measures as interest rates or stock market movements;
- **Interest rate risk** – the risk that interest rates may rise/fall above expectations;
- **Credit risk** - the risk that other parties may fail to pay amounts due;
- **Liquidity risk** – the risk that the Fund may not have funds available to meet its commitments to make payment; and
- **Refinancing risk** – the risk that the Fund might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

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.

Responsibility for the Fund's risk management strategy rests with the Fund's Committee. Risk management policies have been established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

## **Risk and risk management**

### **Market risk**

Market risk is the risk of loss from fluctuations in equity prices, from interest and foreign exchange rates and from credit spreads. The Fund is exposed to market risk predominantly from 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 of the Fund's risk management strategy 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 Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The Fund manages these risks in two ways:

- Fund's exposure to market risk is monitored by reviewing the Fund's asset allocation; and
- Specific risk exposure is limited by applying maximum exposures to individual investments.

Fund equity managers may use futures contracts and exchange traded option contracts to manage market risk on equity investment.

### **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 by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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

### **Other price risk - sensitivity analysis**

Potential price changes are determined based on the observed historical volatility of asset class returns. Riskier assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome depends largely on Funds' asset allocations.

## PENSION FUND ACCOUNTS

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix. The Council has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

Asset Class	One Year Expected Volatility (%)	Asset Class	One Year Expected Volatility (%)
Global Pooled Inc UK	10.01	Alternatives	3.92
Total Bonds	4.52	Cash	0.01
Property	2.32		

The sum of the monetary impact for each asset class will equal the total Fund impact as no allowance has been made for diversification of the one-year standard deviation for a single currency. Had the market price of the Fund investments increased or decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
<b>Pooled Fixed Interest Securities</b>	100,688	4.52	105,240	96,137
<b>Pooled Equity Investments</b>	552,304	10.01	607,590	497,018
<b>Pooled Property</b>	64,150	2.32	65,639	62,663
<b>Pooled Absolute Return</b>	172,455	3.92	179,215	165,695
<b>Infrastructure</b>	74,419	3.92	77,336	71,502
<b>Other Investments</b>	69,064	3.92	71,771	66,356
<b>Cash</b>	8,621	0.01	8,623	8,619
<b>Total</b>	<b>1,041,701</b>		<b>1,115,412</b>	<b>967,990</b>

Asset Type	Value as at 31 March 2018 £000	% Change	Value on Increase £000	Value on Decrease £000
Pooled Fixed Interest Securities	102,393	4.52	107,021	97,765
Pooled Equity Investments	511,615	10.01	562,828	460,402
Pooled Property	63,662	2.32	65,139	62,185
Pooled Absolute Return	164,405	3.92	170,850	157,960
Infrastructure	67,078	3.92	69,707	64,449
Other Investments	56,837	3.92	59,065	54,609
Cash	1,707	0.01	1,707	1,707
<b>Total</b>	<b>967,697</b>		<b>1,036,317</b>	<b>899,077</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 interest rate risk is monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

## PENSION FUND ACCOUNTS

The Fund's direct exposure to interest movements as at 31 March 2018 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

<b>Asset type</b>	As at 31 March 2018 £000	As at 31 March 2019 £000
Cash and cash equivalent	1,707	8,621
Fixed interest securities	102,393	100,688
<b>Total</b>	104,100	109,309

### Interest rate risk sensitivity analysis

The Council 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. A 100-basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 BPS from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that 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 change in interest rates:

<b>Asset type</b>	<b>Carrying amount as at 31 March 2019 £000</b>	<b>Change in year in the net assets available to pay benefits</b>	
		<b>+100 BPS £000</b>	<b>-100 BPS £000</b>
Cash and cash equivalent	8,621	86	(86)
Fixed interest securities	100,688	1,007	(1,007)
<b>Total</b>	109,309	1,093	(1,093)

Asset type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
Cash and cash equivalent	1,707	17	(17)
Fixed interest securities	102,393	1,024	(1,024)
<b>Total</b>	104,100	1,041	(1,041)

### Currency risk

Currency risk represents the risk that the 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 (sterling). The Fund holds both monetary and non-monetary assets denominated in currencies other than sterling.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

## Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Pension Committee Members are aware of the cash flow pressures that are affecting the Fund. These include the potential for a reduction in Fund current members from the significant savings the LBBDD needs to make in the coming years and from an increase in pension payments due to increased pensioner numbers and as a result of the pricing index exceeding salary increases. Members receive a quarterly report on the Fund's cash flow and have agreed to utilise distributions from property and infrastructure to fund future investments and to cover any cash flow shortfalls.

Where there is a long-term shortfall in net income into the Fund, investment income will be used to cover the shortfall. All financial liabilities at 31 March 2019 are due within one year.

## Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of the Fund's financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 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 of investments 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 financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. 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.

The Fund's internally managed cash is invested by the Council's treasury team. Deposits are not made with banks and financial institutions unless they meet the council's credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.

## 28. London Borough of Barking and Dagenham (LBBDD)

The Fund is administered by LBBDD. Consequently, there is a strong relationship between the Council and the Fund.

The Council incurred administration and investment management costs of **£751.1k** (2017/18 £748.0k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the

## PENSION FUND ACCOUNTS

Fund and contributed **£23.6m** to the Fund in 2018/19 (2017/18 £23.8m). All monies owing to and due from the Fund were paid in year.

In 2018/19 the Council prepaid two-years' worth of employer contributions, totalling **£40.0m**. As at 31 March 2019 one-year worth of prepaid employer's contribution remained, totalling **£20.0m**, with the Fund and this has been included as a prepayment in the Fund's debtors.



# **Annual Governance Statement 2018-19**

**Local Audit and Accountability Act 2014 &  
Accounts and Audit Regulation 2015**

## Introduction

This document is a review of our governance framework and of the effectiveness of our systems of internal control and risk management. It enables the Council to monitor whether these have led to the delivery of appropriate, cost effective services producing best value and the achievement of its objectives. In doing this, it also considers the legal framework and responsibilities of the Council.

Part of this statement therefore explains how the London Borough of Barking and Dagenham (LBBD) currently meets the requirements of regulation 6(1) (a) and (b) of the Accounts and Audit Regulations 2015 in relation to the review of effectiveness of its systems of internal control and the production of an *Annual Governance Statement* (AGS).

Coupled with these requirements is the need for a wider statement which indicates the degree to which the Council's governance arrangements follow the proper practices in relation to accounts as set out in the revised document *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016) ('the Framework') these are:

Principle A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

Principle B - Ensuring openness and comprehensive stakeholder engagement.

Principle C - Defining outcomes in terms of sustainable economic, social, and environmental benefits.

Principle D - Determining the interventions necessary to optimise the achievement of the intended outcomes.

Principle E - Developing the Authorities' capacity, including the capability of its leadership and the individuals within it.

Principle F - Managing risks and performance through robust internal control and strong public financial management.

Principle G - Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

This AGS enables stakeholders to be assured that decisions are properly made and public money is being properly spent on citizens' behalf. It is based on evidence obtained across the Council about the robustness of the Council's governance arrangements and its systems of internal control. This evidence builds on the assurance gathering process that has been in place since the requirement to produce a Statement on Internal Control began and the comments of the Council's Senior Leadership Team (SLT) in relation to statements provided by their Senior Managers.

# ANNUAL GOVERNANCE STATEMENT

There are five Sections in this AGS:

- Section 1** Sets out the scope of responsibility and the purpose of the governance framework;
- Section 2** Describes and assesses the effectiveness of the key elements of the systems and processes that comprise the Council's governance arrangements;
- Section 3** Presents an opinion of the level of assurance of the Council's governance arrangements and the effectiveness of the Council's governance arrangements;
- Section 4** Sets out any significant governance issues that need to be addressed and how any issues from the previous year's governance statement have been resolved;
- Section 5** The Conclusion – a commitment to monitoring implementation for the next AGS review.

## Section 1

### ***The scope of responsibility and the purpose of the Council's governance framework.***

#### Scope of Responsibility

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

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

#### The Purpose of the Governance Framework

The governance framework comprises the culture and values, coupled with its systems, processes and controls that the authority uses to engage with and lead the community. Its purpose is to enable the Council to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk or a failure to achieve policies, aims and objectives (without a significant increase in resources and control functions) and so achieves a reasonable rather than an absolute assurance of effectiveness.

It is based on an ongoing process designed to identify and prioritise the risks to achievement of LBBDD's policies, aims and objectives; to evaluate the likelihood of those risks being realised; the impact should they be realised; and then to manage them efficiently, effectively and economically.

The Council has a local Code of Corporate Governance revised in spring 2017 to take account of the revised and new *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016).

The governance framework has been in place for the year ended 31 March 2018 and up to the date of approval of the audited Statement of Accounts.

## Section 2

### ***Key elements of the Council's systems and processes and their effectiveness - these are described in more detail below.***

***The Council's Governance mission is to ensure the business of the Council is carried out within the law and to proper standards ensuring that public funds and resources are used to the best effect economically, effectively and efficiently with the goal of continuous improvement.***

#### **a) The Council's Vision and Priorities**

The vision and priorities for the London Borough of Barking and Dagenham (LBBDD) represents the Council's shared vision for the Borough with its priorities setting out its role in place shaping and enabling community leadership within the context of a significantly reducing budget.

The understanding that everyone has a part to play in the future of the Borough fuelled the creation of the Borough Manifesto, the Council's aspirational, community-led and community-owned vision for the future of the Borough over the next twenty years. The Manifesto will be delivered by strengthened local partnerships and new relationships to collaborate and take a place-based approach to overcome our biggest challenges. In order to realise that twenty-year vision by 2037, the Council must first build the foundations and make certain progress by 2022. The Corporate Plan sets out how that journey is started. The foundations in the redesign of the Council have now been created and changes now need to be made to culture, thinking and approach to service delivery, commissioning and partnership working

The Council has set the vision for the Borough as being:

## **One Borough; one community; no-one left behind**

With the priorities being set-out under 4 themes:

### **Theme 1: A New Kind of Council**

Priorities:

1. Build a well-run organisation
2. Ensure relentlessly reliable services
3. Develop place-based partnerships

### **Theme 2: Empowering People**

Priorities:

1. Enable greater independence & protect the most vulnerable
2. Strengthen our services for all
3. Intervene earlier

### **Theme 3: Inclusive Growth**

Priorities:

1. Develop our aspirational and affordable housing offer
2. Shape great places and strong communities through regeneration
3. Encourage enterprise and enable employment

### **Theme 4: Citizenship and Participation**

Priorities:

1. Harness culture and increase opportunity
2. Encourage civic pride and social responsibility
3. Strengthen partnerships, participation and a place-based approach

For more detail on the vision and priorities please visit the Council's website [www.lbbd.gov.uk/visionandpriorities](http://www.lbbd.gov.uk/visionandpriorities).

The Corporate Plan also sets out the Council's performance framework. Progress against delivery of the Corporate Plan is monitored through the corporate performance framework, which is reported to the Corporate Strategy Group and Cabinet on a quarterly basis and periodically to the Audit and Standards Committee. The Cabinet Member for Performance also has the opportunity to provide constructive challenge to any Cabinet colleague via the Council's performance challenge sessions.

The 2018-19 financial year saw continued organisational change and transformation. The Council has made significant progress in moving towards becoming a new kind of council, a commissioning-based organisation based on service blocks that went live in 2017-18. The new

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structure has four delivery options which include; directly managed services, commissioned services, contracted services, and external suppliers which are all supported by a strategic 'core'.

The Corporate Plan is a key document to ensure the Council has a co-ordinated approach to delivering the vision and priorities and makes the best use of the resources available. The plan sets out 62 Key Accountabilities focused on the Council's priorities, alongside 52 Key Performance Indicators (KPIs) that are monitored as part of a quarterly report to Senior Leadership Team and Cabinet. The Key Accountabilities have been identified in consultation with Cabinet Members and represent projects that are integral to the delivery of the overall priorities and running of the Council. Key Performance Indicators (KPIs) have also been developed to support delivery of our key priorities, as well as monitor performance of frontline services.

The KPI's were revised for 2018/19 in the four-year Corporate Plan 2018-22 as the Council moves further towards delivering services through an outcomes-based commissioning model. The 2018-22 Corporate Plan is available on the Council's website.

## b) Our Values

In the delivery of the Council's business, it has developed values which continue to be embedded across the organisation and underpin all Council activity. These values have been developed by staff and represent how the Council aims to conduct its business. The values are called '**DRIVE**' and they expect everyone to:

- Deliver our best every day – and do what we have promised
- Respond in a prompt, positive way to our community's needs
- Inspire others with our attitudes and actions
- Value people for who they are and what they can do
- Engage with others to improve our resilience and flexibility

## c) Performance Management

Performance management is delivered by the corporate performance management framework which has been developed to ensure that we continue to monitor the effectiveness of our actions, whilst demonstrating how the Council's strategies are being translated into plans and outcomes. It also helps to identify if any risks are materialising where performance indicators are not showing the level of progression anticipated. Our performance management arrangements tackle underperformance and the process supports continuous service improvement. The corporate performance management framework is set out in the Corporate Plan; the key document to monitor progress and delivery of the vision and priorities. Progress for the KPIs and Key Accountabilities set out in the Corporate Plan are reported quarterly to Corporate Performance Group and Cabinet.

In addition to this, each service produces a business plan setting out the service level objectives, actions to achieve the objectives, contribution to the vision and priorities, budget and risks. The business plans, service level objectives and KPIs are monitored through each service block. The focus has changed in recent years to developing commissioning mandates which align to the Corporate Plan and Borough Manifesto priorities. The final element of performance management is individual objectives. The actions required to deliver business plan objectives are reflected in team and individual plans forming the basis of annual and interim appraisals. Appraisals are scored to reflect individual performance and the contribution towards the delivery of the Council's priorities. Regular team meetings and one-to-ones support the monitoring of delivery. Corporate quarterly

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monitoring provides senior managers and Members with an overview of the Council's direction of travel.

To further ensure effective performance delivery and value for money, internal audit assessments are carried out using in-house and external professionals.

There are a number of Corporate Groups/Boards, each chaired by the Chief Executive or a member of the Council's Senior Leadership Team, they are:

- Corporate Strategy Group
- Corporate Performance Group
- Assurance Group
- Leadership Group

In addition, the Council has the following boards to deliver on operational, Strategic and performance matters:

- Workforce Board
- Procurement Board
- Customer & Information Management Board
- Investment Panel

The Council operates an overview and scrutiny function, which allows Members to challenge decision makers, scrutinise performance, review important policies and advocate on behalf of the community.

Following changes to the Council's constitution in May 2018, the Council's Overview and Scrutiny functions are fulfilled by the Overview and Scrutiny Committee, except for health-related matters which are the responsibility of the Health Scrutiny Committee. The Overview and Scrutiny Committee supports the work of the Cabinet and the Council as a whole by considering and making recommendations through the scrutiny review process; scrutinising key decisions made by the Cabinet and other decisionmakers; and holding them to account and reviewing matters relating to a wide range of partner organisations.

In 2016-17 a Cabinet portfolio, Corporate Performance and Delivery, was established to look at how the Council is meeting its objectives and where there are areas for improvement. Alongside the Cabinet portfolio for Corporate Performance and Delivery, 2016-17 also saw the introduction of new quarterly performance challenge sessions and monthly 'deep dives'. The quarterly challenge sessions allow for performance to be effectively discussed with the consideration of actions to tackle underperformance. All portfolio holders attend the session and present the performance of the Key Performance Indicators (KPIs) and Key Accountabilities for their portfolios to the Cabinet Member for Corporate Performance & Delivery, the Leader and Chief Executive. Through the monthly 'deep dive' sessions, focus is given to specific areas of concern and used to discuss the reasons for underperformance and what actions are being taken to deliver improvements. These arrangements continued for 2018-19, but with the change in portfolios are being lead by the Cabinet Member for Finance, Performance and Core Services.

### **d) Council Constitution & Rules and Regulations**

The Council's Constitution sets out the roles and responsibilities of officers and Members. It provides details about how decisions are made and who can make them. It also contains the rules for managing the finances and resources effectively. The Council has adopted the strengthened Leader model and, under this model, the Council's executive functions are discharged by the

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Cabinet as a collective body, by the Leader of the Council or delegated to officers. It provides clear accountability, effective leadership and decision making to drive forward service delivery. The Assembly retains strategic decision-making powers such as the budget framework.

In addition, the Council has a Health and Wellbeing Board established under the Health and Social Care Act 2012. It is an executive committee with a specific primary duty to encourage those who arrange for the provision of health or social care to work in an integrated manner. Membership is a combination of Cabinet Members and prescribed appointees. The board is a forum where key leaders from the Barking and Dagenham health and social care system work to improve the health and wellbeing of local residents and reduce health inequalities. It has an agreed set of priorities – these are outlined in the Borough's Health and Wellbeing Strategy.

The Council has created a Shareholder Panel as an advisory board to support Cabinet decision making around the Council's role as Shareholder in any Company, wholly or partly owned by the Council. The Panel has the primary aim of managing the Council's shareholder interests in its commercial entities and to ensure the performance of the Companies against agreed Business Plans are satisfactory. The Shareholder Panel provides assurance that all legal Shareholder requirements are fulfilled and through its governance and reporting framework seeks to protect the delivery of the Council's strategic objectives.

Membership of the Shareholder Panel includes Members and Chief Officers and receives quarterly input and performance reports from each of the commercial entities. The Shareholder Panel will periodically report Company performance to Cabinet, with a minimum of one report per Company per annum or as otherwise requested by Cabinet.

Where key decisions are due to be made the Council publishes details in the Forward Plan prior to the decision-making meeting. Those meetings are open to the public unless exclusion is necessary for reasons of confidentiality under the Local Government Act 1972.

The Council Constitution continues to be kept under constant review and the Assembly has agreed a number of amendments in May and September 2018 which sees an overhaul of the framework of committee meetings and the scheme of delegation to clarify responsibility for making decisions following significant changes to the Council's senior management structure and revised statutory responsibilities.

Alongside the Council's Contract Rules and Officer Scheme of Delegation, the Council has financial regulations which provide details of officers' responsibilities relating to income, expenditure, internal control, risk management and partnerships. To support officers when they made purchases, the Council developed a code of procurement practice. These were all kept under review with a number of mechanisms in place to ensure compliance.

The Council has the following statutory officers: Chief Executive (Head of Paid Service), the Chief Operating Officer (Section 151 Officer / Chief Financial Officer) and a Director of Law and Governance (Monitoring Officer), each of whom has the power to refer matters to Assembly if a breach of any regulation has occurred or is anticipated. By law the Council must also appoint a Director of Children's Services and a Director of Adult Services and during the majority of the period both roles were served by the Director of People Services although the Deputy Chief Executive and Strategic Director of Service Development and Integration undertook the role until their retirement in June 2018. A Director of Public Health is in post and this has been a statutory position since April 2013 with the transfer of the Public Health function to the Council.

The Council's financial arrangements fully conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Chief Operating Officer is responsible for the proper administration of the Council's financial arrangements and leads a suitably qualified finance team of officers. The Chief Operating Officer

was actively involved in and able to bring influence to bear on all material business decisions to ensure immediate and long-term implications, opportunities and risks, were fully considered and in alignment with the Council's Medium Term Financial Strategy.

### e) Risk Management

Risk management is essential for the Council to be effective in realising its priorities and was well embedded within the Council in 2018/19. It promoted innovation in support of strategic objectives - opening the door to the possibility of taking risks to achieve positive outcomes. Proper risk assessment enabled informed decisions about the challenges and risks to be taken and the mitigation of any impacts. It also helped the Council to target its resources to achieve the best possible results with value for money in resources used.

The management of risk was embedded throughout the Council's key governance frameworks in such areas as:

- Key decision making;
- Planning processes;
- Programme and Project management;
- Procurement processes;
- Partnership working arrangements;
- Capital Programme management;
- Change management processes.

In January 2012, the Risk Management Policy, Strategy and Framework were revised to be more explicit about Cabinet responsibilities. The strategy stated that 'the Council will maintain a culture of risk awareness across the organisation driven by a 'top down and bottom up' approach and raise the awareness of the need for risk management by all those connected with the delivery of services.' The Audit and Standards Committee is responsible for 'receiving reports and making appropriate recommendations concerning...risk management', as defined in the Council's Scheme of Delegation.

A new Head of Assurance was appointed in January 2019 and is responsible for setting the risk management framework and monitoring the Corporate Risk Register. A fundamental review of risk management is currently underway, and the progress of this review is reported monthly to the Assurance Group.

### f) Codes of Conduct

#### Corporate and Organisation

The Council developed a major revised *Local Code of Corporate Governance* to take account of the CIPFA/ SOLACE 2016 Framework. The Council has an Employees' Code of Conduct supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests have to be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are generally recommended to decline gifts and hospitality to ensure that officers were not inappropriately influenced. These codes and processes were made available to staff at their induction, they are on the intranet and online training was available to ensure every staff member understood their responsibilities.

#### Members Codes of Conduct

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The Council, within the timescales, duly adopted a local code of conduct which is drafted in accordance with the Nolan Committee's recommendations for standards in public life and revised codes for Planning and Licensing committees have also been introduced to take account of the changes. These have been incorporated into the Constitution and the Register of Members Disclosable Pecuniary Interests successfully established and completed. This has been supported by a Dispensation regime which enables Members to seek Dispensations to take part in meetings where they may have a declarable interest. The Members Code has specific guidance on the issues of gifts and hospitality.

The Localism Act 2011 required that the Council must have in place 'arrangements' under which allegations that a member or co-opted member of the authority or of a Committee or Sub-Committee of the authority who has failed to comply with the Code of Conduct can be investigated and decisions made on such allegations. The arrangements required the Council to appoint at least one Independent Person, that is someone whose views must be sought by the Council before it takes a decision on an allegation which it has decided shall be investigated, and whose views can be sought by the authority at any other stage, or by a member against whom an allegation has been made.

The Council furthers the arrangements required under the Localism Act by its Standards Committee chaired by an elected Member and composed of elected Members. Complaints are managed by the Monitoring Officer who determines according to the Complaints Procedure whether matters should be reported to the Standards Committee for full investigation. Complaints are then considered by a Hearing Sub-committee established by the Standards Committee for that purpose.

The Council's Standards Committee continued to oversee adherence to the Councillors' Code of Conduct, handled any complaints under this and also monitored compliance with employee related Codes of Conduct. The Standards Committee receives annually a report from the Monitoring Officer setting out the declarations of gifts and hospitality received by both Members and Officers. All policies and protocols relating to Members and officers as well as members of the public who volunteer to undertake Council activities were reviewed on an annual basis.

The Complaints procedure has changed substantially in terms of process with the requirement to appoint independent persons as advisors in assisting on questions of Members conduct to apply to officers as well. Three appointments have been made. An opportunity has been taken to make early improvement to the Complaints process by establishing case management rules which have been approved by the Assembly and incorporated into the Complaints Procedure.

### **g) Whistleblowing and Members Complaints Process**

The Council has a robust whistle blowing procedure which is actively promoted within the Council. The whistleblowing policy was last reviewed and updated in June 2018. Complaints against Members were handled in confidence and according to the strict timetable and procedure set out in the Code of Conduct and Complaints Procedure. There were seven complaints against individual Members, six of these relating to Code of Conduct matters and one relating to a Planning Committee item. One of these complaints resulted in a Standards Hearing and all seven cases are now closed.

The Audit and Standards Committee maintains an ongoing review of complaints made, patterns and outcomes which are considered as a regular business item at each meeting.

### **h) Training and Development**

#### Member Induction

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The Council has an Induction Programme, based around the key priorities identified by Members and senior officers. This includes a pre-election event for prospective candidates to ensure they understood in advance, the role and responsibilities of being a councillor and the training support they can expect.

Extensive Induction handbooks are produced for all Members, and there is a tailored version for Cabinet Members. There is training for Development Control, Licensing and Personnel Boards and members of Select Committees at the beginning of each municipal year with update sessions as required. Bespoke training for members of the Pensions Panel is also arranged.

There are all-Member training programmes for internal events. External learning events and mentoring is supported particularly for holders of key positions such as Cabinet and Chairs of Boards and Select Committees. The Induction programme for the new Members includes an intensive training programme and written information on a range of topics including standards and promoting democracy.

### The Member Development Programme

The Council has a Member Development Programme based around the key priorities identified by Members and senior officers. In addition, the Member Development Group (which includes nine Members) meets quarterly to review member training needs, and officers review requirements with the Organisation and Member Development Officer. The Members Role Profiles list the knowledge and skill requirements for different positions and expected areas of learning and development.

The Member Development Programme is overseen by the Member Development Group. This is comprised of Members from Cabinet and a range of back bench Members from different boards and committees to ensure any new learning needs are quickly noted and addressed including the Council's Monitoring Officer. A full programme of Induction and follow-up training and briefings are arranged for all Members. There are a mix of skills-based and knowledge-based sessions. There is a detailed process for inducting the newly-elected Cabinet Members. This includes the use of Peer Mentors for the Cabinet and the opportunity for all members to develop a bespoke personal development plan.

Cabinet Members, Committee Chairs and Deputies are offered the opportunity to attend the full Local Government Association (LGA) Leadership Academy Programmes which are designed specifically for councillors. Newly-elected councillors are offered the opportunity to attend introductory Leadership Academy residential weekends. There is a designated officer who co-ordinates the development programme and assesses training needs. Training is supplemented through weekly electronic Member Briefings, information from London Councils as well as the Council and LGA's suites of e-learning programmes.

All Select Committee members have training as part of their induction agendas and agreed specific training during the year to remain current and to address identified needs. Induction training was provided for newly appointed Members of all quasi-judicial boards, some of which was assessed.

The Council was accredited with the London Charter Plus for Member Development in April 2017. Charter Plus is a nationally recognised structured quality framework which assesses the processes, impact and effectiveness of member development. Following extensive desktop and interview assessments with councillors and chief officers, the Council were shown to have met Charter Plus criteria: commitment to councillor development and support, strategic approach to councillor development and that learning and development is effective in building councillor capacity.

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An on-line Members' handbook (Members App) was introduced in February 2018. This is uploaded onto their iPads and provides easily updateable information on the councillor role, the Council and Borough, media and communications, Member learning, support and ward resources.

### i) Communication and Engagement

The Council published numerous documents on its website as well as providing a media service to engage with and inform members of the public. Consultation exercises were publicised and enabled via the website, as well as through more traditional routes such as surveys and focus groups.

The Council also publishes an online newsletter 'One Borough' carrying news, events and jobs as well as having a presence on numerous social media platforms including Facebook, Twitter YouTube and Instagram.

### j) Partnerships

In addition to the executive functions of the Health and Wellbeing Board, the Council utilises partnership boards, which are aligned to the Borough manifesto targets and the priorities set out in the corporate plan. The partnership boards each have their own plans, identifying their aims to deliver these priorities and contribute to delivering the vision for the Borough. They are responsible for monitoring performance, ensuring appropriate partnership representation and where relevant meeting legislative requirements. These boards are:

Health and Wellbeing Board – The Health Wellbeing Board brings together key health partners in order to deliver the priorities set out in the Health and Wellbeing strategy. It is chaired by the portfolio holder for Health and Social Care and plays a driving role in ensuring residents lead healthy, independent lives and have choice over the care they receive.

The Council has worked with a range of NHS partners, including the Clinical Commissioning Group (CCG) to develop proposals to integrate further health and social care services. Key to this was work through our Integrated Care Partnership which brings together 3 neighbouring local authorities, 3 Clinical commissioning Groups and 2 NHS provider Trusts. As part of the devolution "ask" for London a proposal for an accountable care system has been put forward.

Community Safety Partnership - Together the partners address complex issues and have worked openly to develop and implement solutions to create a safer, stronger and more cohesive Borough with reduced levels of crime.

Through the Community Safety Partnership the Council together with the other 'responsible authorities' (NHS, Police, Probation, LFCDA, MOPAC) discharged its responsibilities for reducing crime and disorder and making Barking and Dagenham a safer and stronger community.

The Council entered into a formal partnering arrangement with Agilisys in December 2010 to form the Elevate East London joint venture. Elevate run a number of key council services and has been a hub for further services. Governance arrangements are in place for the partnering agreement including a Strategic Partnering Board influencing the strategic direction of the partnership and a Client Function responsible for managing the performance of the contract for each of the services being delivered by Elevate to the Council.

### k) The Borough Manifesto and the Barking and Dagenham Delivery Partnership

Borough Manifesto

In February 2016, the Council's Independent Growth Commission published its final report, it included 109 recommendations to ensure improvements of outcomes for residents and to capitalise on the Borough's growth opportunities. One such recommendation was to develop 'a Borough manifesto setting out a shared vision for the Borough and owned by residents, partners and key stakeholders in the Borough'.

Consequently, Council officers began work in partnership with all local stakeholders on the development of '*Barking and Dagenham Together: The Borough Manifesto*'; a shared, place-based, 20-year vision for the Borough, owned and delivered collectively and collaboratively by the Barking and Dagenham Delivery Partnership (BDDP). The Borough Manifesto sets the roadmap of what collectively the Council and partners need to deliver. Progress against the targets will be monitored by the BDDP.

The Manifesto was agreed by Cabinet in July 2017 and launched in the same month at an event hosted by Coventry University London. The launch was well attended by partners and other stakeholders. Partners fully supported the vision and targets set out in the manifesto and spoke about the need for everyone to play their part. The manifesto forms the top layer of the Council's strategic framework which informs all other strategies.

Since the launch, the Cabinet Member for Community Engagement has been engaging residents through roadshows in each ward asking them for their views on the manifesto aspirations and targets.

## Barking and Dagenham Delivery Partnership

In parallel with the development of the Manifesto's vision, the Cabinet approved the establishment of the Barking and Dagenham Delivery Partnership (BDDP) in November 2016. The BDDP is comprised of local partners from across the public, private and third sectors, and will collectively be responsible for providing oversight, direction, and leadership in order to achieve the aspirations for the Borough. BDDP meets on a quarterly basis and part of its role is to monitor and analyse progress towards delivering the Manifesto vision. Progress towards achieving the targets will be publicly reported on an annual basis.

Work is also underway to develop the partnership in order to enable it to deliver effectively. *Lankelly Chase Foundation* have funded Collaborate CIC to work with LBBD and in particular explore effective partnership working in Barking and Dagenham. The initial focus is on supporting the development of the delivery partnership with the aim of ensuring partners are working towards shared aims, that those aims are clearly articulated and understood, and that the relationships and infrastructure are ready for new forms of collaboration and place-based working. Developing effective 'place' based collaboration.

## **I) Schools**

The governance of maintained Schools is the responsibility of appointed Governing Bodies. The Governing Body role involves setting, monitoring and evaluating progress toward achievement of strategic aims and objectives, whilst optimising their use of financial and other resources.

The Council's role is to champion children and intervene where necessary or alert the regional schools commissioner for academy schools e.g. where there are concerns about performance or safeguarding.

The November 2014 Ofsted inspection of the local authority confirmed that the Council knows the strengths and weaknesses of governing bodies well.

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The quality and performance of schools and governance has improved year on year in the Borough and, as of March 2019, nearly 90% of schools are judged 'Good' or 'Outstanding' by Ofsted. This is above the national average. Governance and leadership arrangements are a key part of this judgment.

### **m) Counter Fraud**

The Authority has a dedicated Corporate Fraud team that follows the latest best practice including implementing the national counter fraud standards. Their work is underpinned by Council policies to promote and enforce fraud prevention and ensuring robust mechanisms are in place to acknowledge the risks of fraud, prevent its occurrence and pursue cases, apply appropriate sanctions & recover any losses through proceeds of crime legislation.

### **n) Audit Committee**

One function of the Audit and Standards Committee is to oversee and improve the Council's governance and regulation, assurance and risk management, fraud and corruption prevention, performance and compliance, sound financial management to achieve value for money and transparency and open government. The Audit and Standards Committee took over this function from the Public Accounts and Audit Select Committee in June 2018 and functions with broader terms of reference including standards and governance.

### **o) Information Governance**

Annually each spring an Information Governance Report is produced for the Audit and Standards Committee by the Chief Operating Officer. Training in information handling is a key priority with professional development of Members and officers an essential requirement, not least as a control mechanism to help prevent data breaches. A revised i-learn 'Data Protection' course has been developed that is mandatory for all staff and managers. The course must be completed annually and it incorporates changes brought about by the GDPR legislation. Completion rates are monitored and will form part of the staff annual appraisal process and staff are also provided with a link to a number of information governance policies that they must read as this was a recommendation required by the ICO following the audit.

During 2016, the Council recognised the scale of the task of preparing itself for forthcoming legislative changes, in the form of the new General Data Protection Regulation (GDPR) and, as a result, deleted the post of information governance officer and recruited a senior Information Governance Manager. The GDPR is the first major set of changes to the Data Protection Act since 1998, and will place additional responsibilities upon the council. These range from how we give people access to their data to reducing the time period for compliance and the current charging system.

Following an audit of the Council in 2017 by the Office of the Information Commissioner (ICO), work continued in 2018/19 to implement the actions arising from the action plan sent to the Council in September 2017. Information data breaches continue to be reported and investigated internally to ensure that lessons are learnt, the likelihood of breaches is reduced and arising risks are mitigated.

The levels of reported breaches have shown a noticeable increase over the past few years because of greater awareness of the need to report even minor breaches, in part as a result of the annual data protection training which is mandatory for staff. Critical breaches still occur, on average, about twice a year and it is these that are the main focus of the Council's prevention / management activity. One critical case was self-reported to the Office of the Information Commissioner (ICO) in 2016, none in 2017 and 4 in 2018. In all cases the ICO felt that the council took sufficient steps to mitigate, and accordingly no further action

was taken.

## **p) Transformation Programme**

In relation to the Transformation programme current governance process operates through regular reporting to Corporate Performance Group (CPG) and Cabinet.

There are many risks and dependencies in relation to achieving the savings from the programme and these are regularly reported through CPG and to the relevant portfolios. In addition, The Transformation Director meets with each Programme Sponsor monthly and each Programme Manager fortnightly to ensure the plan is on track and the financial targets are being achieved. A dashboard is produced containing comments and red, amber, green ratings from the PMO, Finance, the Programme Manager and the relevant Sponsor, ensuring full ownership of the content being reported.

The original budget for the programme was agreed by Cabinet in July 2016. These costs are tracked each month and reported through both CPG monthly and quarterly through Cabinet. The spend remains well within the budget limits set per year. All requests for staffing are put through the workforce governance procedures and procurement rules are followed. Each role is tested against the HMRC IR35 tool and this is then sent to the agency prior to recruitment. A copy is also retained for our records.

Looking forward to 2019-20 work will continue consolidating the programme and ensuring the change is happening across the Council. The success of establishing and embedding cultural change in the organisation is a key consideration for SLT. Work continues to encourage Staff to work differently and create a new relationship with our residents and stakeholders to support them to help themselves and reduce demand where possible. This is a vital objective to avoid overspend and achievement of the forecasted savings.

## **Section 3**

### ***Presents an opinion of the level of effectiveness and assurance of the Council's governance arrangements.***

In the light of evidence reviewed in relation to 2018/19 it is confirmed that the Council's governance arrangements are fit for purpose, that the Council's values, ethical standards, laws and regulations are being complied with, that financial statements and other published performance information are accurate & reliable, and that human, financial, environmental and other resources are managed efficiently and effectively.

The Council has embarked on a programme to transform the Borough and how the Council works. To achieve this, the Council will need to be innovative and efficient in-service delivery, adopting commercial practices where the business case supports this approach. The Council recognises that robust governance and embedded risk management processes will be fundamental to underpin the successful delivery of the programme. In addition workforce policies are an essential element to bring about the cultural change required over the next four years. Accordingly, comprehensive programme management arrangements are operating, ensuring that risk management and governance structures continue to be fit for purpose, as part of the organisational change that is proposed and has been implemented. The Council underwent the Investors In People review in spring 2018 and was awarded Silver Status to recognise the progress that has been made since the last assessment.

## **Review of Effectiveness**

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The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. Assurance on the review of effectiveness is informed by a range of evidence, both internal and external, including: the work of the Senior Leadership Team and Senior Managers responsible for the development and maintenance of the governance environment; the Head of Assurance's annual report; comments made by the external auditors; and comments by other review agencies and inspectorates.

For this Governance Statement the Strategic, Operational, Commissioning, Service and Transformational Directors were invited to complete standard statements addressing governance issues in their areas. These were collated, with observations and recommendations and presented to the Assurance Group, for their comments and feedback. This ensured that the full span of the Council's management team were consulted.

One of the functions of the Audit and Standards Committee to oversee and improve the Council's governance and regulation, assurance and risk management, fraud and corruption prevention, performance and compliance, sound financial management to achieve value for money; and transparency and open government.

Audit and Counter Fraud Reports are presented to Audit and Standards Committee periodically to assist it in undertaking these functions.

As part of the Head of Assurance's annual report, an opinion was given on the Council's internal control framework. The Head of Assurance drew upon a wide range of assurance sources to help inform this opinion; including testing of the key controls in the Council's major financial systems and the wider programme of audit and corporate counter fraud work. The Head of Assurance reported the opinion that based on the audit work undertaken their conclusion was that the organisation's control framework is operating generally satisfactory with some improvements required.

It is a statutory requirement that the Council must "undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

The 2018/19 Internal Audit Plan, approved by the Audit and Standards Committee in June 2018, included 28 audits consisting of 27 risk and compliance audits and 1 schools' risk assessment project. 39 audits were delivered, consisting of 23 risk and compliance audits and 16 audits of schools, with reasons for variations in the plan being reported quarterly to the Audit and Standards Committee.

Internal audit work was performed in accordance with the Council's Internal Audit Charter and Strategy in accordance with the Public Sector Internal Audit Standards.

Only one Audit report was issued in 2018/19 as with a "No Assurance" audit opinion, this being the Adoptions audit. The agreed actions that arose from this work were followed-up later in the year and sufficient improvements had been made to internal control to increase the audit opinion to "Reasonable Assurance"

There were a further four audits whereby a "Limited Assurance" audit opinion was given, these are listed below with any high risk findings identified:

- Recruitment
  - Recruiting managers were not always attending training and refresher courses
  - Key documents supporting the recruitment process could not always be located
- Cyber Security

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- Owners of Cyber Security risks did not have sufficient oversight of Cyber Security operations
- My Place BDMS Contract Management
  - There was no Business Continuity Plan in place to ensure that critical services could continue in the event of major disruption.
- Direct Payments
  - Files did not always contain the appropriate legal agreements, supports plans and associated documents.

The Council's Monitoring Officer has a responsibility under the Local Government and Housing Act 1989 to maintain and ensure consistent lawful processes and decision making and that arrangements secure effective and efficient working of the Council, its meetings, committees and working groups with the required officer support. They report that they are not aware of any specific governance concerns for the period.

### Complaints

#### Ombudsman

During the period there were 20 complaints referred to the Council by the Ombudsman and 16 were upheld.

#### Complaints by the Public

During the period there were 3718 complaints. Of these 2193 were upheld. This represents a 20% increase in the number of complaints from 2017/18, primarily due to reported missed domestic waste collections for which the Council now always accepts liability.

### Section 4

***Sets out any significant governance issues that need to be addressed and how any issues from the previous years' governance statement have been resolved.***

#### **Previous Year 2017-18**

We are pleased to report that for the period of that AGS, no significant governance issues emerged after the AGS was published nor was there any legacy governance issues from the previous period 2016-17. The 2017-18 AGS had identified the following themes:

- Turnover of staff;
- Data Handling (in advance of GDPR); and
- Elevate Joint Venture.

As was observed these concerns can be addressed through improvement in our practices. Staff retention and turnover has recurred as a theme for 2018-19. Data Handling risks are being effectively managed via compulsory training and the Elevate Joint Venture with Agilisys is due to end by December 2019.

#### **Feedback from Directors for 2018-19**

The picture that emerged for the AGS period 2018-19 is of sound governance throughout the organisation. As is the standard practice for this Borough all the Directors and Service Heads were

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required to complete a Governance Assurance Statement. They were given an opportunity to highlight any specific governance issues/themes these are set out below:

## High Needs Budget

The 'High Needs' Budget, which forms part of the Dedicated Schools Grant (DSG), continues to experience severe pressures, resulting from insufficient growth in grant funding over a number of years coupled with increasing and more complex SEND needs in the Borough. This pressure is being felt by many Council's, however, due to LBBD's demographic profile of rapid population growth, the Borough is affected more acutely.

If the new national funding formula were applied in full to the 'High Needs' element of the DSG, the Borough would have had an extra £4m from 2018/19. Instead this is being phased in over 3-4 years and the actual amount awarded for 18/19 was less than £1m. The Council's officers are working with the Schools Forum and are in the 5th year of a programme to manage the pressure and demand in High Needs.

## Risk Management

Some Directors reported that risk management was not well developed in their areas of responsibility and that risk registers were not as up to date as they would like them to be. Directors have not received a strong corporate steer in this regard and the risk management strategy has not been updated for some time. The appointment of the Head of Assurance during the AGS period has triggered a review of the Risk Management Framework and this will in time feed through to all Directors and service risk registers.

## Mandatory Training

A number of Directors expressed concern over the levels of mandatory training undertaken in their areas of responsibility, although there are in fact very reasonable levels of compliance for the staff mandatory training, with the exception of new mandatory training for Mental Health Awareness. Manager-level training is being followed up with individual managers to increase the level of compliance and achieve 100% by 1 June 2019 which may explain the concern that some Directors have.

## Headline Governance Challenges

### Staffing

As in previous years there again appears to be pressure in terms of recruitment and retention of specialised staff particularly social workers and legal practitioners. This challenge is not exclusive to the Borough and illustrates the point that unless the overall employment proposition is competitive and attractive the churn inevitably leads to technical skills and organisational knowledge being lost to the organisation. This is particularly is governance issue at the higher levels.

Periods of radical change can be unsettling, and leadership is more essential than ever. The Council currently has silver accreditation from Investors in People' and was recognised by the LGC as 'Council of the Year' in 2018 in relation to the ambitious change programme particularly its design and implementation. Such recognition ensures the council's reputation is evidenced across the sector and will also attract employees. The issue of having sufficient competent well performing staff is key to sound governance. Once experienced staff have left, they may prove to be difficult to replace in times of upheaval and financial uncertainty.

## Inclusive Growth Strategy

## ANNUAL GOVERNANCE STATEMENT

The Council in the process of producing an Inclusive Growth strategy, setting out the council's goals, positions and commitments in relation to this core area of focus for LBBB. The aim is for this to be agreed by Cabinet towards the end of the year. The strategy will serve the purpose of clarifying where responsibility sits for different functions and objectives relating to inclusive growth. It will also set out the desired role for partners. In addition, the strategy will establish and frame a comprehensive outcomes and performance framework in relation to inclusive growth, encapsulating the wholly owned companies and in-house service blocks that are responsible for delivering on this agenda for LBBB.

Alongside the production of the strategy, the Council are undertaking an inclusive growth 'system review' which aims to resolve significant issues emerging from LBBB's distinctive structure – in particular where the different commissioned entities (whether wholly owned companies or in-house service blocks) interface and interact. This includes issues related to where decisions are taken, where accountability sits and how conflicts are resolved. One of the key governance issues within the area defined by inclusive growth in LBBB relates to planning and specifically the council's responsibilities as the local planning authority whereby a process of codifying these arrangements is underway

### **Ofsted Inspection of Children's Services**

In February the Council was subject to a Standard Inspection under the Ofsted Inspection of Local Authority Children's Service (ILACS) framework. Following initial feedback provided at the conclusion of the inspection the final 'Ofsted Letter' formally setting-out their findings was published on 1<sup>st</sup> April 2019.

Ofsted determined that services for children in Barking and Dagenham require improvement in all judgement areas, as they did at the last inspection in 2014, although the judgement is consistent with the Council's annual self-evaluation to Ofsted and inspectors did report that strong and effective senior leadership was now in place under the recently appointed Director of Children's Services.

Six specific recommendations were made by Ofsted and in the short amount of time since the report was published, the Council have developed a first draft improvement plan, started to discuss the corporate response to areas for improvement that require a corporate leadership response and outlined an approach that sets out how this will be delivered as part of the wider improvement programme.

### **Phased Transition of Elevate Services**

The Elevate East London LLP (Elevate) joint venture between the Council and Agilisys was formed on 10th December 2010 and at the same time the Council entered into a seven-year contract with Elevate for a range of services including ICT, Revenues and Benefits and Customer Services (B&D Direct), Procurement and Accounts Payable. The contract was extended by 3 years to December 2020 and the decision was made during 2018/19 to end the agreement and transfer services back to the Council in a phased manner.

There is also a requirement to transform the current in-house Core services as well as the services currently being delivered through the Elevate joint venture, to address the structural changes achieved by the successful implementation of Ambition 2020 Transformation Programme and the creation of a new kind of Council.

Whilst a budget of £9.7m to be spent on the proposed exit of the Elevate contract and the implementation of the new operating models for all Core Support Services has been agreed, the decision to reintroduce the services into the Core during a period of continued transformation has created a governance challenge that will continue into the next financial year.

### **Transformation – Creating a 'New Kind of Council'**

# ANNUAL GOVERNANCE STATEMENT

LBBB have already made a great deal of progress towards delivering a new kind of council. Municipal entrepreneurialism has been embraced, working with the flexibility of the private sector and the ethos of the public sector and the Council has established wholly owned companies in the areas of sustainable energy, housing and regeneration, home and traded services and school improvement (Barking and Dagenham School Improvement Partnership is owned by the Council and schools). These companies pursue the priorities of the community but, by operating in the private sector, they have independence and the ability to innovate, take risks and do things differently. In-house services have also been transformed, breaking down traditional siloes and rebuilding the organisation to act as an enabling and collaborative council, in doing so creating a structure that is quite different to a traditional Council organisation.

This however marks only the beginning of the transformation and with £48m of savings still to be made by 2021, the New Kind of Council really needs to deliver; improving the life chances and independence of residents, accelerating our growth and becoming financially sustainable. Vital to this success is the performance of the new council-owned companies. By 2022 each of these organisations must be independently delivering the expected outcomes and this is a challenge that has been closely monitored during 2018/19 and will continue to be so moving forward.

## Section 5

### ***The Conclusion – a commitment to monitoring implementation for the next review by the Leader of the Council and the Chief Executive***

This statement is intended to provide reasonable assurance. It is based on the evidence available. It is stressed that no system of control can provide absolute assurance, and in a period of transformation and transition to a new delivery model, items may be misstated or be of varying accuracy. As a result, the processes operate to carry out reviews and the forums of Audit and Standards Committee and the Assurance Group receive and monitor performance of the Council's Governance Framework. Looking forward the Council's new Scrutiny arrangements will focus on key risks which will dovetail with the AGS.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and the ongoing work to ensure continuous improvement of the systems is in place.

We look forward to working more closely with our partners and all organisations in the community, public, private and voluntary sectors to strengthen our local communities and increase prosperity. This year sees a period of transition to the Council's traded companies.

Where issues have been identified in preparation of this report we will ensure that they are effectively addressed and we will monitor their improvement as part of the next annual review.

Signed:

Signed:

**Councillor Darren Rodwell**  
**Council Leader**  
July 2019

**Chris Naylor**  
**Chief Executive**  
July 2019

## Audit and Standards Committee - Work Programme 2020/21

**Chair: Councillor Princess Bright**

Meeting	Agenda Items	Lead Officer	Reports deadline
16 November 2020	Annual Governance Statement Internal Audit 20/21 Q1-Q2 Review Counter Fraud 20/21 Q1-Q2 Review Risk Management Update Counter Fraud Policy Review Approval of 2019/20 Accounts  Audit Completion Report (ISA260) for 2019/20 Account Standards Complaints update (TBC) Work Programme	Chris Martin Chris Martin Chris Martin Chris Martin Chris Martin Tom Mulloy  Lisa Clampin (BDO) Paul Feild Governance Officer	10am, Thursday 5 November
18 January 2021	Risk Management Update Standards Complaints update (TBC) Work Programme	Chris Martin Paul Feild Governance Officer	10am, Thursday 7 January

27 April 2021	Internal Audit 20/21 Q3 Review Counter Fraud 20/21 Q3 Review Approval of Internal Audit Charter, Strategy & Plan 2021/22 Information Governance Annual Report scheduled Standards Complaints update (TBC) Work Programme (TBC)	Chris Martin Chris Martin Chris Martin Natalia Monvoisin Paul Feild Governance Officer	10am, Thursday 15 April
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