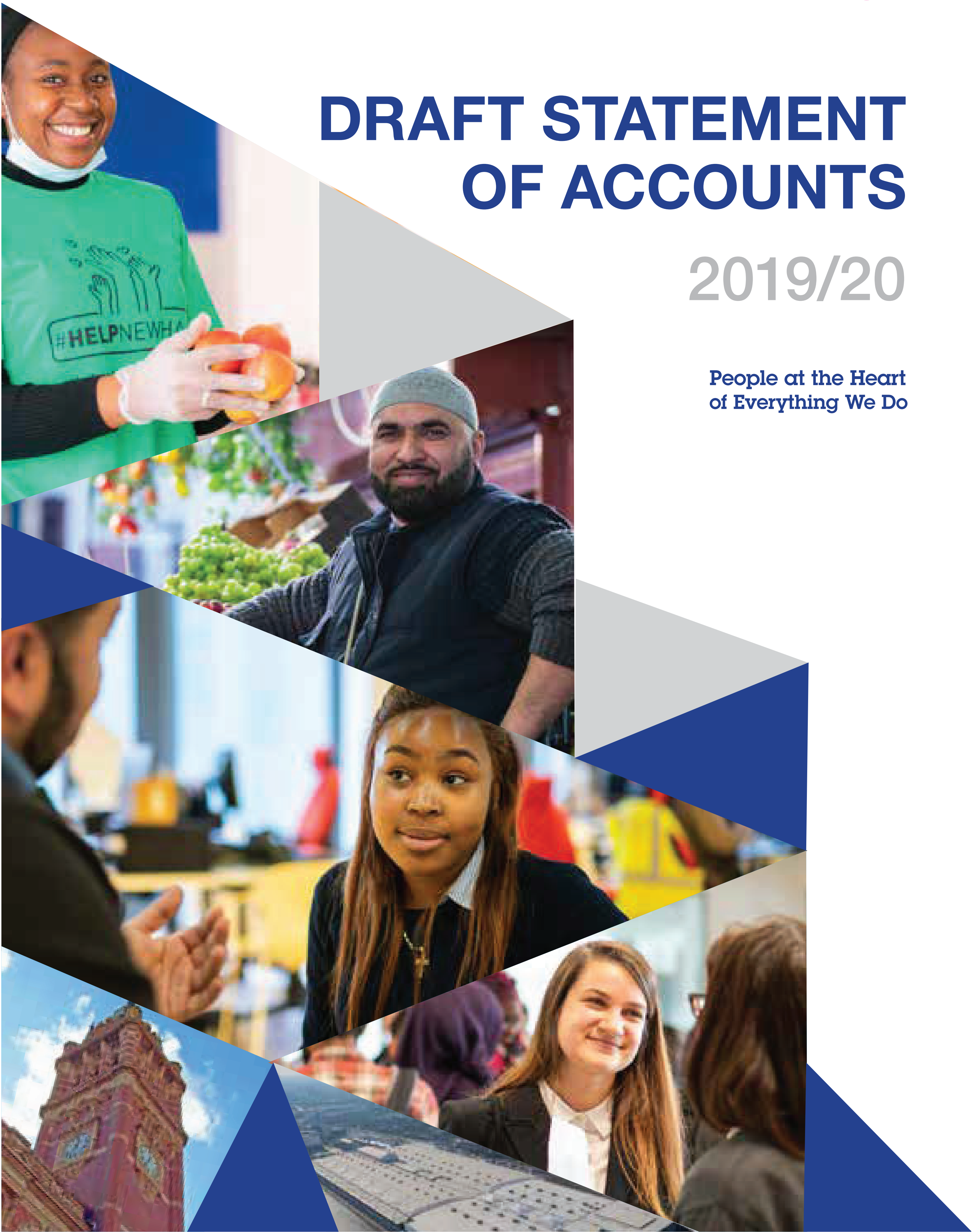
Newham London

# DRAFT STATEMENT OF ACCOUNTS

## 2019/20

People at the Heart
of Everything We Do



# Contents

# Narrative Report

## The Council's Statement of Accounts

The Statement of Accounts for the London Borough of Newham provides a summary of the Council's financial position as at 31st March 2020. They have been prepared in accordance with the code of practice on Local Authority Accounting (the CIPFA Code) and while the format and content of the accounts is largely prescribed by the code, every endeavour has been made to balance the statutory reporting requirements with the desire to make them clear and understandable to all interested parties.

The narrative report provides the reader with key contextual information about the authority including its main objectives and strategies, the principal risks that it faces and plans in place to manage and mitigate these. It also provides a commentary on how the Authority (including the Group Accounts) has used its resources to achieve its desired outcomes in line with its objectives and strategies.

## Background Context

The London Borough of Newham is situated in north east London, bordering the River Thames, and is home to the Olympic Park, the London Stadium and other legacy projects centred around the Olympic site. The Westfield Shopping Centre in Stratford, City Airport and the Excel Centre which housed the London Nightingale Hospital during the global pandemic are also key landmarks situated within the borough. The borough continues to undergo significant redevelopment not just around Stratford but also in Custom House, Canning Town and Royal Docks. In addition to this, the borough has a very ambitious housing investment programme to deliver over 1,000 new homes at affordable rents.

The borough has a young and diverse population that is one of the fastest growing in the country, set to rise to over 370,000 by 2023. In terms of deprivation in the borough, comparatively Newham is moving in a positive direction but currently still remains within the 10% most deprived in the country, ranking 12th of 317 local authority districts. These factors mean that more people in Newham rely on public services than in many parts of London or the UK, putting particular pressure on services and funding available to deliver them.

Newham launched its Community Wealth Building Strategy in January 2020; this is a pioneering and bold inclusive economic approach that aims to address poverty in the borough as well ensure that investment coming into Newham benefits all residents. The strategy is underpinned by the principles of economic, social and environmental justice; so that long-term prosperity, wellbeing and fairness for all our residents in the Borough is achieved; and our response to the Climate Emergency is progressed.

As well as attracting growth and investment into the borough, the Council's new Community Wealth Building strategy will help unleash the potential of residents, businesses and the voluntary sector because they are the source of wealth and talent that will drive a fairer and more prosperous Newham.

The new strategy will also help the Council tackle injustices that residents face with an unrelenting focus on poverty in the Borough, as well as addressing racial and gendered disparities that exist. The Council will also be applying Community Wealth Building principles as a key mechanism for responding to the climate emergency we all face.

## Impact of COVID-19 Pandemic

The effect of the Covid-19 pandemic has been more severe in Newham than anywhere else in the Country. Newham, tragically, has seen the highest death rate due to Covid-19 in England and Wales. The combination of high population density, higher deprivation levels, homes with several generations, underlying health issues, low paid work often in high risk front line sectors such as social care, poor air quality and crowded high streets all are believed to have played a role in this.

There are also a large number of small local businesses many of which were forced to close when the Government announced the nationwide lockdown on the 23rd March 2020. This not only affected people's jobs and livelihood but will also have a considerable impact on Council's commercial income.

To support residents and local businesses through this extraordinary times and circumstances the Council immediately put the following support measures into place;

- Launched the #HelpNewham programme to deliver support to residents who are most in need. Supporting vulnerable residents access to supermarket delivery slots at Iceland or Tesco, arranging home delivery of food and essential items (e.g. toothpaste, sanitary items) and someone to talk to via our befriending telephone chat service
- Carried out a Business Impact Survey to assess impact on businesses and get their views on how to best support them & held webinars to guide businesses through support available to them locally and nationally
- Processed 3,458 Small Business Grant Fund payments and Retail, Hospitality and Leisure Grant Fund payment; providing much needed financial aid.
- Launched the Help Newham Skills Bank, matching skills of volunteers to local business need to help them get back on their feet
- Immediate application of the Government's business rate reliefs for eligible businesses, with the cancellation of direct debit payments due for existing 2020/21 bills
- Payments to local businesses for services provided to the Council made immediately rather than within 14 days
- Introducing monthly billing in arrears (rather than quarterly in advance) from June 2020 for affected businesses to help them with their cash flow
- Waived all pitch rental payments for market traders and all commercial waste collection charges for three months

The Council also received the following emergency funding to meet the additional cost pressures, which mainly relate to 2020/21:

- £20.2m Emergency Funding
- £4.3m Hardship funding - £2.8m of this has been allocated to provide additional Council tax discounts; the remainder is being planned to support those in need and financial hardship through additional grants
- £58.7m Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund
- £85.5m Business Rates Relief.

These changes have not had a dramatic impact on the financial outturn for 2019/20 as the pandemic only started to make a notable impact on the public's and businesses' behaviour in the last two weeks of March. However, the true scale of its impact on the Council's finances will be felt during 2020/21and the Council is expecting substantial losses across many of its largest streams of commercial income. These include parking, commercial waste, licensing fees, registrars and planning fees. As with any recession, investment income is anticipated to reduce which will create further pressures on the Council's finances. An additional provision of £2m has been made in the 2019/20 accounts to help mitigate some of the impact of potential loss in income.

On the expenditure front some of the key areas of additional pressure will include accommodation and support for rough sleepers, temporary mortuary costs and additional costs in supporting our most vulnerable adults and children.

It is difficult to quantify the impact of Covid-19 at this stage with any degree of certainty, but the financial pressure on the Council will be substantial even after the Government's emergency Covid-19 funding for local authorities is taken into account.

## Revenue Budget Performance

The Council had a net general fund budget of £260.6m during 2019/20 and the actual expenditure against this budget was £275.7m. The additional expenditure incurred during the year was funded through a combination of earmarked reserves and capital receipts under the flexible use of capital receipts provisions.

A number of areas faced specific budget challenges that led to higher than budgeted expenditure and the summary position by directorate is shown below.

| **Outturn 2019/20** | 2019/20 Revised Budget £m | 2019/20 Outturn £m | Variance £m |
|---|---|---|---|
| Children and Young People | 86.6 | 94.4 | 7.8 |
| Inclusive Economy & Housing | 18.6 | 20.1 | 1.5 |
| Adults & Health | 91.7 | 91.1 | (0.6) |
| CYP Commissioner Brighter Futures | 11.3 | 11.0 | (0.3) |
| People, Policy and Performance | 14.7 | 15.1 | 0.4 |
| Environment and Sustainable Transport | 26.3 | 32.5 | 6.2 |
| Resources | 8.3 | 8.3 | 0.0 |
| RMS | 0.0 | (1.7) | (1.7) |
| oneSource - Non Shared | (6.9) | (4.9) | 2.0 |
| oneSource | 0.2 | 1.2 | 1.0 |
| Central Budgets | 9.8 | 8.6 | (1.2) |
| **Net General Fund Budget** | **260.6** | **275.7** | **15.1** |
| Funding (Business Rates, Council Tax, Grants, Other Income) | (260.6) | (275.7) | (15.1) |
| **General Fund Total** | **0** | **0** | **0** |
| | | | |
| **Dedicated Schools Budget** | **0** | **7.6** | **7.6** |
| | | | |
| **Housing Revenue Account** | **0** | **(10.0)** | **(10.0)** |

The largest area of overspend is within Children's services and is related to the OFSTED improvement work across Children's Social Care Areas. The net overspend of £7.8m was primarily due to additional social care placement and staffing costs.

Another significant area was within the Environment and Sustainable Transport directorate where in year changes in the parking service provision resulted in additional expenditure and a drop in anticipated income, resulting in a £4.7m overspend during 2019/20. The tendering process for the externalised service was not successful and the service had to be brought back in house within a tight timescale and under challenging circumstances. In addition to this, a further provision of £1.5m has been made to reflect the risk to parking debt recovery going forward. A service improvement plan is being implemented during 2020/21 to both reduce costs and increase income collection.

The cost of temporary accommodation and the number of people needing it continues to increase in Newham. There were a total of 5,449 households in temporary accommodation as at March 2020. This contributed to the £1.5m overspend within Inclusive Economy & Housing. Management action and alternative provision, such as greater use of short hold tenancies and void properties, are being developed to address this going forward.

There were also overspends in both onesource non-shared (£2.0m) and onesource shared (£1.0m) budgets, which provide asset management, finance, IT, HR and other support service functions. There have been additional expenditure on the maintenance of Council assets as well as a decline in levels of income generated through them. In addition to this a number of services have required temporary and additional resources to manage demand, deliver improvements and cover vacant posts pending imminent restructures. External audit costs were also significantly higher than budgeted.

A number of measures within corporate budgets including the use of corporate contingencies, savings on borrowing costs through repaying higher interest LOBO's, review of creditor balances and other corporate savings also helped to mitigate some of the additional pressures.

## Housing Revenue Account (HRA)

The Housing Revenue Account (HRA) is a ring-fenced account which manages income and expenditure in relation to the 15,930 Council dwellings. The 2019/20 outturn was an underspend of £10m primarily due to budgets set aside for emergency unplanned works on the Council's housing stock not being required during the year. The underspend will be put into HRA reserves, which will increase to £81.6m, and invested back into the HRA as part of the HRA business plan that is currently being refreshed.

Expenditure on repairs, maintenance and management was £62.4m, a £3m increase on the previous year, and income from rents and service charges was £103m compared to £100m in the previous year.

## Dedicated Schools Budget (DSB)

The dedicated schools grant (DSG) funds local authority schools' budgets and is the main source of income for schools. The 2019/20 DSG outturn position is £7.6m deficit, which is approximately 2.2% of the gross 2019/20 DSG. The main cause of the overspend continues to be the High needs block which has come under increased pressure in supporting children with special educational needs.

Under current regulations this deficit will be carried forwards and applied to 2020/21 and future years' budget. Newham is working with its schools and the DFE to review this overspend and reduce it for future years.

## Pension Fund

The pension liability (£0.689bn) represents the difference between the estimated cost of pension's payable in the future (£1.889bn) and the value of assets in the pension fund (£1.120bn). The net liability reduced from £0.837bn in 2018/19 to £0.689bn in 2019/20 primarily due to revised assumptions around future pension rates and salary increases. The value of pension fund assets also decreased and no doubt the market volatility and economic uncertainty created by the Covid-19 pandemic contributed to this. The total value of investments reduced from £1.49bn at the end of February 2020 to £1.37bn at 31st March 2020, representing an 8% drop.

The Pension Fund is revalued every three years to set future contribution rates and the latest valuation was as at 31 March 2019. The funding level as at 31 March 2019 was assessed as 96% (85% in 2016) and the plan is to bring the funding level to 100% within 20 years. The Council paid £56.2m for LGPS pensions during the year (£51.9m in 18/19).

## Other significant Information

The Council ran a voluntary redundancy scheme during 2019/20 to help deliver it's approved MTFP savings and as a result of which there were 118 agreed staff departures at a total cost of £2.5m. While this was higher than the previous year, the average cost of exit payments actually reduced from £31k to £21k.

The total number of officers earning over £50k increased from 322 to 455 during 2019/20. The increase was down to a number of factors including; inflationary pay increases, staff moving up spinal points, recruitment of permanent senior staff into vacant posts and a higher number of exit payments which meant some staff with base salary below £50k exceeded the threshold.

The Council's short term borrowing decreased from £342m to £133m and long term borrowing increased from £555m to £716m. The key reason for this was that the Council refinanced £150m worth of short term higher interest LOBO debt with cheaper longer term PWLB loans saving the Council around £3.5m per annum.

The Council also entered into a new 50 year lease arrangement with the Royal Mail Pension Fund and London Docklands Limited to acquire interests in a 209 bedroom hotel in the Royal Docks area. This arrangement is expected to generate an additional £400k investment income per annum.

## Capital Investments

The Council maintains a rolling capital investment programme such that projects are approved and scheduled over a time period of at least three financial years.

During 2019/20 £132m worth of capital investments (including expenditure incurred by Schools) were delivered and a significant amount of that was on regeneration schemes and investment in new and affordable homes, delivered through the HRA and the Council's wholly owned housing investments company, Red Door Ventures (RDV).

The Council had budgeted to invest £260m across the various directorates and programmes. However, a number of challenges in the approval and procurement processes meant that some of the larger housing programmes (through RDV and HRA) did not progress as planned. All of the projects that were not delivered during 2019/20 will be carried forward and delivered during 2020/21 and future years. To assist with this, the Council's capital strategy has also been updated and governance arrangements are being improved through a new capital board to ensure more of the Council's capital ambition can be delivered sooner.

Below is a summary of the capital expenditure by directorate and the key investments initiatives were in the following areas:

- £25.9m – on roads, highways, transport and other infrastructure improvement projects.
- £14.3m - regeneration projects in Canning Town, Custom House and Carpenters Estate.
- £34.4m – school expansion and improvements
- £8.1m – on new and affordable housing projects through RDV
- £23.5m – increasing housing supply and investment affordable housing through the HRA

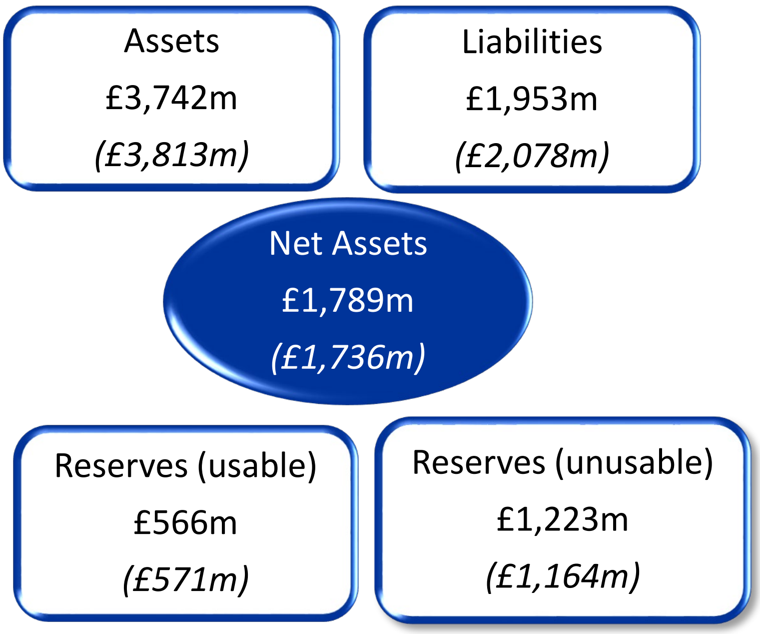
| Directorate | 2019/20 Budget | 2019/20 Actual | 2019/20 Variance |
|---|---|---|---|
| | £000 | £000 | £000 |
| Adults & Public Health | 6,591 | **5,715** | (876) |
| Children & Young People | 90 | **87** | (3) |
| Environment & Sustainable Transport | 27,191 | **25,871** | (1,320) |
| Inclusive Economy & Housing | 27,574 | **14,308** | (13,266) |
| OneSource | 6,996 | **4,777** | (2,753) |
| People, Policy & Performance | 6,434 | **2,775** | (3,124) |
| Resources | 50 | **9,522** | 9,472 |
| Schools (Capital) | 41,596 | **34,427** | (7,169) |
| Red Door Ventures | 45,166 | **8,124** | (37,042) |
| Housing Revenue Account | 83,240 | **23,499** | (59,742) |
| Schools Consolidation | 2,998 | **2,998** | 0 |
| Corporate | 12,356 | **0** | (12,356) |
| **Total** | **260,283** | **132,103** | **128,180** |

The capital investment was funded through General Fund Borrowing (48%), Grants & Contributions (33%), HRA Self Financing (13%) and Other Funding sources including the use of Capital receipts (6%).

| **Funding Sources** | **2019/20 £'000** |
|---|---|
| GF Capital Receipts | 87 |
| Grants and Contributions | 43,700 |
| Schools Contribution - Self Financing | 2,998 |
| Revenue / Reserves - Secured | 427 |
| GF - Prudential Borrowing | 55,067 |
| HRA - Prudential Borrowing | 1,620 |
| HRA Self Financing - MRR | 16,945 |
| HRA Other Receipts (Newshare) | 521 |
| HRA 1-4-1 Receipts | 2,617 |
| GF - Prudential Borrowing (Red Door Ventures) | 8,124 |
| **Total planned Capital Expenditure** | **132,103** |

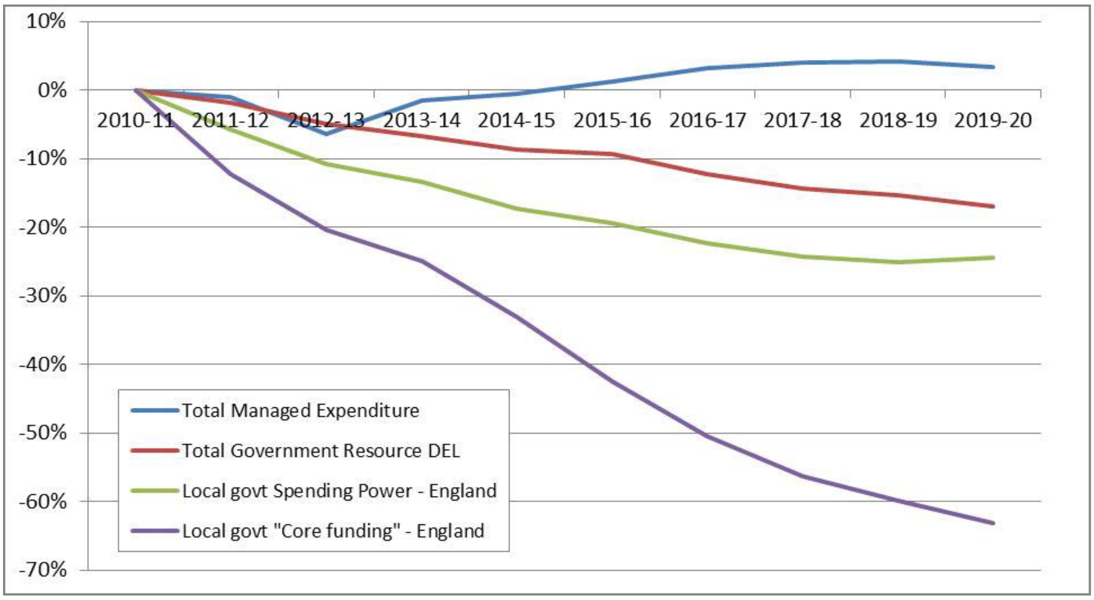
## Balance Sheet Position

The diagram below illustrates the Authority's single entity Balance Sheet position as at the end of 2019/20. The figures shown in brackets are for 2018/19.



## Looking Ahead

Local authority funding from central government has continued to decline significantly since 2010, as illustrated by the graph below. The ongoing reductions in central government funding for local government, together with rising cost pressures and local growth in demand for services, mean that the Council continues to face a challenging financial positon over the coming years.




Like many other local authorities, this has had a significant impact on Newham's financial position. The Council has been required to make approximately £200million of savings since 2010 in response to the funding reductions. The net budget requirement for the Council for 2020/21 is £263.4m.

The financial challenges for local authorities remain not just for the next financial year, but are likely for the foreseeable future and in response, the Council has agreed a balanced budget for the period 2020/21 to 2022/23, requiring savings in excess of £45 million over that three year period.

The impact of this over the period 2008/09 to 2018/19 was compounded by the decision to freeze council tax for each of those ten years. This has contributed to Newham having the lowest council tax in outer London, but had council tax been increased by the maximum amount available in each of those years the council would have collected c£82m additional cash over the period, and would now be receiving an additional c£19m per year in its ongoing budget.

While the impact of Covid-19 is difficult to quantify, there will no doubt be additional pressures on both expenditure and income over the MTFP that is unlikely to be fully met through any additional funding we may receive from government. The Council will strengthen its budget monitoring process during 2020/21 and review its medium term financial planning assumptions to consider the impact and options available to continue to protect services for the most vulnerable.

Other factors that will continue to impact on the level of uncertainty over the MTFP include the impact of Brexit, ongoing and increased pressure on Adult Social Care budgets, changes to the Better Care Fund and New Homes Bonus, The Fair Funding Review and Changes to the Business Rates Retention Scheme.

# Responsibilities for the Statement of Accounts

## The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this case, the responsible officer is the Corporate Director of Resources.
- Manage its affairs in order to generate an economic, efficient and effective use of resources and to safeguard its assets; and
- Approve the Statement of Accounts.

## The Responsibilities of the Chief Finance Officer

The Council's designated Chief Finance Officer is the Corporate Director of Resources. The Corporate Director of Resources is ultimately responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing the Statement of Accounts, the Corporate Director of Resources has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the aforementioned Code of Practice.

The Corporate Director of Resources has also:

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

In accordance with the Accounts and Audit (England) Regulations 2015, I certify that the statement of accounts gives a true and fair view of the financial position of the authority at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

| | |
|---|---|
| **Signature:** | **Signature:** |
| **Conrad Hall CPFA** | **Luke Charters** |
| **Corporate Director of Resources** | **Chair of Audit Committee** |
| **Date:** | **Date:** |

## Independent Auditors Report

To be included following conclusion of the Audit of Accounts.

## Explanation of the Key Accounting Statements

The key financial statements set out within this document include:

- **Comprehensive Income and Expenditure Statement (CIES)** – This summarises the expenditure and income for the year.
- **Balance Sheet –** This shows the Council's assets, liabilities, cash balances and reserves at the year-end date.
- **Cash Flow Statement –** This summarises the cash inflows and outflows arising from transactions for both capital and revenue income and expenditure;
- **Movement in Reserves Statement (MiRS) –** This shows the changes in the Council's reserves during the year. Reserves are divided into useable and unusable reserves with the former being invested in capital projects or service improvements and latter being set aside for specific purposes.
- **Expenditure Funding Analysis (EFA) –** This shows how annual expenditure is used and funded from resources and accounted under local government statute as opposed to how it would accounted by private sector bodies under generally accepted accounting practices.
- **Notes to the Financial Statements –** The notes provide more detail about the items contained in the key financial statements, the Authority's Accounting Policies and other information to help with the understanding of the financial statements;
- **Housing Revenue Account (HRA) –** This records the Authority's statutory obligations to account separately for the cost of the landlord role in respect of the provision of Housing managed directly by the authority;
- **Collection Fund –** The Authority is responsible for collecting council tax and non-domestic rates and for keeping a separate account to detail the amounts owing to and from the Council, the GLA and the MHCLG.
- **Pension Fund –** The Pension Fund Accounts show the contributions from the Authority, participating employers and employees for the purpose of paying pensions. The Fund is separately managed by the Authority, acting as trustee, and its Accounts are separate from those of the Authority.

## Single Entity Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement (CIES) records all of the Council's Revenue income and expenditure for the year. Expenditure represents a combination of statutory duties and discretionary spend focused on local priorities and needs. The CIPFA Code of Local Authority Accounting regulates how expenditure and income relating to services is classified in the CIES.

| 2018/19 Restated | | | | | 2019/20 | | |
|---|---|---|---|---|---|---|---|
| **Gross Expenditure £'000** | **Gross Income £'000** | **Net Expenditure £'000** | | **Notes** | **Gross Expenditure £'000** | **Gross Income £'000** | **Net Expenditure £'000** |
| 108,961 | (9,549) | **99,412** | Children and Young People | | 107,767 | (7,611) | **100,156** |
| 112,900 | (98,426) | **14,474** | Inclusive Economy & Housing | | 123,282 | (101,945) | **21,337** |
| 162,601 | (66,847) | **95,754** | Adults & Health | | 178,991 | (80,788) | **98,203** |
| 15,048 | (6,000) | **9,048** | CYP Commissioner & Brighter Futures | | 18,002 | (4,914) | **13,088** |
| 20,588 | (3,335) | **17,253** | People, Policy and Performance | | 25,948 | (4,117) | **21,831** |
| 68,257 | (40,239) | **28,018** | Environment and Sustainable Transport | | 83,060 | (47,612) | **35,448** |
| 287,587 | (268,602) | **18,985** | Resources | | 266,565 | (244,765) | **21,800** |
| 23,385 | (21,717) | **1,668** | oneSource - Non Shared | | 13,031 | (22,176) | **(9,145)** |
| 15,838 | (12,180) | **3,658** | oneSource | | 17,371 | (10,813) | **6,558** |
| 3,969 | (19,070) | **(15,101)** | Corporate Budgets | | 13,174 | (15,745) | **(2,571)** |
| 271,970 | (262,741) | **9,229** | Dedicated Schools Budget | | 307,335 | (277,898) | **29,437** |
| 86,467 | (107,465) | **(20,998)** | Housing Revenue Account | | 103,131 | (108,742) | **(5,611)** |
| **1,177,571** | **(916,171)** | **261,400** | **Cost of Services** | | **1,257,657** | **(927,126)** | **330,531** |
| | | 155,854 | Other Operating Expenditure | 11 | | | 59,181 |
| | | 46,514 | Financing and Investment Income and Expenditure | 12 | | | 152,773 |
| | | (335,136) | Taxation and Non-Specific Grant Income | 13 | | | (342,718) |
| | | **128,632** | **(Surplus)/Deficit on Provision of Services** | | | | **199,767** |
| | | (28,858) | (Surplus)/Deficit on Revaluation of PPE and Heritage Assets | 26 | | | (69,047) |
| | | (91,196) | Remeasurements of the Net Pensions Defined Benefit Liability | 44 | | | (184,598) |
| | | **(120,054)** | **Other comprehensive income and expenditure** | | | | **(253,645)** |
| | | **8,578** | **Total Comprehensive Income and Expenditure** | | | | **(53,878)** |

## Group Comprehensive Income and Expenditure Statement

The Group Comprehensive Income and Expenditure Statement (CIES) records all of the Council's Revenue income and expenditure for the year and consolidation of subsidiaries income and expenditure. Expenditure represents a combination of statutory duties and discretionary spend focused on local priorities and needs. The CIPFA Code of Local Authority Accounting regulates how expenditure and income relating to services is classified in the CIES. Details of the Council's subsidiaries are included on note 38.

| 2018/19 Restated | | | | | 2019/20 | | |
|---|---|---|---|---|---|---|---|
| **Gross Expenditure £'000** | **Gross Income £'000** | **Net Expenditure £'000** | | **Notes** | **Gross Expenditure £'000** | **Gross Income £'000** | **Net Expenditure £'000** |
| 106,143 | (7,267) | **98,876** | Children and Young People | | 109,379 | (11,129) | **98,250** |
| 112,818 | (98,344) | **14,474** | Inclusive Economy & Housing | | 122,205 | (100,868) | **21,337** |
| 167,741 | (71,778) | **95,963** | Adults & Health | | 176,625 | (78,422) | **98,203** |
| 15,048 | (6,000) | **9,048** | CYP Commissioner & Brighter Futures | | 16,868 | (3,780) | **13,088** |
| 32,511 | (15,475) | **17,036** | People, Policy and Performance | | 48,308 | (26,684) | **21,624** |
| 72,094 | (45,561) | **26,533** | Environment and Sustainable Transport | | 72,319 | (36,654) | **35,665** |
| 289,469 | (270,685) | **18,784** | Resources | | 262,239 | (240,439) | **21,800** |
| 21,949 | (20,281) | **1,668** | oneSource - Non Shared | | 17,544 | (26,817) | **(9,273)** |
| 13,682 | (10,024) | **3,658** | oneSource | | 17,058 | (10,500) | **6,558** |
| 3,219 | (18,320) | **(15,101)** | Corporate Budgets | | 12,633 | (15,204) | **(2,571)** |
| 271,490 | (262,261) | **9,229** | Dedicated Schools Budget | | 322,362 | (294,065) | **28,297** |
| 81,476 | (102,474) | **(20,998)** | Housing Revenue Account | | 98,279 | (103,890) | **(5,611)** |
| **1,187,640** | **(928,470)** | **259,170** | **Cost of Services** | | **1,275,819** | **(948,452)** | **327,367** |
| | | 155,852 | Other Operating Expenditure | 11 | | | 59,181 |
| | | 51,187 | Financing and Investment Income and Expenditure | 12 | | | 157,746 |
| | | (335,137) | Taxation and Non-Specific Grant Income | 13 | | | (342,718) |
| | | **131,072** | **(Surplus)/Deficit on Provision of Services** | | | | **201,576** |
| | | 337 | Tax on Profit | | | | 125 |
| | | **131,409** | **(Surplus)/Deficit on Provision of Services after Tax** | | | | **201,701** |
| | | (28,858) | (Surplus)/Deficit on Revaluation of PPE and Heritage Assets | 26 | | | (69,047) |
| | | (91,196) | Remeasurements of the Net Pensions Defined Benefit Liability | 44 | | | (184,598) |
| | | **(120,054)** | **Other comprehensive income and expenditure** | | | | **(253,645)** |
| | | **11,355** | **Total Comprehensive Income and Expenditure** | | | | **(51,944)** |

## Group and Single Entity Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable reserves’. Additional detail on these reserves is given in Note 25 and Note 26. The Surplus on the Provision of Services line shows the true economic cost of providing the authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for authority tax setting and dwellings rent setting purposes. The ‘Adjustments Between Accounting Basis and Funding Basis under Regulations’ line accounts for this difference and is detailed in Note 9. The Net Increase before Transfers to Earmarked Reserve line shows the increase on the General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

| | General Fund Balance £'000 | Earmarked Reserves £'000 | Housing Revenue Account £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied Account £'000 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Single Entity Reserves £'000 | Group Reserves £'000 | Total Group Reserves £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (12,351) | (165,332) | (64,042) | (70,635) | (123,763) | (80,792) | (516,915) | (1,227,268) | (1,744,183) | (4,900) | (1,749,083) |
| Movement in Reserves during 2018/19 | | | | | | | | | | | |
| (Surplus) or Deficit on Provision of Services | 163,232 | | (34,600) | | | | 128,632 | | 128,632 | 2,777 | 131,409 |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | - | (120,054) | (120,054) | | (120,054) |
| **Total Comprehensive Income and Expenditure** | **163,232** | **-** | **(34,600)** | **-** | **-** | **-** | 128,632 | (120,054) | 8,578 | 2,777 | 11,355 |
| Adjustments between accounting basis and funding basis under regulations | (194,155) | | 26,388 | 6,080 | (10,494) | (10,783) | (182,964) | 182,964 | - | - | - |
| **Net (Increase)/Decrease before Transfers to Earmarked Reserves** | **(30,923)** | **-** | **(8,212)** | **6,080** | **(10,494)** | **(10,783)** | (54,332) | 62,910 | 8,578 | 2,777 | 11,355 |
| Transfers (To)/From Earmarked Reserves | 30,068 | (30,068) | | | | | - | | - | | - |
| **(Increase)/Decrease In Year** | **(855)** | **(30,068)** | **(8,212)** | **6,080** | **(10,494)** | **(10,783)** | **(54,332)** | **62,910** | **8,578** | **2,777** | **11,355** |
| **Balance At 31 March 2019** | **(13,206)** | **(195,400)** | **(72,254)** | **(64,555)** | **(134,257)** | **(91,575)** | **(571,247)** | **(1,164,358)** | **(1,735,605)** | **(2,123)** | **(1,737,728)** |
| Movement in Reserves during 2019/20 | | | | | | | | | | | |
| (Surplus) or Deficit on Provision of Services | 155,176 | | 44,591 | | | | 199,767 | | 199,767 | 1,934 | 201,701 |
| Other Comprehensive Income and Expenditure | - | | | | | | - | (253,645) | (253,645) | | (253,645) |
| **Total Comprehensive Income and Expenditure** | **155,176** | **-** | **44,591** | **-** | **-** | **-** | 199,767 | (253,645) | (53,878) | 1,934 | (51,944) |
| Adjustments between accounting basis and funding basis under regulations | (136,488) | | (54,544) | (3,818) | 10,417 | (10,347) | (194,780) | 194,780 | - | | - |
| **Net (Increase)/Decrease before Transfers to Earmarked Reserves** | **18,688** | **-** | **(9,953)** | **(3,818)** | **10,417** | **(10,347)** | 4,987 | (58,865) | (53,878) | 1,934 | (51,944) |
| Transfers (To)/From Earmarked Reserves | (18,689) | 18,689 | | | | | | | | | |
| **(Increase)/Decrease In Year** | **(1)** | **18,689** | **(9,953)** | **(3,818)** | **10,417** | **(10,347)** | **4,987** | **(58,865)** | **(53,878)** | **1,934** | **(51,944)** |
| **Balance At 31 March 2020** | **(13,207)** | **(176,711)** | **(82,207)** | **(68,373)** | **(123,840)** | **(101,922)** | **(566,260)** | **(1,223,223)** | **(1,789,483)** | **(189)** | **(1,789,672)** |

## Group and Single Entity Balance Sheet

| | Notes | Single Entity 31 March 2019 £'000 | Single Entity 31 March 2020 £'000 | Group Accounts 31 March 2019 £'000 | Group Accounts 31 March 2020 £'000 |
|---|---|---|---|---|---|
| Property, Plant and Equipment | 14 | 2,750,499 | 2,798,834 | 2,792,619 | 2,844,209 |
| Heritage Assets | 15 | 3,658 | 3,658 | 3,658 | 3,658 |
| Investment Properties | 16 | 209,205 | 211,285 | 265,945 | 268,027 |
| Intangible Assets | 17 | 760 | 596 | 1,067 | 859 |
| Long Term Investments | 18 | 108,806 | 59,442 | 92,481 | 40,000 |
| Long Term Receivables | 22 | 168,463 | 249,187 | 59,979 | 108,682 |
| **Long Term Assets** | | **3,241,391** | **3,323,002** | **3,215,749** | **3,265,435** |
| Short Term Investments | 18 | 377,513 | 272,615 | 377,513 | 272,615 |
| Assets Held for Sale | | 460 | 7,265 | 460 | 7,265 |
| Inventories | 19 | 1,188 | 321 | 1,278 | 504 |
| Short Term Receivables | 22 | 98,100 | 109,054 | 126,218 | 163,493 |
| Cash and Cash Equivalents | 21 | 94,815 | 30,913 | 106,853 | 47,519 |
| **Current Assets** | | **572,076** | **420,168** | **612,322** | **491,396** |
| Cash and Cash Equivalents Overdrawn | 21 | (8,376) | - | (8,376) | - |
| Short Term Borrowing | 18 | (342,255) | (133,119) | (342,084) | (134,260) |
| Short Term Payables | 23 | (125,247) | (156,247) | (135,070) | (168,020) |
| Short Term Provisions | 24 | (5,178) | (6,931) | (5,178) | (6,931) |
| **Current Liabilities** | | **(481,056)** | **(296,297)** | **(490,708)** | **(309,211)** |
| Long Term Provisions | 24 | (19,713) | (19,557) | (22,069) | (23,139) |
| Long Term Borrowing | 18 | (555,439) | (716,181) | (555,911) | (710,723) |
| Other Long Term Liabilities | 36 | (974,400) | (874,476) | (974,401) | (876,910) |
| Capital Grants Receipts in Advance | 13 | (47,254) | (47,176) | (47,254) | (47,176) |
| **Long Term Liabilities** | | **(1,596,806)** | **(1,657,390)** | **(1,599,635)** | **(1,657,948)** |
| **Net Assets** | | **1,735,605** | **1,789,483** | **1,737,728** | **1,789,672** |
| Usable Reserves | 25 | (571,247) | (566,260) | (573,373) | (566,449) |
| Unusable Reserves | 26 | (1,164,358) | (1,223,223) | (1,164,355) | (1,223,223) |
| **Total Reserves** | | **(1,735,605)** | **(1,789,483)** | **(1,737,728)** | **(1,789,672)** |

*I certify that the statement of accounts gives a true and fair view of the financial position of the authority as at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.*

*Conrad Hall CPFA*

Conrad Hall

# Group and Single Entity Cash Flow Statement

The Cash Flow Statement shows the changes in Cash and Cash Equivalents of the Authority during the Reporting Period. The Statement shows how the Authority generates and uses Cash and Cash Equivalents by classifying cash flows as Operating, Investing and Financing Activities. Net Cash Flows from Operating Activities is a key indicator of the extent to which the operations of the Authority are funded by way of Taxation and Grant Income or from the recipients of services provided by the Authority. Investing activities represent the extent to which Cash Outflows have been made for resources that are intended to contribute to the Authority's future service deliveries. Cash Flows arising from Financing activities are useful in predicting claims on future Cash Flows by providers of capital (lenders) to the Authority.

| | | **Single Entity** | | **Group Accounts** | |
|---|---|---|---|---|---|
| | | **2018/19** | **2019/20** | **2018/19** | **2019/20** |
| | | **£'000** | **£'000** | **£'000** | **£'000** |
| | Note | | | | |
| Net Surplus/(Deficit) on the Provision of Services | | (128,632) | (199,767) | (131,409) | (201,701) |
| Adjustments to Net Surplus on the Provision of Services for Non-Cash Transactions | 27 | 293,927 | 239,123 | 300,042 | 245,525 |
| Adjustments to Net Surplus on the Provision of Services that are Investing and Financing Activities | 27 | (92,894) | (245,132) | (92,894) | (245,132) |
| **Net Cash Flows from Operating Activities** | | **72,401** | **(205,776)** | **75,739** | **(201,308)** |
| Investing Activities | 28 | 70,233 | 204,873 | 43,205 | 172,106 |
| Financing Activities | 29 | (53,587) | (54,623) | (24,620) | (21,757) |
| **Net increase or (decrease) in Cash and Cash Equivalents** | | **89,047** | **(55,526)** | **94,324** | **(50,959)** |
| Cash and Cash Equivalents at the beginning of the Reporting Period | | (2,608) | 86,439 | 4,152 | 98,477 |
| **Cash and Cash Equivalents at the end of the Reporting Period** | 21 | **86,439** | **30,913** | **98,476** | **47,519** |

# 1. Statement of Accounting Policies

## 1.1 General

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at 31 March 2020. They have been prepared on the basis that the Council will remain a 'going concern' and continue to operate in the foreseeable future. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, to be prepared in accordance with proper accounting practices as defined in the Local Government Act 2003 (the 2003 Act). Proper accounting practices primarily comprise the Code of Practice for Local Authority Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice for Local Authorities 2019/20, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act. There are no significant changes to the accounting policies applied in 2019/20.

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

## 1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not at the point when cash payments are made or received. Specifically:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies received and their consumption, these amounts are carried as Inventories within the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received as opposed to the point that 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 has 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 is made to revenue to reflect the value of the income that may not be collected.
- Most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. The de minimis for 2019/20 remains at £100,000.

## 1.3 Government Grants and Contribution

### Revenue Grants

Whatever the basis of payment, specific revenue government grants, other contributions and donations are matched to the relevant service expenditure in the Comprehensive Income and Expenditure Statement, unless they have conditions attached that cannot be met immediately. If there are conditions which cannot met immediately, the income is credited to Revenue Grants Received in Advance in Payables.

Grants received to finance the general activities of the Authority or to compensate for a loss of income are credited to the Comprehensive Income and Expenditure Statement in the period that they are payable.

### Capital Grants

Where the acquisition or enhancement of a fixed asset is financed either wholly or in part by a government capital grant or other capital contribution, the whole amount of all capital grants and contributions is credited, on an accruals basis, as Taxation and Non-Specific Grant Income to the Comprehensive Income and Expenditure Statement provided that all conditions attached to the grant are met. If those conditions are not met, the income is immediately held as Capital Grants and Contributions Receipts in Advance in Payables within the Balance Sheet.

Capital grants credited to the Comprehensive Income and Expenditure Statement are reversed out of the General Fund Balance in the Movement in Reserves Statement. If the grant has not been used to finance capital expenditure in the year, it is posted to the Capital Grants Unapplied Account. If it has been used to finance capital expenditure, it is posted to the Capital Adjustment Account.

## 1.4 Receivables and Payables

The Authority’s financial statements are prepared on an accruals basis, in that sums due to or from the Authority are reflected within the Statement of Accounts regardless of whether or not the cash amounts attached to these transactions have been received or paid. An exception to this policy involves electricity and other similar periodic supplies where apportionment is not made between years. This practice is applied on an annual basis for consistency and the overall effect on the Authority’s financial statements is not deemed to be material.

All receivables and payables amounts relate to individual services and supplies, thus there are no significant estimates in the sums relating to receivables and payables shown within the financial statements.

In addition, majority of the Council's receivables are non-contract based income and therefore, no adjustment is required to recognise the income through the concept of *Revenue from Contracts with Service Recipients*. Application of this concept ensures that the Council's financial statements reflects the consideration in exchange for fulfilment of goods or services only.

## 1.5 Fair Value Measurement

Where applicable, the Council measures its assets and liabilities and provides disclosures in accordance with IFRS 13 Fair Value Measurement. 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 under current market conditions.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The Council 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.

## 1.6 Reserves

Amounts set aside for specific future policy purposes or for contingencies are known as reserves. Reserves are created by appropriating amounts from the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from the reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back to the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

The Authority has both usable and unusable reserves. Usable reserves are those reserves that the Authority may utilise to provide services. Unusable reserves are retained to manage the accounting processes for non-current assets, financial instruments, and retirement and employment benefits, and do not represent usable resources for the Authority. Usable and Unusable Reserves are detailed in Notes 25 and 26 to the Statement of Accounts.

## 1.7 Inventories, Work In Progress and Long-Term Contracts

The stock in the Council’s stores (Inventories) is valued at the lower of historical cost or net realisable value. Work in progress is valued based on the cost of work completed by the end of the year. Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received within the contract during the financial year.

## 1.8 Cost of Central Support Services

The Council operates a Support Service Framework through which the cost of central support services is allocated to service revenue accounts using the most appropriate basis, including the time recorded by individual staff, office space areas occupied and the number of staff employed.

## 1.9 Value Added Tax

All transactions are disclosed net of any Value Added Tax (VAT), whether capital or revenue, unless for a specific reason certain VAT elements are not recoverable. As is the case for all Local Authorities, the Authority is able to recover a major part of VAT incurred from Her Majesty's Revenue and Customs (HMRC). Any balance due to the Authority is included within Receivables in the Balance Sheet.

## 1.10 Accounting for Business Rate Supplements

The Authority acts as an agent for the Greater London Authority (GLA). A 4% allowance for administration of this function is recognised within the Comprehensive Income and Expenditure Statement. The net amounts owed to the GLA are held with Payables in the Balance Sheet.

## 1.11 Cash and Cash Equivalents

Cash is represented by cash in hand and demand deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Demand deposits will include bank accounts where additional funds may be deposited and withdrawn at any time without prior notice e.g. a bank current account.

Cash equivalents are investments instantly repayable to the Authority on demand that are readily convertible to known amounts of cash with insignificant risk of change in value. These will be balances held in Call Accounts and Money Market Funds with associated accrued interest.
In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

## 1.12 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

Material errors identified in prior period amounts are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

A prior period adjustment generally requires the presentation of a third Balance Sheet to reflect the impact of restatement on the comparator balance sheet.

## 1.13 Property, Plant and Equipment (PPE) and Investment Property

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. In the specific case of Voluntary Controlled Schools, where the School has control over the use of the assets, these will be treated as assets of the Council.

**Recognition**

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

**Measurement**

Assets are initially measured at cost, comprising:

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

Local authorities are required to follow the fair value hierarchy prescribed by IFRS 13 to increase consistency and comparability in fair value measurements and related disclosures. This hierarchy categorises into three levels the inputs to valuation techniques used to measure fair value, these include:

- Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs - unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The Authority 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 Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

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 in the Comprehensive Income and Expenditure Statement unless the donation has been made conditionally. Until these 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 - an Unusable Reserve in the Movement in Reserves Statement.

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

- Infrastructure Assets, Community Assets and Assets Under Construction – depreciated historical cost;
- Dwellings – fair value, determined using the basis of Existing Use Value for Social Housing (EUV-SH);
- Surplus assets – fair value, estimated at highest and best use from a market participant's perspective;
- All other assets – fair value, determined as the amount that would be paid for the asset in its Existing Use Value (EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently frequently (on a rolling five year basis) to ensure that their carrying amounts are not materially different from their year-end fair values. In

addition, all assets are assessed for impairment at each year-end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.
Where decreases in value are identified, they are accounted for as follows:

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

Where an asset has become operational during the year a revaluation of that asset is included within the next revaluation cycle the following year.

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

**Impairment**

Assets are assessed at each year-end to determine whether or not there is an indication that their values 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 at a level below the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

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

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

**Depreciation**

Depreciation is charged 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 (such as Freehold Land and certain Community Assets) and assets that are not yet available for use (such as Assets Under Construction).

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 upon the historical cost; this amount being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is calculated on the following bases:

- Dwellings and Other Buildings – straight-line allocation over the useful life of the property as estimated by an external valuation specialist;
- Vehicles, Plant, Furniture and Equipment – straight-line allocation over their useful lives, as estimated at the time of purchase. Assets acquired under finance leases are depreciated over their lease term;
- Infrastructure Assets – straight-line allocation over 40 years.

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

**Disposals**

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 within Current Assets. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value deducting any selling costs. Where there is a subsequent decrease to fair value less selling costs, 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 point of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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 as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment 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.

**Accounting for Schools**

Consideration is given to all the schools in the borough as to whether they are held on the balance sheet. The main consideration is if control of the individual school is with the Authority or with another body. All community schools are controlled by the authority along with the two voluntary controlled schools, which are recorded on the balance sheet. However, of the six voluntary aided schools, control of five of them remains with the diocese and therefore these five are not on the Authority balance sheet.

The basis for inclusion or exclusion for PPE is determined as follows:

- All Community Schools have been included within the Authority's Balance Sheet as a result of direct ownership.

- The two voluntary controlled schools, West Ham Church of England and St James are owned by the authority. There are no lease arrangements on these.

- One Voluntary aided school, St Antony's, is recorded within the Balance Sheet as it is Authority-owned. There are no lease arrangements with the diocese.

- It has been verified that the other five Voluntary Aided Schools are owned by the respective Diocese. The Authority's internal Property Services section has additionally confirmed that the Council has no lease obligations (as dictated by IAS 17 Leases or IFRIC 4 Determining Whether an Arrangement Contains a Lease) in respect of these Schools;

- The Free School is not owned by the Council and has therefore been excluded. The control implications have also been assessed with an appropriate Balance Sheet decision made.

**Investment Properties**

Assets used solely to earn rentals or for capital appreciation (or both) are classified as investment properties. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm’s length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Any gains or losses on revaluation are posted to the Financing and Investment Income and Expenditure line. The same treatment is applied to any gains and losses arising on disposal.

Rentals received from investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statute to have an impact on the General Fund balance. Therefore, the gains and losses are reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Transfers into and out of investment property is only be made when there is a change in use; properties are transfers out when the property is used by the Council for its operational use or when the Council starts development work with a view to sell, and properties are transfers in when it's a surplus to the Council's operational use or a new asset is created and an operating lease is in place with a third party. Each scenario is reviewed to ensure the asset is valued appropriately and any loss or gain in valuation as a result of the transfer is recognised.

**PPE Valuations**

The valuation of the Authority’s property portfolio is completed by Wilks, Head and Eve LLP. The valuations are made in accordance with the International Financial Reporting Standards (IFRS) as applied to the United Kingdom public sector and as interpreted by the Code of Practice for Local Authority Accounting. These valuations are also made in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation standards. Fair Value is used as the basis for valuations with the exception of those assets where there is no market-based evidence to support the use of EUV to arrive at Fair Value. In these instances, the depreciated replacement cost (DRC) approach is used. Non-Housing Revenue Account properties are valued on a rolling five year basis and there are yearly beacon valuations for HRA assets.

## 1.14 Leases

Leases are classified as finance leases where the terms of the lease transfers 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 the purposes of lease classification unless the value of the land is negligible. Where the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the completion of the lease term.

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 depends upon the use of specific assets.

**Finance Leases – the Authority as Lessee**

Property, plant and equipment held under finance leases is recognised as an asset in the Balance Sheet at the inception of the lease at the lower of the fair value or the present value of the minimum lease payments. The asset is matched by a long-term liability reflecting the obligation to pay the Lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid upon entry into a lease are applied in writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The Authority uses assets under a long-term contract which is deemed to incorporate an embedded finance lease. The lease obligations and asset values have been assessed to have a De Minimis impact on the Authority’s accounts.

Annual lease rental payments are apportioned between:

- a charge for the acquisition of the interest in the asset (the principal element) which is recognised as a liability in the Balance Sheet at the start of the lease, matched with an asset in property, plant and equipment. The liability is written down as the rent is paid, and
- a finance charge to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement over the term of the lease, calculated so as to produce a constant rate of return on the investment.

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to these assets, subject to the depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

**Finance Leases – the Authority as Lessor**

Where the Authority is the lessor of property, plant and equipment and the risks and rewards are judged to be passed to the lessee under a finance lease, the asset is eliminated from the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet 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 Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement 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), and matched by a long term debtor (for the lease asset) in the Balance Sheet.

In accordance with The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (SI 2003/3146), for leases entered into after 31 March 2010, the lease payment receivable is treated as a capital receipt for the repayment of the principal sum, reducing the debtor and the finance income included in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, calculated so as to produce a constant periodic rate of return on the net investment. For leases entered into before 31 March 2010, rental income for finance leases is treated as revenue income where the lease was classified as an operating lease under the UK GAAP-based SORP.

Lease rentals receivable are split between:

- a charge for acquiring the interest in the property – applied to write down the lease debtor (together with any premiums received) and debiting the Capital Adjustment Account; and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement). The credit to the Comprehensive Income and Expenditure Statement is then matched by a debit to write down the Capital Receipts Reserve, whilst the reversal of the entry to the Comprehensive Income and Expenditure Statement in the Movement in Reserves Statement is offset by a credit to the Capital Receipts Reserve.

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 Capital Receipts Reserve in the Movement in Reserves Statement.

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

**Operating Leases – the Authority as Lessee**

Lease rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased assets. Any hire purchase contracts that have similar characteristics to an operating lease are accounted for as an operating lease and disclosed in a note to the Statement of Accounts. Charges are accounted for on a straight-line basis over the term of the lease regardless of the actual payments stream.

**Operating Leases – the Authority as Lessor**

Where the Authority grants an operating lease in respect of an item of property, plant and equipment, the asset is retained in the Balance Sheet and subsequently depreciated over its useful life. Rental income from operating leases is credited as Other Operating Expenditure in the Comprehensive Income and Expenditure Statement on a straight line basis over the term of the lease, regardless of the pattern of payments. The initial direct cost of negotiating and arranging the lease may be added to the carrying value of the asset and charged as an expense over the term of the lease.

Any hire purchase contracts that have similar characteristics to a finance lease and are of a financing nature are accounted for as finance leases. Leases are classed as operating leases if assets are worth less than £500,000 or annual rental payments are less than £100,000. Property leases of up to twenty years are normally classed as operating leases. The estimated remaining life of property assets beyond the term of lease agreements is fundamental in determining if an asset should be recognised under a finance or an operating lease. Assets acquired under operating leases are not included in the Balance Sheet - lease rentals on these assets are charged directly to service revenue accounts and are outside the arrangements for capital charges to revenue.

## 1.15 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 assets attributable to the service.

The Authority is not required to raise council tax to cover depreciation. However, there is a requirement to make an annual contribution from revenue towards the reduction of the overall borrowing requirement established (equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance).

## 1.16 Debt Redemption

Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, the Authority is obliged to charge a prudent amount to council tax for redemption of debt, known as the Minimum Revenue Provision (MRP). Each year the Authority has to approve a policy for charging a prudent level of MRP in line with statutory guidance.

The Authority approved the following MRP policy in relation to the current financial year:

- the MRP charge in relation to borrowing for capital expenditure incurred prior to 2007/08 will be provided on an annuity basis; This will include retrospective application to 1st April 2008. Where there has been overprovision under the previous approach, the Council will equalise the difference through reduced MRP in future years up to the point that the MRP profile falls back in line with the annuity approach.
- MRP charged in respect of capital expenditure incurred since 2007/08 is charged using either:
    - the asset-life method based on an annuity over the estimated remaining useful life of the asset for “large and novel” projects (e.g. the acquisition of offices at Newham Dockside - Building 1000); or
    - under exceptional circumstances the equal instalments method may be applied.
- Furthermore, where appropriate, provision for MRP will commence when an asset becomes operational. Estimated life periods will be determined under delegated powers. The council may defer to the estimated useful economic life periods specified in the MRP guidance, but reserves the right to determine such periods and prudent MRP.
- As some types of capital expenditure incurred by the council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.
- In certain circumstances, capital expenditure may be funded by anticipated capital receipts. Where there is a degree of certainty that these receipts will materialise, MRP would be deferred, pending realisation of those capital receipts. The capital receipt when received would be applied to discharge the arising Capital Financing Requirement (CFR);

- MRP in relation to PFI or lease arrangements will be applied over the expected life of the underlying assets, taking into account any contractually obligated lifecycle repairs and maintenance.

External interest payable on the Authority's debt is debited to the Comprehensive Income and Expenditure Statement. However, in certain cases, the Authority continues to receive reimbursement for external interest and repayments of external loans (debt charges). This reimbursement is credited to the appropriate service revenue accounts, thus the relevant proportions of external interest and debt repayment are also charged to those revenue accounts.

## 1.17 Revenue Expenditure Funded from Capital under Statute

Revenue expenditure funded from capital under statute represents expenditure which may be capitalised under statutory provisions but which does not result in the creation of a non-current asset, such as expenditure on Renovation Grants and other forms of assistance to third parties. This expenditure is charged to the relevant service in the Comprehensive Income and Expenditure Statement and subsequently transferred to the Capital Adjustment Account by a transfer in the Movement in Reserves Statement to ensure that there is no overall impact upon council tax and grant levels.

## 1.18 Deferred Capital Receipts

Deferred capital receipts represent amounts from the disposal of non-current assets which have been deferred to future years where the Authority has granted a loan to assist the purchaser. As the loan (whether for mortgages or finance lease receivables) is repaid, the deferred capital receipt is written down once the capital receipt is realised.

## 1.19 Private Finance Initiative (PFI) Schemes

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment long-term assets needed to provide services passes to the PFI contractor. As the Council 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 Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The Council has entered into PFI contracts to oversee the building of six schools and two housing initiatives in Canning Town and Forest Gate.

PFI accounting arrangements apply where control tests (a) and (b) below have been applied and met:

a) The Authority controls or regulates the services that the operator must provide with the asset, to whom it must provide them, and at what price; and
b) The Authority controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement.

Assets under PFI accounting arrangements are accounted for at fair value and recognise the corresponding financial liability to reflect the requirement to pay for the asset over the period of the contract.

PFI assets are valued and depreciated in the same way as other asset categories.
In line with disclosure information required under the Code, the value of assets held under PFI arrangements and payments due are disclosed within the notes to the Statement of Accounts.

## 1.20 Intangible Assets

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

Intangible assets are measured initially at cost. Since the fair values of these assets cannot be determined by reference to an active market, these assets are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure statement. An asset is reviewed for impairment whenever there is an indication that the asset may be impaired, and any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

## 1.21 Accounting for Heritage Assets

Heritage Assets (including any associated revaluation gains and losses) are recognised and measured in accordance with the Authority's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below. The accounting policies in relation to Heritage Assets that are deemed to include intangible elements are also presented below.

**General**

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

**Art Collections**

The art collection includes paintings, and these are reported in the Balance Sheet at year-end market values. An annual programme of valuations is established and items in the collection are valued by an external valuer. The assets within the art collection are deemed to have indeterminate lives and high residual values. On this basis, the Authority does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at purchase cost and donations are recognised at their valued amounts as provided by the external valuer, and with reference to appropriate commercial markets for paintings using the most relevant and recent information from auction sales.

**Local Archaeology and Local and Social History**

The Authority considers that obtaining valuations for the vast majority of machinery, equipment and other artefacts would involve a disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values. The Authority does not recognise this collection of Heritage Assets on the Balance Sheet.

## 1.22 Employee Benefits

**Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. These include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current and permanent employees. These are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave including time off in lieu) 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 next financial year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but subsequently reversed out through the Movement in Reserves Statement to ensure that holiday benefits amounts are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

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

Where termination benefits involve the enhancement of employee pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, and not the amount calculated according to the relevant accounting standards established. 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.

## 1.23 Post-Employment Benefits

The Authority participates in three separate pension schemes:

- Local Government Pension Scheme, for employees other than teachers, administered by the London Borough of Newham;
- Teachers Pensions Scheme, sponsored by the Department for Education (DfE); and
- National Health Service (NHS) Pension Scheme.

All schemes provide defined benefits to members (lump sums and pensions), earned as employees for the Authority.

**The Local Government Pension Scheme**

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

The liabilities of the London Borough of Newham pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions regarding mortality rates, employee turnover levels and current employees' projected earnings.

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

The assets of the London Borough of Newham pension fund attributable to the Authority are included in the Balance Sheet at their year-end fair values and are defined by the following categories:

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

The movement in the net pension liability or asset is analysed into the following elements:

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned in the current year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement within central services;
  - net interest on the net defined benefit liability or asset i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability or asset that arises from the passage of time, as charged to the Financing and Investment Income and Expenditure line in 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 or asset at the beginning of the period – taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
  - the return on planned assets – excluding amounts included in net interest on the net defined benefit liability or asset as charged to the Pensions Reserve as Other Comprehensive Income or Expenditure;
  - actuarial gains and losses – changes in the net pension liability or asset that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This is charged to the Pensions Reserve as Other Comprehensive Income or Expenditure.
- Contributions paid to the London Borough of Newham pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, and not accounted for as an expense.

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

**NHS and Teachers' Pension Schemes**

The arrangements for the NHS and Teachers' schemes mean that the Authority's liabilities for these benefits cannot be identified specifically. The two schemes are therefore accounted for as if they were defined contribution schemes, resulting in the fact that no liability for future payments of benefits is recognised within the Balance Sheet at year-end. The applicable revenue accounts are also charged with the employer's contributions payable to the NHS and DfE respectively.

**Discretionary Benefits**

The Authority 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 those applied to the Local Government Pension Scheme.

## 1.24 Financial Instruments – Loans and Investments

**Financial Liabilities**

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

For the majority of the Authority's borrowings, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, (SI 2003/3146) allows the impact on the General Fund balance to be spread over future years. The Authority either spreads a premium over the term of the new loan taken out or alternatively allocates this over a ten year period (where a discount has been received).

**Financial Assets**

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

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

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

**Financial Assets Measured at Amortised Cost**

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for Statements the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.
Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

**Expected Credit Loss Model**

The authority recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.
Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

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

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

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

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

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

## 1.25 Provisions

**Provisions**

Provisions are required for any liabilities of uncertain timing or amount that have been incurred. Provisions are recognised when:

- the Authority has a present obligation as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Contributions to provisions are charged to the relevant service revenue account and are included within Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Provisions are measured at the best estimate (at the Balance Sheet date) of the expenditure required to settle the obligation, taking into account the relevant risks and uncertainties.

When subsequent payments are made, these are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes clear that a transfer of economic benefits will no longer be required (or a lower settlement than originally anticipated is made), the provision is reversed and credited back to the relevant service.

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

The Authority has established a number of specific provisions, including an Insurance Provision, to meet the estimated cost of insurance claims outstanding.

## 1.26 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will occur or whereby the value of the obligation cannot be reliably determined.

Contingent liabilities are not recognised within the Balance Sheet but are disclosed in the relevant Statement of Accounts note.

## 1.27 Contingent Assets

A contingent asset arises where an event has taken place that offers the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Subsequently, an inflow of economic benefits or service potential will occur.

Contingent assets are not recognised in the Balance Sheet but are identified within the relevant Statement of Accounts note

## 1.28 Interest in Companies and Other Entities

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

**Subsidiaries**

An assessment of the council's interests has been carried out to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the council's control over the company or entity and the materiality of the interest. The council considers that it has a material interest in various entities detailed in Note 38 and has classified them as a subsidiaries. Accordingly Group Accounts are prepared. In consolidating the accounts, all transactions and balances between the council and the subsidiary are eliminated in full.

**Associates and Jointly Controlled Entities**

The Authority has interests in companies and other entities that have the nature of associates and jointly controlled entities that have been determined to be material. These interests are recorded as equity instruments at cost less any provision for losses and are detailed in note 38.

## 2. Impact of changes within Accounting Standards issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the 2019/20 Code.

There following new accounting changes are in the 2020/21 code and may require additional disclosures in the 2019/20 accounts;

a) **IFRS 16 Leases**
IFRS 16 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). Due to Covid 19 CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.

b) **IAS 19 Employee Benefits**
This will require the remeasurement of net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1st April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.

## 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies outlined above, the Authority has made certain key decisions regarding complex transactions. The critical judgements made within this Statement of Accounts are:

- **Impairment**
There is a high degree of uncertainty regarding future funding for Local Authorities. The Medium-Term Financial Strategy (MTFS) described within the Narrative Report outlines the Council's strategies for generating the cost savings that will assist in addressing future funding shortfalls. In light of this plan, the Authority has determined that the uncertainty is not sufficiently quantifiable as an indicator that the assets of the Authority are impaired due to a need to close facilities and accordingly reduce service provision levels.

- **Leases**
The Authority has to determine whether individual leases are operating or finance leases in nature, based upon assessment criteria set-out in IAS 17 "*Leases*" and IFRIC 4 "*Determining whether an arrangement contains a lease.*" The relevant accounting policy applied to the lease is based upon the outcome of this assessment.

- **Investment Properties**
The Authority has to decide whether Land and Buildings elements owned by the Authority should be classed as Investment Properties in accordance with IAS 40 "Investment Property." Based upon this assessment, the Authority has identified a number of assets that it holds solely for rental income or future capital appreciation purposes, or a combination of both factors, as Investment Properties. These assets are detailed within Note 16.

- **Group Entities**
Based upon the criteria set-out in the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, the Council has undertaken a detailed review to assess the extent of group accounting relationships. The Authority has identified the entities that it consolidates on the basis of materiality in relation to the financial statements. Red Door Ventures Ltd, Future Newhomes Limited,

The Language Shop Limited, Public Realm Services Limited, Mint Cleaning Group Holdings Limited, i-Xact Limited, Juniper Ventures Limited, Better Together Limited, London Network for Pest Solutions Limited, Early Start Education Limited, The Good Support Group Limited and Every Child (Achieving their potential) Limited are deemed to constitute a material group interest and these wholly-owned subsidiaries have been consolidated within the Group Accounts.

The Authority also has a number of interests in other entities which have been deemed as falling outside the scope of consolidation on the grounds of significant influence and control in line with the Code. Furthermore, the Authority's interests in these entities in aggregate are not sufficiently substantial to warrant consolidation within the Group Accounts. These parties are outlined within Note 38.

- **Provisions**
  The Authority has assessed whether any potential exposure to losses should be accounted for as a year-end provision or a contingent liability based upon an analysis of significant possible liabilities using the criteria set out in IAS 37 "*Provisions, Contingent Liabilities and Assets*".

- **Government Grants**
  Judgement is required to determine whether the Authority can be reasonably assured that the conditions of grant and contribution monies received have been met before recognising these sums as income in the Comprehensive Income and Expenditure Statement. Where conditions require specific expenditure to have been incurred, the grant monies cannot be recognised until this point. Equally, where conditions outline that a grant or contribution must be repaid in the event of non-expenditure, the income is not recognised until the associated expenditure has been incurred.

- **Valuation of Land and Buildings**
  The year-end carrying values of Land and Buildings within the Authority's Balance Sheet involve a significant degree of judgement and estimation techniques. The Authority engages a specialist to value its property portfolio. The results of this valuation exercise reflect the specialist's professional assessment of the conditions within the external property market.

- **Componentisation**
  Based on the valuation specialist's assessment, the Authority analyses Land and Buildings across several individual components in order to produce a weighted useful economic life and thereby more accurately estimate depreciation.

- **Municipal Mutual Insurance (MMI)**
  On 13 November 2012, the directors of MMI triggered their Scheme of Arrangement and appointed Ernst and Young to manage their business affairs. Whilst Ernst and Young have notified the Scheme's creditors of an initial Levy, projections of any future liabilities falling due under the Scheme are subject to substantial uncertainty. Ernst and Young have obtained an actuarial valuation that determines a range of possible outcomes of this assessment. However, these are only best estimates, and are thus limited based upon the scale of information currently available

- **Voluntary-Controlled Schools**
  The Authority has assessed whether or not schools deemed to be voluntary-controlled in nature should be included within the year-end Balance Sheet. In accordance with CIPFA guidance, the Authority has determined, following the assessment of each individual case on its merits, that only those schools which are in the direct ownership of the Authority should be disclosed within the Balance Sheet.

- **Accounting for Academies**
  The Council has not recognised non-current assets relating to Academies as it is of the opinion that these assets are not controlled by the Authority. When a school that is held on the Authority's Balance Sheet transfers to Academy status, the Authority accounts for this as a disposal for nil consideration

on the date that the schools converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. During 2019/20, three maintained schools converted to academy status.

## 4. Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated amounts that are based upon assumptions made by the Council regarding future events, or those that are otherwise uncertain. Accounting estimates are calculated which take into account a number of factors including historical experience, current trends and other relevant indicators. However, as some balances cannot always be determined with full certainty, actual results generated may be materially different from the original assumptions and estimates used.

The items within the Authority's 31 March 2020 Balance Sheet for which there is a significant risk of material adjustment in the forthcoming financial year are listed below:

| Item | Uncertainties | Accounting effect if actual results differ from assumptions |
|---|---|---|
| Property, Plant and Equipment | Assets are depreciated over useful economic lives that are dependent upon assumptions regarding the levels of repairs and maintenance that will be incurred in relation to the individual assets. The present economic climate means that it is uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into question the useful lives assigned to certain assets. | If assets' useful lives are reduced, annual depreciation charges increase and the carrying values of these assets decrease at a quicker rate. |
| Self-Insurance | The Authority has recognised a year-end provision of £5.2m for future claims under its Self-Insurance provision. This amount is a component of the overall Insurance Reserve. | An increase in the estimated average settlement of 10% during the forthcoming year would increase the provision required by £0.5m. |
| Pension Liabilities | Estimation of the Authority's net liability in respect of year-end pension liabilities is driven by a number of complex judgements including the discount rate used, adjustments to long-term salaries, mortality age rates and expected returns on pension scheme assets. The Authority's consulting actuary (Barnett Waddingham) provides expert advice on the value of the Authority's year-end pension liabilities. | The principal factors influencing the valuation of the pension liability are the discount rate and the longevity (mortality rate) assumptions:<br>(a) if the discount rate increases by 0.1%, this change reduces overall pension liabilities (in terms of the projected service cost element) to £44.5m;<br>(b) if longevity increases by 1 year, this will increase liabilities (the projected service cost element) to approximately £47.1m. |
| Receivables | The Authority has estimated that £114.3m of the year-end value of Receivables should be impaired. This principally relates to Sundry and Parking Receivables (£53.8m), Council Tax (£22.6m), Housing Benefit overpayments (£14.8m) and Housing Rents (£19.5m). In the current economic climate, it is not certain that such allowances are sufficient. | If collection rates were to deteriorate, this may require an additional amount to be set-aside as an allowance to reflect non-collectability. |

## 5. Material Items of Income and Expense

Included within the Comprehensive Income and Expenditure Statement are the following material amounts:

- £28m (£120m in 2018/19) relating to the de-recognition of schools that have converted to Academy status during 2019/20; These charges are subsequently written-off to the Capital Adjustment Account (Note 26) through the Movement in Reserves Statement, ensuring neutral impacts on the General Fund and Housing Revenue Account balances in accordance with statutory accounting regulations.

- £150m Lender Option Borrower Option (LOBO) loans refinanced with cheaper Public Works Loans Board debt generating annual cost savings of £3.5m to the Council.

## 6. Events after the Balance Sheet date

The Corporate Director of Resources authorised the Statement of Accounts on 16 July 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The impact of Covid-19 started to take effect from late March 2020 and is therefore not considered to be a post balance sheet event. However, any impact on 2019/20 accounts and beyond is considered in the narrative report.

The Council's 'Employers Pension Fund Contributions' liability is estimated to be around £61.2m over the period 2020-2023. A prefunding agreement was reached and a prepayment of £57.2m was made to the Pension Fund in April 2020 to settle the liability and secure savings of approximately £4m over the three financial years from 2020/21.

It has been determined that there are no other adjusting or non-adjusting events after the Balance Sheet date.

## 7. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. This analysis is for the single entity only and is not a primary statement and Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the single entity Comprehensive Income and Expenditure Statement. The group expenditure and funding analysis is not materially different to the analysis for the single entity and is therefore not presented.

| | | **2018/19 Restated** | | | | | | **2019/20** | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Outturn** | **Transfer (To)/From Reserves** | **Net Expenditure Chargeable to the General Fund and HRA Balances** | **Adjustments between Funding and Accounting Bases** | **Net Expenditure in the CI&ES** | | **Outturn** | **Transfer (To)/From Reserves** | **Net Expenditure Chargeable to the General Fund and HRA Balances** | **Adjustments between Funding and Accounting Bases** | **Net Expenditure in the CI&ES** |
| | | **£'000** | **£'000** | **£'000** | | | | **£'000** | **£'000** | **£'000** |
| 95,072 | 796 | 95,868 | 3,544 | **99,412** | Children and Young People | 94,436 | 2,675 | 97,111 | 3,045 | **100,156** |
| 23,293 | (9,872) | 13,421 | 1,053 | **14,474** | Inclusive Economy & Housing | 20,101 | (2,848) | 17,253 | 4,084 | **21,337** |
| 83,347 | (842) | 82,505 | 13,249 | **95,754** | Adults & Health | 91,069 | 1,979 | 93,048 | 5,155 | **98,203** |
| 8,915 | 134 | 9,049 | (1) | **9,048** | CYP Commissioner & Brighter Futures | 11,033 | 552 | 11,585 | 1,503 | **13,088** |
| 14,940 | 1,577 | 16,517 | 736 | **17,253** | People, Policy and Performance | 15,111 | 1,835 | 16,946 | 4,885 | **21,831** |
| 26,377 | (2,131) | 24,246 | 3,772 | **28,018** | Environment and Sustainable Transport | 32,461 | 1,271 | 33,732 | 1,716 | **35,448** |
| 8,112 | (84) | 8,028 | 10,957 | **18,985** | Resources | 8,308 | 92 | 8,400 | 13,400 | **21,800** |
| 535 | 0 | 535 | (535) | **-** | RMS | (1,701) | 0 | (1,701) | 1,701 | **-** |
| (2,650) | (1,585) | (4,235) | 5,903 | **1,668** | oneSource - Non Shared | (4,909) | (3,210) | (8,119) | (1,026) | **(9,145)** |
| 446 | 1,145 | 1,591 | 2,067 | **3,658** | oneSource | 1,191 | 992 | 2,183 | 4,375 | **6,558** |
| (259,242) | (18,281) | (277,523) | 262,422 | **(15,101)** | Corporate Budgets | (267,101) | 6,610 | (260,491) | 257,920 | **(2,571)** |
| 0 | (925) | (925) | 10,154 | **9,229** | Dedicated Schools Budget | - | 8,741 | 8,741 | 20,696 | **29,437** |
| (8,212) | 0 | (8,212) | (12,786) | **(20,998)** | Housing Revenue Account | (9,953) | 0 | (9,953) | 4,342 | **(5,611)** |
| **(9,067)** | **(30,068)** | **(39,135)** | **300,535** | **261,400** | **Net Cost of Services** | **(9,954)** | **18,689** | **8,735** | **321,796** | **330,531** |
| | | - | (132,768) | **(132,768)** | Other Income and Expenditure | | | - | (130,764) | **(130,764)** |
| | | **(39,135)** | **167,767** | **128,632** | **Surplus or Deficit** | | | **8,735** | **191,032** | **199,767** |

| 2018/19 | | 2019/20 |
|---|---|---|
| **(241,725)** | **Opening General Fund & HRA Balances** | **(280,860)** |
| (39,135) | Less/plus Surplus or Deficit on General Fund and HRA Balance in Year* | 8,735 |
| **(280,860)** | **Closing General Fund & HRA Balances at 31 March** | **(272,125)** |

* This includes Earmarked Reserve balances. For a split of this balance between the General Fund, HRA and Earmarked Reserve – see the Movement in Reserves Statement.

## 7. Note to the Expenditure and Funding Analysis

The Group's expenditure and funding analysis is not materially different to the Authority's expenditure and funding analysis. The Authority's expenditure and funding is analysed as follows:

| 2018/19 Restated | | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| Adjustments for Capital Purposes | IAS 19 & Other | Total Adjustments | | Adjustments for Capital Purposes | IAS 19 & Other | Total Adjustments |
| £'000 | £'000 | | | £'000 | £'000 | £'000 |
| - | 3,544 | **3,544** | Children and Young People | 475 | 2,570 | **3,045** |
| - | 1,053 | **1,053** | Inclusive Economy & Housing | - | 4,084 | **4,084** |
| 11,010 | 2,239 | **13,249** | Adults & Health | 4,683 | 472 | **5,155** |
| - | (1) | **(1)** | CYP Commissioner & Brighter Futures | - | 1,503 | **1,503** |
| - | 736 | **736** | People, Policy and Performance | 2,702 | 2,183 | **4,885** |
| (1,033) | 4,805 | **3,772** | Environment and Sustainable Transport | - | 1,716 | **1,716** |
| 10,893 | 64 | **10,957** | Resources | 100 | 13,300 | **13,400** |
| (2,329) | 1,794 | **(535)** | RMS | - | 1,701 | **1,701** |
| 5,473 | 430 | **5,903** | oneSource - Non Shared | 105 | (1,131) | **(1,026)** |
| - | 2,067 | **2,067** | oneSource | 2,266 | 2,109 | **4,375** |
| 24,795 | 237,627 | **262,422** | Corporate Budgets | 22,797 | 235,123 | **257,920** |
| 8,429 | 1,725 | **10,154** | Dedicated Schools Budget | 26,877 | (6,181) | **20,696** |
| (13,929) | 1,143 | **(12,786)** | Housing Revenue Account | 7,527 | (3,185) | **4,342** |
| **43,309** | **257,226** | **300,535** | **Net Cost of Services** | **67,532** | **254,264** | **321,796** |
| 87,119 | (219,887) | **(132,768)** | Other Income and Expenditure from the Funding Analysis | (14,445) | (116,319) | **(130,764)** |
| **130,428** | **37,339** | **167,767** | **Surplus or Deficit** | **53,087** | **137,945** | **191,032** |

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

**2) Net Change for the IAS 19 Pensions Adjustments**
Represents the 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 –- this represent the removal of the net interest on the defined benefit liability that is charged to the CIES.

## 8. Expenditure and Income Analysed by Nature

The group expenditure and income is not materially different to the authority's expenditure and income. The authority's expenditure and income is analysed as follows:

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| | **Expenditure** | |
| 362,938 | Staffing expenses | 393,394 |
| 789,636 | Other services expenses | 787,150 |
| 917 | Support service recharges | 2 |
| 55,618 | Depreciation and amortisation | 45,678 |
| 566 | Impairment and revaluation | 10,077 |
| 75,595 | Interest payments | 180,012 |
| 19,508 | Precepts and levies | 20,566 |
| 137,121 | Loss on the disposal of assets | 38,615 |
| **1,441,899** | **Total Expenditure** | **1,475,494** |
| | **Income** | |
| (290,264) | Fees, charges and other service income | (268,326) |
| (29,081) | Interest and investment income | (27,239) |
| (249,165) | Income from council tax, non-domestic rates, district rate income | (239,503) |
| (744,757) | Government grants and contributions | (740,659) |
| **(1,313,267)** | **Total income** | **(1,275,727)** |
| **128,632** | **(Surplus) or Deficit on the Provision of Services** | **199,767** |

## 9. Adjustments Between Accounting Basis And Funding Basis Under Regulations 2019/20

This note details the 2019/20 adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. The adjustments for the group are not materially different to the adjustments shown below:

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
| | £'000 | £'000 | £'000 | £'000 | £'000 | **£'000** |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | | |
| Reversal of items debited or credited to the Comprehansive Income and Expenditure Statement: | | | | | | |
| Depreciation of Property, Plant and Equipment/ Impairment of non current assets | (25,666) | (19,337) | | | | **45,003** |
| Revaluation (losses)/gain on Property, Plant and Equipment | 6,597 | (16,674) | | | | **10,077** |
| Movements in the market value of Investment Properties | 1,153 | 717 | | | | **(1,870)** |
| Amortisation of Intangible Assets | (675) | | | | | **675** |
| Capital grants and contributions applied | 21,056 | | | | | **(21,056)** |
| Revenue expenditure funded from capital under Statute | (31,589) | (105) | | | | **31,694** |
| 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 | (80,978) | (9,942) | | | | **90,920** |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | | |
| Statutory provision for the financing of capital investment | 40 | 2,287 | | | | **(2,327)** |
| Voluntary provision for the financing of capital investment | 11 | | | | | **(11)** |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 17,599 | 18,806 | | | (36,405) | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | | | 26,058 | **(26,058)** |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement | 56,380 | 24,120 | (30,552) | | | **(49,948)** |
| Use of the Capital Receipts Reserve to finance new capital expenditure | (9,489) | | 12,801 | | | **(3,312)** |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | | | | | | |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | | (28,168) | 28,168 | | | |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | | | | | | |
| **Adjustment primarily involving the Major Repairs Reserve:** | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | | 19,337 | | (19,337) | | |
| Use of the Major Repairs Reserve to finance new capital expenditure | | 1,432 | | 15,519 | | **(16,951)** |
| **Adjustment primarily involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | (65,999) | (45,574) | | | | **111,573** |
| **Adjustments primarily involving the Pensions Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (63,149) | (3,508) | | | | **66,657** |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 27,644 | 2,121 | | | | **(29,765)** |
| **Adjustments primarily involving the Collection Fund Adjustment Account:** | | | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 11,747 | | | | | **(11,747)** |
| **Adjustment primarily involving the Accumulated Absences Account:** | | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (1,170) | (56) | | | | **1,226** |
| **Total Adjustments** | **(136,488)** | **(54,544)** | **10,417** | **(3,818)** | **(10,347)** | **194,780** |

## 9. Adjustments Between Accounting Basis And Funding Basis Under Regulations 2018/19

This note details the 2018/19 adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. The adjustments for the group are not materially different to the adjustments shown below:

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | **Movement in Unusable Reserves** |
| | £'000 | £'000 | £'000 | £'000 | £'000 | **£'000** |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | | |
| Reversal of items debited or credited to the Comprehansive Income and Expenditure Statement: | | | | | | |
| Depreciation of Property, Plant and Equipment | (34,918) | (20,399) | | | | **55,317** |
| Revaluation (losses)/gain on Property, Plant and Equipment | 619 | (1,185) | | | | **566** |
| Movements in the market value of Investment Properties | 1,779 | 1,525 | | | | **(3,304)** |
| Amortisation of Intangible Assets | (301) | | | | | **301** |
| Capital grants and contributions applied | 29,887 | 3,222 | | | | **(33,109)** |
| Revenue expenditure funded from capital under Statute | (24,277) | (243) | | | | **24,520** |
| 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 | (142,072) | (17,503) | | | | **159,575** |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | | |
| Statutory provision for the financing of capital investment | | 2,604 | | | | **(2,604)** |
| Voluntary provision for the financing of capital investment | 14 | | | | | **(14)** |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 4,571 | 23,003 | | | (27,574) | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | | | 16,791 | **(16,791)** |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement | 7,000 | 39,712 | (40,426) | | | **(6,286)** |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | | 6,450 | | | **(6,450)** |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | | | | | | |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | | (23,482) | 23,482 | | | |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | (260) | | | | | **260** |
| **Adjustment primarily involving the Major Repairs Reserve:** | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | | 20,277 | | (20,277) | | |
| Use of the Major Repairs Reserve to finance new capital expenditure | | | | 26,357 | | **(26,357)** |
| **Adjustment primarily involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | 190 | | | | | **(190)** |
| **Adjustments primarily involving the Pensions Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (61,495) | (2,789) | | | | **64,284** |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 25,340 | 1,752 | | | | **(27,092)** |
| Adjustment to the brought forward Pensions Reserve | 8,442 | | | | | **(8,442)** |
| **Adjustments primarily involving the Collection Fund Adjustment Account:** | | | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (5,831) | | | | | **5,831** |
| **Adjustment primarily involving the Accumulated Absences Account:** | | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (2,843) | (106) | | | | **2,949** |
| **Total Adjustments** | **(194,155)** | **26,388** | **(10,494)** | **6,080** | **(10,783)** | **182,964** |

## 10. Transfers To/From Earmarked Reserves

This note sets out the amounts set aside from the General Fund 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 General Fund and HRA expenditure in 2019/20.

| | Balance at 31/03/2018 £'000 | Transfers Out 2018/19 £'000 | Transfers In 2018/19 £'000 | Balance at 31/03/2019 £'000 | Transfers Out 2019/20 £'000 | Transfers In 2019/20 £'000 | Balance at 31/03/2020 £'000 |
|---|---|---|---|---|---|---|---|
| **General Fund Reserves** | | | | | | | |
| 1 Authority Transition Reserve | **(37,432)** | 7,398 | - | **(30,034)** | 18,264 | - | **(11,770)** |
| 2 Borough-Wide Licensing Reserve | **-** | (10,567) | - | **(10,567)** | - | (1,156) | **(11,723)** |
| 3 Capital and NNDR Reserve | **(11,616)** | - | (2,967) | **(14,583)** | 9,378 | - | **(5,205)** |
| 4 Capital Financing Reserve | **(59,004)** | - | (15,105) | **(74,109)** | - | (16,730) | **(90,839)** |
| 5 Grant Reserve | **(783)** | - | (22,047) | **(22,830)** | 3,254 | - | **(19,576)** |
| 6 Education PFI Reserve | **(730)** | - | (557) | **(1,287)** | 508 | - | **(779)** |
| 7 Highways Maintenance Reserve | **(1,498)** | - | (1,824) | **(3,322)** | 58 | - | **(3,264)** |
| 8 Housing General Fund Reserve | **(10,567)** | 10,567 | - | **-** | - | - | **-** |
| 9 Insurance Reserve | **(6,710)** | 510 | - | **(6,200)** | - | - | **(6,200)** |
| 10 Regeneration Reserve | **(876)** | 876 | - | **-** | - | - | **-** |
| 11 Schools Balances Reserve | **(24,769)** | 2,170 | - | **(22,599)** | - | (3,707) | **(26,306)** |
| 12 Trading Operations Reserve | **(229)** | - | (96) | **(325)** | 139 | - | **(186)** |
| 13 Treasury Reserve | **(9,043)** | 648 | - | **(8,395)** | 732 | - | **(7,663)** |
| 14 Designated Schools Budget Reserve | **(2,074)** | 925 | - | **(1,149)** | 8,741 | - | **7,592** |
| 15 POCA Reserve | **-** | - | - | **-** | - | (792) | **(792)** |
| Total General Fund Reserves | **(165,332)** | **12,528** | **(42,596)** | **(195,400)** | **41,074** | **(22,385)** | **(176,711)** |
| **Housing Revenue Account (HRA)** | **(64,042)** | - | (8,212) | **(72,254)** | 0 | (9,953) | **(82,207)** |
| Total HRA Reserves | **(64,042)** | **0** | **(8,212)** | **(72,254)** | **0** | **(9,953)** | **(82,207)** |
| **Total Earmarked Reserves** | **(229,374)** | **12,528** | **(50,808)** | **(267,654)** | **41,074** | **(32,338)** | **(258,918)** |

# 10. Transfers To/From Earmarked Reserves (contd.1)

1) **Authority Transition Reserve**
This reserve is to facilitate service transformation and mitigate cost pressures anticipated in the Authority's Medium-Term Financial Strategy.

2) **Borough-Wide Licensing Reserve**
This reserve holds license income received from the Council's Borough-Wide Licensing Scheme, which aims to regulate the standard of private accommodation within the Borough. In accordance with statutory requirements, these monies are ring-fenced.

3) **Capital and NNDR Reserve**
Budgeted revenue funding of the capital programme which has not yet been applied to schemes, either because the scheme has been re-profiled into later years or to allow greater flexibility in funding future service investment. The NNDR element is to help manage fluctuations in business rates income and timing differences caused by Collection Fund regulation.

4) **Capital Financing Reserve**
The Capital Financing Reserve (separate to the Capital Reserve above) holds funds to provide additional capacity and flexibility to meet the needs of the Council's Capital Strategy.

5) **Grants Reserve**
Grants reserves which includes balances for grants received but not yet used.

6) **Education PFI Reserve**
PFI to support Education Service

7) **Highways Maintenance Reserve**
This reserve is grant funding received from the Olympic Development Authority for highways works in the East Village.

8) **Housing General Fund Reserve**
Reserve to improve housing provision in the private sector under the Authority's General Fund housing powers.

9) **Insurance Reserve**
The Insurance Reserve forms part of the Authority's self-insurance arrangements, earmarked to meet future potential and contingent liabilities (as distinct from the Insurance Provision - see Note 24).

10) **Regeneration Reserve**
Set up to promote economic regeneration in the Borough.

11) **Schools Balances Reserve**
Set up in accordance with Section 48 of the Schools Standards and Framework Act 1998, the Newham Scheme for Financing Schools provides for the carry forward of individual school surpluses.

12) **Trading Operations Reserve**
This reserve houses the accumulated surpluses on the Repairs and Maintenance Service (RMS) and Newham Catering and Cleaning Services operations.

13) **Treasury Reserve**
This reserve is to mitigate the impact on the Authority's budget for market volatility in respect of Treasury management activities over the term of the Medium-Term Financial Strategy (MTFS).

14) **Designated Schools Budget Reserve**
This reserve balance represents the DSG ring-fenced grant balance, that is specifically to meet expenditure in the Schools Budget, please see note 35 Designated Schools Grant. Like many authorities Newham has experienced difficulty in meeting its obligations with respect to High Needs from within the formula funding, this has led to a significant overspend in 2019-20. Newham is working with its schools and the DFE to review this overspend and reduce it for future years.

15) **POCA Reserve**
The Proceeds of Crime Act fund is held in a reserve by the Authority, ring fenced to use in specific fraud and crime prevention schemes.

## 11. Other Operating Expenditure

The following table provides an analysis of the "Other Operating Expenditure" line in the Group and Single entity Comprehensive Income and Expenditure Statement:

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| 19,508 | Levies | 20,566 |
| 23,482 | Payments to the Government Housing Capital Receipts Pool | 27,781 |
| 112,864 | Losses on the disposal of non-current assets | 10,834 |
| **155,854** | **Total** | **59,181** |

## 12. Financing And Investment Income and Expenditure

Financing and investment income and expenditure for group is not materially different to the the single entity. The following table provides an analysis of the "Financing and Investment Income and Expenditure" line in the single entity Comprehensive Income and Expenditure Statement:

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| 53,779 | Interest Payable and Similar Charges | 160,390 |
| 21,816 | Pensions interest cost and expected return on pensions assets | 19,622 |
| (10,801) | Interest receivable and similar income | (12,256) |
| (16,399) | Income and expenditure in relation to investment properties and changes in their fair value | (15,083) |
| (1,881) | Other investment income and expenditure | 100 |
| **46,514** | **Total** | **152,773** |

## 13.Taxation and Non-Specific Grant Income

The following table provides an analysis of the "Taxation and Non-Specific Grant Income" line in the Group and Single entity Comprehensive Income and Expenditure Statement:

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| (76,226) | Council Tax income | (80,472) |
| (172,939) | Business Rates (Retained share) | (159,031) |
| (39,788) | General Government Grants | (50,156) |
| (46,183) | Capital grants and contributions | (53,059) |
| **(335,136)** | **Total** | **(342,718)** |

## 13.Taxation and Non-Specific Grant Income (contd.)

**Grants Credited to Taxation and Non Specific Grant Income**

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| | **General Government Grants:** | |
| - | Section 31 Grant | (10,003) |
| (11,316) | New Homes Bonus | (10,492) |
| (12,229) | Better Care Fund | (15,219) |
| (7,351) | Homelessness Support Grant | (9,354) |
| (8,892) | Other | (5,088) |
| **(39,788)** | **Total** | **(50,156)** |
| | **Capital Grants and Contributions:** | |
| (4,493) | Dept of Education | (19,476) |
| (264) | Dept of Health | (459) |
| (361) | Leaseholders | - |
| (2,279) | School Contributions | (2,998) |
| (25,865) | Greater London Authority | (18,806) |
| (12,262) | Transport for London | (9,319) |
| - | Section 106 | (790) |
| (116) | Stratford Transport Implementation Group | (564) |
| (542) | Other | (647) |
| **(46,182)** | **Total** | **(53,059)** |

**Grants Credited to the net cost of services include:**

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| | **Revenue Grants:** | |
| (257,616) | Housing Benefit Subsidy | (233,379) |
| (240,852) | Dedicated Schools Grant (DSG) | (237,234) |
| (13,393) | Pupil Premium | (11,668) |
| (31,111) | Public Health Grant | (30,289) |
| (115,815) | Other Grants | (124,874) |
| **(658,787)** | **Total** | **(637,444)** |

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the contributor in the event that conditions are not met. The balances at year-end are as follows:

**Capital Grants: Receipts In Advance**

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| (47,254) | Section 106 | (47,176) |
| **(47,254)** | **Total** | **(47,176)** |

## 14. Property, Plant And Equipment

The value of non-current assets shown on the balance sheet represents the value of assets held by the Authority.

### Property, Plant and Equipment 2019/20

| | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture & Equipment | Infrastructure Assets | Community Assets | Long term Surplus | Assets Under Construction | Total Property, Plant & Equipment |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or Valuation** | | | | | | | | |
| At 1 April 2019 | 1,203,229 | 1,095,977 | 69,513 | 366,404 | 24,898 | 151,074 | 7,374 | **2,918,469** |
| Additions and enhancement | 29,744 | 17,053 | 3,876 | 23,816 | - | 3,238 | 4,634 | **82,361** |
| Accumulated Dep. Written off on revaluation to gross book value | (16,137) | (19,427) | - | - | - | (2,703) | - | **(38,267)** |
| Revaluation recognised in the Revaluation Reserve | (10,220) | 96,887 | - | - | - | (4,202) | - | **82,465** |
| Revaluation recognised in the Surplus on the Provision of Services | (10,637) | 5,765 | - | - | - | (5,205) | - | **(10,077)** |
| Derecognition - Disposals | (9,797) | (28,322) | - | - | - | (2,478) | (204) | **(40,801)** |
| Derecognition - other | - | (5,970) | - | - | - | - | - | **(5,970)** |
| Other reclassifications | 4,496 | (2,408) | 543 | - | - | (19,670) | (852) | **(17,891)** |
| **At 31 March 2020** | **1,190,678** | **1,159,555** | **73,932** | **390,220** | **24,898** | **120,054** | **10,952** | **2,970,289** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| At 1 April 2019 | - | (8,218) | (53,631) | (101,038) | - | (4,867) | (216) | **(167,970)** |
| Depreciation Charge | (16,167) | (15,626) | (4,495) | (8,083) | - | (632) | - | **(45,003)** |
| Accumulated Dep. Written off on revaluation to gross book value | 16,137 | 19,427 | - | - | - | 2,703 | - | **38,267** |
| Depreciation written out to the Revaluation Reserve | - | - | - | - | - | - | - | **-** |
| Depreciation written out to the Surplus on the Provision of Services | - | - | - | - | - | - | - | **-** |
| Disposals | 128 | 389 | - | - | - | 2,478 | 205 | **3,200** |
| Derecognition - other | - | - | - | - | - | - | - | **-** |
| Other reclassifications | (98) | 47 | - | - | - | 102 | - | **51** |
| **At 31 March 2020** | **-** | **(3,981)** | **(58,126)** | **(109,121)** | **-** | **(216)** | **(11)** | **(171,455)** |
| **Net Book Value** | | | | | | | | |
| **At 31 March 2020** | 1,190,678 | 1,155,574 | 15,806 | 281,099 | 24,898 | 119,838 | 10,941 | **2,798,834** |
| **At 31 March 2019** | 1,203,229 | 1,087,759 | 15,882 | 265,366 | 24,898 | 146,207 | 7,158 | **2,750,499** |

## 14. Property, Plant And Equipment

The value of non-current assets shown on the balance sheet represents the value of assets held by the Authority.

### Property, Plant and Equipment 2018/19

| | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture & Equipment | Infrastructure Assets | Community Assets | Long term Surplus | Assets Under Construction | Total Property, Plant & Equipment |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or Valuation** | | | | | | | | |
| At 1 April 2018 | 1,203,913 | 1,224,166 | 68,231 | 339,176 | 24,898 | 137,855 | 11,776 | **3,010,015** |
| Additions and enhancement | 17,945 | 12,329 | 1,829 | 27,228 | - | 18,072 | 148 | **77,551** |
| Accumulated Dep. Written off on revaluation to gross book value | (15,985) | (18,200) | - | - | - | (54) | - | **(34,239)** |
| Revaluation recognised in the Revaluation Reserve | 15,263 | 14,874 | - | - | - | (1,449) | - | **28,688** |
| Revaluation recognised in the Surplus on the Provision of Services | (482) | 364 | - | - | - | (448) | - | **(566)** |
| Derecognition - Disposals | (14,554) | - | - | - | - | - | - | **(14,554)** |
| Derecognition - Other | (2,871) | (135,056) | (4) | - | - | (4,362) | - | **(142,293)** |
| Other reclassifications | - | (2,500) | (543) | - | - | 1,460 | (4,550) | **(6,133)** |
| **At 31 March 2019** | **1,203,229** | **1,095,977** | **69,513** | **366,404** | **24,898** | **151,074** | **7,374** | **2,918,469** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| At 1 April 2018 | - | (6,602) | (45,505) | (93,636) | - | (3,688) | (216) | **(149,647)** |
| Depreciation Charge | (16,159) | (22,365) | (8,130) | (7,402) | - | (1,261) | - | **(55,317)** |
| Accumulated Dep. Written off on revaluation to gross book value | 15,985 | 18,201 | - | - | - | 54 | - | **34,240** |
| Depreciation written out to the Revaluation Reserve | - | - | - | - | - | - | - | **-** |
| Depreciation written out to the Surplus on the Provision of Services | - | - | - | - | - | - | - | **-** |
| Derecognition - Disposals | 168 | - | - | - | - | - | - | **168** |
| Derecognition - Other | 6 | 2,548 | 4 | - | - | 28 | - | **2,586** |
| Other reclassifications | - | - | - | - | - | - | - | **-** |
| **At 31 March 2019** | **-** | **(8,218)** | **(53,631)** | **(101,038)** | **-** | **(4,867)** | **(216)** | **(167,970)** |
| **Net Book Value** | | | | | | | | |
| **At 31 March 2019** | 1,203,229 | 1,087,759 | 15,882 | 265,366 | 24,898 | 146,207 | 7,158 | **2,750,499** |
| **At 31 March 2018** | 1,203,913 | 1,217,563 | 22,726 | 245,540 | 24,898 | 134,167 | 11,560 | **2,860,367** |

## 14. Property, Plant And Equipment (contd.)

In addition to the Authority property balance and equipement, the Group includes £39.7m of assets classified as other land and buildings held within Future Newhome Ltd (Note 38).

The Authority's property portfolio is valued on a rolling basis by Wilks, Head and Eve LLP . The valuation bases are in accordance with the Statement of Asset Valuation Practices and Guidance Notes of the Royal Institute of Chartered Surveyors. Housing Revenue Account dwellings are valued at their existing use based on 'Beacon' valuation principles and then have a social housing adjustment made thus reducing the balance sheet value to 25% of the beacon value, as directed by CLG.

Included in the figures for other land and buildings are 44 Community schools (primary and secondary). The Council also provides revenue funding, through the Dedicated Schools Grant, for all schools in the Borough. The table below shows the numbers of schools in the Borough across various categories. During 2019/20 the following three primary schools were converted to academies; North Becton, St Edwards and St Francis.

| 2018/19 | | 2019/20 |
|---|---|---|
| **Number** | **Category of School** | **Number** |
| 45 | Community | 44 |
| 8 | Voluntary Aided | 6 |
| 2 | Voluntary Controlled | 2 |
| **55** | **Total** | **52** |

**Disclosure:**
**Capital Commitments**

As at 31 March 2020, the authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2019/20 and future years budgeted to cost £14.1m. Similar commitments at 31 March 2019 were £9.8m. The major commitments are;

| **Commitment** | **Cost £'000** |
|---|---|
| Additional Supply (HRA) | 223 |
| Asset Investment (HRA) | 1,054 |
| Fire Safety Works (HRA) | 490 |
| Affordable Homes for Newham | 546 |
| NewShare | 487 |
| Custom House and Canning Town Regeneration | 1,632 |
| Keep Newham Moving | 1,790 |
| Transport for London | 673 |
| Asset Investment (GF) | 1,064 |
| Capital Maintenance Programme | 318 |
| Schools' Capital Programme (Forest Gate) | 4,921 |
| Schools' Capital Programme (other) | 771 |
| Other minor schemes | 190 |
| **TOTAL** | **14,158** |

There are additional £6.8m capital commitments as a part of the group accounts (see note 38)

**PPE analysis showing those assets held at cost and those at valuation sub divided by last revaluation date as at 31/03/2020.**

| | Council Dwellings £'000 | OL&B £'000 | VP&E £'000 | Infra £'000 | CA £'000 | LTS £'000 | AUC £'000 | Total PPE £'000 |
|---|---|---|---|---|---|---|---|---|
| **Carried at historic cost** | - | - | 15,385 | 281,099 | 24,898 | - | 10,941 | 332,323 |
| **Values at Fair value as at** | | | | | | | | |
| 31/03/20 | 1,190,678 | 1,049,945 | - | - | - | 54,518 | - | 2,295,141 |
| 31/03/19 | - | 75,946 | 421 | - | - | 45,873 | - | 122,240 |
| 31/03/18 | - | 6,436 | - | - | - | - | - | 6,436 |
| 31/03/17 | - | 1,689 | - | - | - | 2,679 | - | 4,368 |
| 31/03/16 | - | 21,558 | - | - | - | 16,768 | - | 38,326 |
| **Total Cost or Valuation** | **1,190,678** | **1,155,574** | **15,806** | **281,099** | **24,898** | **119,838** | **10,941** | **2,798,834** |

**Surplus Assets**
The assets within surplus assets are based on the market approach current market conditions and recent sale prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to properties being categorised at Level 2 in the current value hierarchy.

## 15. Heritage Assets

| | Civic Regalia £'000 | Museum Art Collection £'000 | Street Art £'000 | Total £'000 |
|---|---|---|---|---|
| Balance as at 1 April 2018 | 59 | 2,205 | 1,394 | 3,658 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| Revaluations | - | - | - | - |
| **At 31 March 2019** | **59** | **2,205** | **1,394** | **3,658** |
| | | | | |
| Balance as at 1 April 2019 | 59 | 2,205 | 1,394 | 3,658 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| Revaluations | - | - | - | - |
| **At 31 March 2020** | **59** | **2,205** | **1,394** | **3,658** |

**Civic Regalia**

Civic Regalia above refers to the Mayor's 18ct gold chain of office, with 4 plaques and enamelled arms and the Mayor’s 18ct gold and enamel badge of office. A Silver Gilt Mace with arms of East Ham, West Ham and Newham is also classified in Civic Regalia.

**Museum Art Collection**

Items classified within Museum Art Collection are:
- Bow Porcelain & Museum Collection
- Edward V1 Fine Royal Letters Patent
- Madge Gill artworks
- 5 Pieces of artwork by artists John Bettes, Charles Catton the Elder, John Wilson Carmichael, Andrea Casali and George Romney
- Victorian G.E. Railway boardroom table
- Bronze Portrait bust by Benno Schotz
- West Ham Memorial Document
- Railway items collection

**Street Art Collection**

The three items classified within Street Art are the Champions Sculpture, a Horse Sculpture and a Train Engine.

**Five year summary of transactions**

There have been no purchases of Heritage Assets during the past five years.

The only addition to Heritage Assets during the last 5 years is the Joan Littlewood Statue constructed in 2015/16. The Heritage Asset policy includes a deminimis value of £10k under which has not been included within the Balance Sheet. The value of assets excluded is £0.1m. Valuation of the heritage assets is in accordance with the Corporate Insurance Register. The Register holds values for those assets of material value or which are exposed to a particular risk.

**Further information on the Collections**

Further information can be found from the Newham Heritage Service; which aims to preserve, promote and interpret the rich diversity of Heritage in the London Borough of Newham and make it accessible to all. It aims to contribute to the quality of life in the Borough by promoting a sense of place, a feeling of belonging and of local pride, and to enhance Newham’s image both regionally and nationally.

## 16. Investment Properties

Investment properties are those assets held by the Council solely for rental income and/or capital appreciation purposes.

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| 13,267 | Rental income due from investment property | 13,212 |

| 2018/19 £000 | | 2019/20 £000 |
|---|---|---|
| 205,900 | **Balance at 1 April** | 209,212 |
| - | Additions and Enhancement Expenditure* | 47,239 |
| 3,312 | Net gains/(losses) from fair value adjustments | 4,578 |
| | Transfers: | |
| - | To Property, Plant and Equipment | (2,505) |
| - | Disposals* | (47,239) |
| **209,212** | **Balance at 31 March** | **211,285** |

* This relates to the head-lease and sub-lease of Hampton By Hilton hotel and their treatment as finance lease.

The fair value of investment properties at 31st March are analysed as follows:

| 2018/19 In Borough £'000 | 2018/19 Out of Borough £'000 | | 2019/20 In Borough £'000 | 2019/20 Out of Borough £'000 |
|---|---|---|---|---|
| 69,844 | 26,143 | Retail unit | 71,396 | 22,604 |
| 8,394 | 44,836 | Office | 8,859 | 44,050 |
| 12,122 | 18,300 | Industrial unit | 16,543 | 18,000 |
| 16,633 | - | Land | 18,512 | - |
| 6,574 | - | Warehouse / Stores | 7,016 | - |
| 3,587 | - | Community Centre | 1,206 | - |
| 956 | - | Car Park | 948 | - |
| 876 | - | Depot | 913 | - |
| 771 | - | Cinema | 1,063 | - |
| 87 | - | Garages | 87 | - |
| 91 | - | Flats | 95 | - |
| **119,934** | **89,278** | **Balance at 31 March** | **126,638** | **84,654** |

In addition to investment properties held by the Authority, the group balance sheet includes £56.7m (2018/19: £56.7m) of investment property held within Red Door Ventures Ltd.

Valuations were carried out by the following: Wilks, Head and Eve LLP, Carter Jonas, Lambert Smith Hampton, Cushman & Wakefield and Savills and are valued to Fair Values as defined by IFRS 13.

Where an asset is valued to Fair Value, IFRS 13 requires the valuer to make additional disclosures regarding the valuation technique applied to measure the fair value and the nature of the inputs to that valuation technique, having regard to the fair value hierarchy prescribed within IFRS13.

It is confirmed that the valuation technique applied in respect of all fair value figures is the market approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets.

The inputs to this technique constitute **Level 2** inputs in each instance. Level 2 inputs are inputs observable for the asset, either directly or indirectly. The inputs used took the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations at or around the valuation date.

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

## 17. Intangible Assets

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

The carrying amount of intangible assets is amortised on a straight line basis. As in the current year, the amortisation of £0.7m charged to revenue in 2019/20 (£0.3m in 2018/19) was charged directly to users' costs centres where they were sole users or in cases where there was not sole usage to the IT Administration cost centre, and then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful lives assigned to the major software suites used by the Authority are 5 years unless it is anticipated to be otherwise.

In accordance with the CIPFA Code, leased intangible assets are disclosed in this section after their initial recognition.

There are no internally generated assets.

| **Purchased 2018/19 £'000** | | **Purchased 2019/20 £'000** |
|---:|---|---:|
| | **Balance at start of year** | |
| 4,224 | Gross Carrying Amounts | 4,823 |
| (3,762) | Accumulated Amortisation | (4,063) |
| **462** | **Net carrying amount at start of year** | **760** |
| | **Additions** | |
| 599 | Purchases | 511 |
| (301) | Amortisation | (675) |
| **760** | **Net carrying amount at end of year** | **596** |
| | Comprising | |
| 4,823 | Gross Carrying Amounts | 5,334 |
| (4,063) | Accumulated amortisation | (4,738) |

## 18. Financial Instruments

### Categories of Financial Instruments

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

**Financial Assets**

| | Non Current | | | | Current | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Investments | | Debtors | | Cash and cash equivalents) | | Investments | | Debtors | | Total | |
| | 31 March 2020 | 31 March 2019 | 31 March 2020 | 31 March 2019 | 31 March 2020 | 31 March 2019 | 31 March 2020 | 31 March 2019 | 31 March 2020 | 31 March 2019 | 31 March 2020 | 31 March 2019 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fair Value through Profit or Loss | 19,442 | 15,806 | 45,267 | 42,559 | | - | - | - | - | - | 64,709 | 58,365 |
| Amortised cost | 40,000 | 93,000 | 203,920 | 125,904 | 30,913 | 94,815 | 272,615 | 377,513 | 51,869 | 38,699 | 599,317 | 729,931 |
| **Total Financial Assets** | 59,442 | 108,806 | 249,187 | 168,463 | 30,913 | 94,815 | 272,615 | 377,513 | 51,869 | 38,699 | 664,026 | 788,296 |
| **Non-Financial Assets** | - | - | - | - | - | - | - | - | 57,185 | 59,401 | 57,185 | 59,401 |
| **Total** | **59,442** | **108,806** | **249,187** | **168,463** | **30,913** | **94,815** | **272,615** | **377,513** | **109,054** | **98,100** | **721,211** | **847,697** |

**Financial Liabilities**

| | Non Current | | | | Current | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Borrowings | | PFI and Finance Lease liabilities and Other creditors | | Cash and cash equivalents) | | Borrowings | | Creditors | | Total | |
| | 31 March 2020 | 31 March 2019 | 31 March 2020 | 31 March 2019 | 31 March 2020 | 31 March 2019 | 31 March 2020 | 31 March 2019 | 31 March 2020 | 31 March 2019 | 31 March 2020 | 31 March 2019 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fair Value through Profit or Loss | - | - | - | - | - | - | - | - | - | - | - | - |
| Amortised cost | (716,181) | (555,439) | (151,927) | (108,958) | | (8,376) | (133,119) | (342,255) | (67,017) | (70,416) | (1,068,244) | (1,085,444) |
| **Total Financial Liabilities** | (716,181) | (555,439) | (151,927) | (108,958) | 0 | (8,376) | (133,119) | (342,255) | (67,017) | (70,416) | (1,068,244) | (1,085,444) |
| **Non-Financial Liabilities** | - | - | (722,549) | (863,905) | - | - | - | - | (89,230) | (54,831) | (811,779) | (918,736) |
| **Total** | **(716,181)** | **(555,439)** | **(874,476)** | **(972,863)** | **0** | **(8,376)** | **(133,119)** | **(342,255)** | **(156,247)** | **(125,247)** | **(1,880,023)** | **(2,004,180)** |

*The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under ‘current liabilities’ or ‘current investments’.
This includes accrued interest on long term liabilities and investments that is payable in 2019/20.

**Soft Loans**
The Authority has identified the following which may be categorised as soft loans (less than market rates):

| | 31 March 2020 | 31 March 2019 |
|---|---|---|
| | £'000 | £'000 |
| Social Care | 632 | 641 |
| London Community Credit Union (LCCU) | 586 | 558 |
| **Total** | 1,218 | 1,199 |

Carrying value of the LCCU loan is measured at fair value based on an amortised cost of 5% and social care loans are measured at cost. Loans have been considered for impairment losses. The calculated expected credit loss is not material therefore resulting in no change in carry value.

## 18. Financial Instruments (contd.2)

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

| | 2018/19 | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| | Financial Liabilities | Financial Assets | | Financial Liabilities | Financial Assets | |
| | Liabilities Measured at Amortised Cost | Financial Assets at Amortised Cost | Total | Liabilities Measured at Amortised Cost | Financial Assets at Amortised Cost | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Interest expense* | 53,779 | - | **53,779** | 160,390 | - | **160,390** |
| **Total expense in Surplus on the Provision of Services** | **53,779** | **-** | **53,779** | **160,390** | **-** | **160,390** |
| Interest income | | (10,801) | **(10,801)** | | (12,256) | **(12,256)** |
| **Total income in Surplus on the Provision of Services** | **-** | **(10,801)** | **(10,801)** | **-** | **(12,256)** | **(12,256)** |
| **Impact in Other Comprehensive Income** | | | | | | **-** |
| **Net loss/(gain) for the year** | **53,779** | **(10,801)** | **42,978** | **160,390** | **(12,256)** | **148,134** |

* Interest expense shown above includes interest, premiums and other similar expenses

## 18. Financial Instruments (contd.3)

**Financial Instruments - Fair Values**

The fair value of Public Works Loans Board (PWLB) loans of £625m measures the economic effect of the terms agreed with the PWLB compared with estimated of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed as the PWLB redemption interest rates (PR Rate). The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining term of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets, termed the PWLB certainty rate (NL rate). A supplementary measure of the fair value as a result of PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a fair value is calculated on this basis, the carrying amount of £359m would be valued at £399m. But if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge, based on the redemption interest rates, for early redemption of £359m for the additional interest that will not now be paid. The exit price for the PWLB loan including the penalty charge would be £625m.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value. Other receivables and liabilites are carried on the Balance Sheet at amortised cost. Their fair value can 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:-

(i) estimated ranges of interest rates at 31 March 2020 for loans from the PWLB and for other loans receivables and payable have been applied based on new lending rates for equivalent loans at that date;
(ii) no early repayment or impairment is recognised;
(iii) where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value; and
(iv) the fair value of trade and other receivables is taken to be the invoice or billed amount.

In regard to soft loans; fair value has been estimated by using a valuation technique based on an amortised cost of 5%.

Unquoted equity investment in Red Door Venture Ltd has been measured at fair value. Fair value has been based on the cost of equity. Due to early stages of its business model and a number of uncertain variables relating to this company it is difficult to value this company other than at cost of investment.

There has been no transfers between input levels during the year. There has been no change in the valuation technique used during the year.

**Financial Assets**

The fair value of financial assets is higher than the carrying amount because the Authority's portfolio of investments includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on eceonomic conditions at 31 March 2020) attributable to the commitment to receive interest above current market rates.

| 31st March 2019 | | | | 31st March 2020 | |
|---|---|---|---|---|---|
| Carrying Value £'000 | PR Rate Fair Value £'000 | Financial Assets | Fair Value level | Carrying Value £'000 | PR Rate Fair Value £'000 |
| 93,000 | 104,342 | Long-Term Investments | 2 | 40,000 | 41,168 |
| 15,806 | 15,807 | Long-Term Investments - equities | 2 | 19,442 | 19,442 |
| 1,198 | 1,198 | Long-Term Receivables - Soft Loans (Note 22) | 2 | 1,218 | 1,218 |
| 9,192 | 9,192 | Long-Term Receivables - Finance Leases (Note 22) | 2 | 56,136 | 56,136 |
| 158,073 | 158,073 | Long-Term Receivables - Other (Note 22) | 2 | 191,833 | 191,833 |
| **277,269** | **288,612** | **Total Included in Long-Term Assets** | | **308,629** | **309,797** |
| 377,513 | 377,513 | Short Term Investments | 2 | 272,615 | 272,038 |
| 38,699 | 38,699 | Short-Term Receivables | | 51,869 | 51,869 |
| 94,815 | 94,815 | Cash and Cash Equivalents (Note 21) | 2 | 30,913 | 30,913 |
| **511,027** | **511,027** | **Total included in Current Assets** | | **355,397** | **354,820** |
| **788,296** | **799,639** | **Total Financial Assets** | | **664,026** | **664,617** |

**Financial Liabilities**

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

| 31st March 2019 | | | | 31st March 2020 | | |
|---|---|---|---|---|---|---|
| Carrying Value £'000 | PR Rate Fair Value £'000 | Financial Liabilities | Fair Value level | Carrying Value £'000 | PR Rate/CV Fair Value £'000 | NL Rate/CV Fair Value £'000 |
| 339,908 | 647,035 | Short Term Borrowing at amortised cost | 2 | 127,781 | 260,643 | |
| 2,348 | 2,452 | Short Term Borrowing PWLB at amortised cost | 2 | 5,338 | 1,659 | 1,648 |
| 8,376 | 8,376 | Cash and Cash Equivalents (Note 21) | 2 | - | - | |
| 5,671 | 5,671 | PFI and Finance Lease Liabilities (Note 23) | 2 | 6,667 | 6,667 | |
| 64,744 | 64,744 | Financial Liabilities at Contracted Amounts (Note 23) | | 60,350 | 60,350 | |
| **421,047** | **728,278** | **Total Included in Current Liabilities** | | **200,136** | **329,319** | **1,648** |
| 347,748 | 840,157 | Long-Term Borrowing | 2 | 362,637 | 1,112,637 | |
| 207,691 | 328,005 | Long-Term Borrowing PWLB | 2 | 353,544 | 623,504 | 397,172 |
| 108,683 | 108,683 | PFI and Finance Lease Liabilities (Note 36) | 2 | 151,927 | 151,927 | |
| 275 | 275 | Financial Liabilities at Amortised Cost (Note 36) | | - | - | |
| **664,397** | **1,277,120** | **Total included in Long Term Liabilities** | | **868,108** | **1,888,068** | **397,172** |
| **1,085,444** | **2,005,398** | **Total Financial Liabilities** | | **1,068,244** | **2,217,387** | **398,820** |

## 19. Inventories

| 2018/19 Stocks £'000 | 2018/19 Work in Progress £'000 | 2018/19 Total £'000 | | 2019/20 Stocks £'000 | 2019/20 Work in Progress £'000 | 2019/20 Total £'000 |
|---|---|---|---|---|---|---|
| **2,171** | **-** | **2,171** | **Balance b/f** | **1,188** | **-** | **1,188** |
| | | **-** | Purchases | | | **-** |
| (983) | - | **(983)** | Expensed in year | (867) | - | **(867)** |
| **1,188** | **-** | **1,188** | **Balance c/f** | **321** | **-** | **321** |

The council holds inventories which are made up of 3 types - Store 9, Store 15 and Fuel.

Store 9 - This is general stock. For example bins, bags, chemicals, PPE etc. all these products are used by all of the council departments.
Store 15 - This is parts for vehicles to cover the repair & maintenance of the council vehicle fleet (approximately 400 vehicles & 120 items of plant).
Fuel Stock - This is diesel fuel which is supplied to all council vehicles.

All stock have undertaken an inventory check at year-end and have been certified.

## 20. Construction Contracts

As at 31st March 2020, the authority had entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2019/20 and future years budgeted to cost £14.1m. Similar commitments at 31 March 2019 were £9.8m. Further details on these committments are included in note 14.

## 21. Cash And Cash Equivalents

Cash comprises cash in hand and on-demand deposits. Cash will also include bank overdrafts that are repayable on demand and that are integral to the Authority's cash management.

Balances classified as 'Cash Equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The net balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet dates:

| Single Entity 2018/19 £'000 | Group Accounts 2018/19 £'000 | | Single Entity 2019/20 £'000 | Group Accounts 2019/20 £'000 |
|---|---|---|---|---|
| 55 | 55 | Petty Cash | 55 | 55 |
| 22,760 | 22,760 | Cash at Bank (Schools) | 24,532 | 24,532 |
| 72,000 | 84,038 | Cash Equivalents | 6,326 | 22,932 |
| **94,815** | **106,853** | **Cash and Cash Equivalents** | **30,913** | **47,519** |
| (8,376) | (8,376) | Cash and Cash Equivalents overdrawn | 0 | 0 |
| **86,439** | **98,477** | **Total Cash and Cash Equivalents** | **30,913** | **47,519** |

## 22. Receivables

| 2018/19 Single Entity Gross £'000 | 2018/19 Single Entity Impairment Allowance £'000 | 2018/19 Single Entity Net £'000 | 2018/19 Group Accounts Total £'000 | | 2019/20 Single Entity Gross £'000 | 2019/20 Single Entity Impairment Allowance £'000 | 2019/20 Single Entity Net £'000 | 2019/20 Group Accounts Total £'000 |
|---|---|---|---|---|---|---|---|---|
| | | | | **Short Term Receivables** | | | | |
| 27,011 | - | 27,011 | 27,011 | Central Government Bodies | 11,262 | - | 11,262 | 11,262 |
| 5,314 | - | 5,314 | 5,314 | Other Local Authorities | 11,214 | - | 11,214 | 11,214 |
| 23,809 | (22,027) | 1,782 | 1,782 | Council Tax Payers | 28,480 | (22,560) | 5,920 | 5,920 |
| 2,789 | (1,935) | 854 | 854 | Business Rate Payers | 3,116 | (1,317) | 1,799 | 1,799 |
| 18,440 | (15,771) | 2,669 | 2,669 | Housing Rents | 23,761 | (19,513) | 4,248 | 4,248 |
| 41,992 | (5,128) | 36,864 | 64,982 | Sundry Receivables | 55,196 | (5,011) | 50,185 | 104,624 |
| 22,709 | (14,508) | 8,201 | 8,201 | Housing Benefit Overpayments | 22,420 | (14,836) | 7,584 | 7,584 |
| 8,829 | - | 8,829 | 8,829 | Prepayments | 11,296 | - | 11,296 | 11,296 |
| 51,868 | (47,988) | 3,880 | 3,880 | Parking | 51,183 | (48,821) | 2,362 | 2,362 |
| 3,909 | (2,074) | 1,835 | 1,835 | Leaseholders | 3,887 | (2,203) | 1,684 | 1,684 |
| 861 | - | 861 | 861 | Amount due from Pension Fund | 1,500 | - | 1,500 | 1,500 |
| **207,531** | **(109,431)** | **98,100** | **126,218** | | **223,315** | **(114,261)** | **109,054** | **163,493** |
| | | | | **Long Term Receivables** | | | | |
| 1,198 | | 1,198 | 1,198 | Soft Loans (Note 18) | 1,218 | | 1,218 | 1,218 |
| 9,192 | | 9,192 | 9,192 | Finance Leases (lessor) | 56,136 | | 56,136 | 56,136 |
| 4,469 | | 4,469 | 4,469 | Leaseholder Loans | 4,296 | | 4,296 | 4,296 |
| 110,073 | | 110,073 | 317 | Amounts due from subsidiary undertakings | 141,297 | | 141,297 | 792 |
| 42,558 | | 42,558 | 42,558 | Shared Equity Interest | 45,267 | | 45,267 | 45,267 |
| 973 | | 973 | 2,245 | Other long term receivables | 973 | | 973 | 973 |
| **168,463** | **-** | **168,463** | **59,979** | | **249,187** | **-** | **249,187** | **108,682** |

## 23. Payables

The following table provides an analysis of amounts owed by the Authority as at 31 March.

| Single Entity | Group Accounts | | Single Entity | Group Accounts |
|---|---|---|---|---|
| 2018/19 | | | 2019/20 | |
| £'000 | £'000 | | £'000 | £'000 |
| (3,390) | (3,390) | Council Tax Payables | (3,779) | (3,779) |
| (2,968) | (2,968) | Business Rate Payables | (2,029) | (2,029) |
| (65,778) | (75,609) | Sundry Payables | (60,350) | (72,123) |
| (9,275) | (9,275) | Receipts In Advance | (12,652) | (12,652) |
| (5,671) | (5,671) | Finance Lease and PFI Liabilities | (6,667) | (6,667) |
| (17) | (17) | Other Balances | (19) | (19) |
| (12,216) | (12,216) | Employee Benefits | (13,441) | (13,441) |
| (623) | (623) | Revenue Grants Received In Advance | (1,143) | (1,143) |
| (14,297) | (14,297) | Central Government Bodies | (41,312) | (41,312) |
| (11,012) | (11,012) | Other Local Authorities | (14,855) | (14,855) |
| **(125,247)** | **(135,078)** | **Total** | **(156,247)** | **(168,020)** |

## 24. Provisions

Provisions are amounts set aside to meet future material liabilities of uncertain timing or amount.

**Long term Provision**

| **2019/20** | **Insurance £'000** | **MMI £'000** | **NNDR £'000** | **Other £'000** | **Total £'000** |
|---|---|---|---|---|---|
| Balance at 1 April 2019 | (6,440) | (482) | (12,117) | (674) | **(19,713)** |
| Additional provisions made in 2019/20 | | | (1,064) | (35) | **(1,099)** |
| Amounts used in 2019/20 | 1,226 | 29 | | | **1,255** |
| **Balance at 31 March 2020** | **(5,214)** | **(453)** | **(13,181)** | **(709)** | **(19,557)** |

| **2018/19** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
|---|---|---|---|---|---|
| Balance at 1 April 2018 | (5,456) | (905) | (3,085) | (2,380) | **(11,826)** |
| Additional provisions made in 2018/19 | (984) | | (9,032) | | **(8,310)** |
| Amounts used in 2018/19 | | 423 | | 1,706 | **423** |
| **Balance at 31 March 2019** | **(6,440)** | **(482)** | **(12,117)** | **(674)** | **(19,713)** |

**Insurance Provision**

The Insurance provision is required because some of the Authority's insurance policies are met by deposit premiums, under which insurers ask for additional sums some years after the original claim. Furthermore, balances are accrued each year to meet future known claims where the Authority self-insures. Depending on the claims, these payments may be made over a period of a number of years.

The Authority provides for each outstanding insurance claim separately and may recognise a reimbursement if recovery is virtually certain if this is appropriate for the type of claim.

**MMI Provision**

On 21st January 1994, the Authority entered into a scheme of arrangement under s.425 of the Companies Act 1985 with Municipal Mutual Insurance Limited (MMI), under which the Authority, along with other local authority members of MMI, might be required to reimburse MMI a proportion of claims paid by MMI since 1st October 1993. The value of Outstanding claims as at 31 March 2020 was £453k.

Under the Scheme, the administrator may impose a levy on scheme creditors following a trigger event. MMI have notified creditors of a proposed 25% levy to be based on the position at 31st March 2020, which will be due for payment in future years.

**NNDR Appeals**

The Council levies Business Rates to commercial premises within the Borough. This is based on a rateable value per property, as determined by the Valuation Office Agency. From time to time, ratepayers may appeal the rateable value of their premises. In accordance with the principles of agency accounting, the Council recognises its share 48% (64% in 2018/19) of the provision for appeals within the Balance Sheet. As at 31st March 2020, this was £14.992m (£16.942m in 2018/19) and split across Long Term £13.181m (£12.117m in 2018/19) and Short Term Provision £1.811m (£4.825m in 2018/19), see below.

**Short term Provision**

| | **NNDR £'000** | **COVID-19 £'000** | **Other £'000** | **Total £'000** |
|---|---|---|---|---|
| Balance at 1 April 2019 | (4,825) | - | (353) | **(5,178)** |
| Additional provisions made in 2019/20 | - | (2,000) | (2,767) | **(4,767)** |
| Amounts used in 2019/20 | 3,014 | - | - | **3,014** |
| **Balance at 31 March 2020** | **(1,811)** | **(2,000)** | **(3,120)** | **(6,931)** |

**Covid-19**

A general provision of £2m has been made to cover any additional impact on income collection and debt recovery.

**Other**

The Council has a number of other provisions for known liabilities. The amounts above are estimates based on the best information available. These include:

**Litigation**

The Council has a number of on-going litigation cases, further information cannot be detailed due to legal sensitivities. These are under the long term provision table above.

**Children's Social Care**

A provision of £2.5m has been set aside to cover historic placement costs not accrued, under the the short term table above.

## 25. Usable Reserves

The Authority keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans. Reserves are reviewed as part of the budget process together with the Authority's agreed reserves policy in accordance with s.23 of the Local Government Act 2003.

Movements in the Authority's Usable reserves are detailed in the Movement in Reserves Statement. Unusable reserves are further detailed in Note 26. Earmarked reserves are detailed in Note 10.

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| (13,206) | General Fund | (13,207) |
| (72,254) | Housing Revenue Account | (82,207) |
| (134,257) | Capital Receipts Reserve | (123,840) |
| (64,555) | Major Repairs Reserve | (68,373) |
| (91,575) | Capital Grants Unapplied | (101,922) |
| (195,400) | Earmarked Reserves | (176,711) |
| **(571,247)** | **Total Usable Reserves** | **(566,260)** |

The Group usable reserves are not materially different to the single entity usable reserves.

**Usable Capital Receipts Reserve**

The capital receipts are income from the sale of long-term assets and repayments of capital advances. Legislation requires that a proportion of these receipts are paid to Central Government. The remaining amounts can then be used to finance capital expenditure.

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| **(123,763)** | **Balance as at 1 April** | **(134,257)** |
| | **Sale of Assets:** | |
| (25,104) | Sale of Council Houses | (20,389) |
| (15,288) | Sale of other Land and Buildings | (60,111) |
| (34) | Transfer to (from) DCRR | 49,948 |
| **(40,426)** | **Total Receipts** | **(30,552)** |
| | **Use of Receipts:** | |
| 23,482 | Payments to Housing Capital Pool | 28,168 |
| 6,450 | Capital Receipts used for Financing | 12,801 |
| **29,932** | | **40,969** |
| **(134,257)** | **Balance as at 31 March** | **(123,840)** |

## 26. Unusable Reserves

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| **£'000** | | **£'000** |
| (753,358) | Revaluation Reserve | (797,323) |
| (1,221,668) | Capital Adjustment Account | (1,139,877) |
| 8,419 | Financial Instruments Adjustment Account | 119,992 |
| (51,783) | Deferred Capital Receipts and Credits Reserve (DCRR) | (101,820) |
| 837,123 | Pensions Reserve | 689,417 |
| 4,694 | Collection Fund Adjustment Account | (7,053) |
| 12,215 | Accumulated Absences Account | 13,441 |
| **(1,164,358)** | **Total Unusable Reserves** | **(1,223,223)** |

**Revaluation Reserve**

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

1. Are revalued downwards or impaired and the gains are lost; or
2. Used in the provision of services and the gains are consumed through depreciation; or
3. Disposed of and the gains are realised.

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

| 2018/19 | | 2019/20 |
|---|---|---|
| **£'000** | | **£'000** |
| **(808,312)** | **Balance at 1 April** | **(753,358)** |
| (28,858) | Upward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services | (69,047) |
| 15,889 | Difference between fair value depreciation and historical cost depreciation | 11,170 |
| 67,923 | Accumulated gains on assets sold or scrapped | 13,912 |
| **(753,358)** | **Balance at 31 March** | **(797,323)** |

**Accumulated Absences Account**

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

| 2018/19 | | 2019/20 |
|---|---|---|
| **£'000** | | **£'000** |
| **9,266** | **Balance at 1 April** | **12,215** |
| (9,266) | Settlement or cancellation of accrual made at the end of the preceding year | (12,215) |
| 12,215 | Amounts accrued at the end of the current year | 13,441 |
| **12,215** | **Balance at 31 March** | **13,441** |

## 26. Unusable Reserves (cont.1)

**Financial Instruments Adjustments Account**

The Financial Instruments Adjustment Account (FIAA) absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

**Premiums and Discounts**
The code requires that, unless directly attributable to a loan held at 31st March 2007, then all premiums and discounts carried on the balance sheet be written off to the General Fund balance at 1st April 2007. * Statutory regulations allow for the impact on council tax to be mitigated through a transfer to the Financial Instruments Adjustment Account. The balance of premiums and discounts is amortised to revenue in line with the provisions set down in the Authority's accounting policies.

*The Code requires that premiums and discounts arising from debt restructuring on or after 1st April 2007 shall be charged to the General Fund. Exceptions are permitted where they meet the modification criteria prescribed in the CIPFA Accounting Code of Practice. In these instances, they are valued at the carrying value of the new loan and amortised over the remaining period via the effective interest rate.

**Soft Loans**
The Code also requires that where the Authority has provided loans at less than market rates then these should be accounted for on a fair value basis. The difference between the fair value and loan amount is accounted for as an immediate charge to the Comprehensive Income and Expenditure Statement and the impact to be instigated through a transfer to the FIAA via the Movement in Reserves Statement. The fair value increases over the period of the loan and the annual impact is neutralised by writing down the balance to the General Fund balance via transfer from the FIAA via the MIRS.

**Stepped Interest Loans**
Under the Code, where the Authority has taken out loans with a stepped interest structure, the interest charge to the Comprehensive Income and Expenditure Statement is at the effective interest rate over the period of the loan. However, for stepped loans taken out before 9th November 2007, regulations permit authorities to charge interest to the General Fund balance at either:

a) The effective interest rate; or
b) The interest rate due for the financial year under the loan agreement.

Where the latter option is applied the difference between the interest chargeable at the effective interest rate is transferred from the General Fund balance to the Financial Instruments Adjustments Account via the Movement in Reserves Statement and released back to the General Fund balance for the remaining period of the loan.

The transactions reflected in the FIAA are as follows:

| | 2018/19 | | | 2019/20 |
|---|---|---|---|---|
| £'000 | £'000 | | £'000 | £'000 |
| | **8,609** | **Balance at 1 April** | | **8,419** |
| 95 | | Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | 111,655 | |
| (285) | | Effective interest rate (EIR) adjustment on LOBO borrowing | (82) | |
| | **(190)** | **Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements** | | **111,573** |
| | **8,419** | **Balance at 31 March** | | **119,992** |

## 26. Unusable Reserves (cont.2)

**Pension Reserve**

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

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| **899,569** | **Balance at 1 April** | **837,123** |
| (8,442) | Adjustment to the brought forward Pensions Reserve | 70 |
| (91,196) | Actuarial (gains)/losses on pensions assets and liabilities | (184,668) |
| 64,284 | 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 | 66,657 |
| (27,092) | Employer's pensions contributions and direct payments to pensioners payable in the year | (29,765) |
| **837,123** | **Balance at 31 March** | **689,417** |

**Collection Fund Adjustment Account**

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

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| **(1,137)** | **Balance at 1 April** | **4,694** |
| 5,831 | Amount by which income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements | (11,747) |
| **4,694** | **Balance at 31 March** | **(7,053)** |

## 26. Unusable Reserves (contd.3)

**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 amortisation are charged to the Comprehensive Income and Expenditure Statement

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

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

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

| | 2018/19 £'000 | | | 2019/20 £'000 |
|---|---|---|---|---|
| | **(1,289,504)** | **Balance at 1 April** | | **(1,221,668)** |
| | | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| 54,281 | | Charges for depreciation and impairment of non-current assets | 45,003 | |
| 1,600 | | Revaluation gains on Property, Plant and Equipment | 10,077 | |
| 301 | | Amortisation of intangible assets | 675 | |
| 24,520 | | Revenue expenditure funded from capital under statute | 31,694 | |
| 159,575 | | 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 | 90,920 | |
| | **240,277** | | | **178,369** |
| | (83,812) | Adjusting amounts written out of the Revaluation Reserve | | (25,082) |
| | **156,465** | **Net written out amount of the cost of non-current assets consumed in the year** | | **153,287** |
| | | **Capital financing applied in the year:** | | |
| (6,450) | | Use of the Capital Receipts Reserve to finance new capital expenditure | (3,223) | |
| (26,357) | | Use of the Major Repairs Reserve to finance new capital expenditure | (16,951) | |
| (33,109) | | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (21,056) | |
| (16,791) | | Application of grants to capital financing from the Capital Grants Unapplied Account | (26,058) | |
| (2,618) | | Provision for the financing of capital investment charged against the General Fund and HRA balances | (2,338) | |
| | **(85,325)** | | | **(69,626)** |
| | (3,304) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | | (1,870) |
| | **(1,221,668)** | **Balance at 31 March** | | **(1,139,877)** |

## 27. Cash Flow Statement – Adjustments for Non-Cash Transactions

| Single Entity 2018/19 £'000 | Group Accounts 2018/19 £'000 | Description | Single Entity 2019/20 £'000 | Group Accounts 2019/20 £'000 |
|---|---|---|---|---|
| 55,317 | 56,449 | Depreciation | 45,003 | 45,471 |
| 566 | 567 | Increase in Revaluation charged to the Comprehensive Income and Expenditure Statement | 10,077 | 12,413 |
| 301 | 301 | Amortisation | 675 | 675 |
| 1,683 | 1,683 | Movement in Impairment Allowance | 4,830 | 4,830 |
| 30,058 | 33,944 | Movement in Receivables | (96,508) | (94,924) |
| 10,889 | 11,784 | Movement in Payables | 31,000 | 33,216 |
| 983 | 893 | Movement in Inventories | 867 | 879 |
| 28,750 | 28,750 | Pension Liability | 36,892 | 36,892 |
| 159,575 | 159,575 | Carrying Amount of Non-Current Assets sold | 90,920 | 90,920 |
| 9,873 | 9,873 | Movement in Provisions | 1,597 | 1,597 |
| (3,304) | (3,671) | Movement in the value of Investment Properties | (1,870) | (1,870) |
| (190) | (190) | Financial Instruments Adjustments | 111,573 | 111,573 |
| (574) | 84 | Other Non-Cash Adjustments | 4,067 | 3,853 |
| **293,927** | **300,042** | **Total Adjustments for Non-Cash Transactions** | **239,123** | **245,525** |
| (92,894) | (92,894) | Investing and Financing Activities Adjustments to Net Surplus on the Provision of Services | (245,132) | (245,132) |
| **201,033** | **207,148** | **Net Cash Flows from Operating Activities** | **(6,009)** | **393** |

The cashflow from operating activities include the following amounts:

| Single Entity 2018/19 £'000 | Group Accounts 2018/19 £'000 | Description | Single Entity 2019/20 £'000 | Group Accounts 2019/20 £'000 |
|---|---|---|---|---|
| (10,801) | (10,824) | Interest received | (12,256) | (12,256) |
| 53,779 | 58,509 | Interest Paid | 160,390 | 160,390 |
| **42,978** | **47,685** | **Net Interest** | **148,134** | **148,134** |

## 28. Cash Flow Statement - Investing Activities

| Single Entity 2018/19 £'000 | Group Accounts 2018/19 £'000 | Description | Single Entity 2019/20 £'000 | Group Accounts 2019/20 £'000 |
|---|---|---|---|---|
| (78,150) | (105,178) | Purchase of Property, Plant and Equipment and Intangible Assets | (82,872) | (115,639) |
| 55,800 | 55,800 | Purchase of Short-Term Investments and Long-Term Investments | 154,263 | 154,263 |
| - | - | Other Payments for Investing Activities | 0 | 0 |
| 40,426 | 40,426 | Proceeds from the sale of Property, Plant and Equipment and Non-Current Assets | 80,500 | 80,500 |
| 52,157 | 52,157 | Other receipts from investing | 52,982 | 52,982 |
| **70,233** | **43,205** | **Net Cash Flows from Investing Activities** | **204,873** | **172,106** |

## 29. Cash Flow Statement - Financing Activities

| Single Entity 2018/19 £'000 | Group Accounts 2018/19 £'000 | | Single Entity 2019/20 £'000 | Group Accounts 2019/20 £'000 |
|---|---|---|---|---|
| (44,498) | (19,831) | Cash Repayment of Short-Term Borrowings and Long-Term Borrowings | (48,395) | (19,165) |
| (4,589) | (4,589) | Cash Payments to reduce Finance Lease and PFI Liabilities | (6,228) | (6,227) |
| (4,500) | (200) | Other payments for financing activities | 0 | 3,635 |
| **(53,587)** | **(24,620)** | **Net Cash Flows from Financing Activities** | **(54,623)** | **(21,757)** |

## 30. Trading Operations

The Authority operates a number of trading accounts identified as those where the service managers are required to operate in a commercial environment and balance their budgets by generating income from other parts of the Authority and other organisations. A commercial environment is one in which the customer has the choice to use an alternative supplier to the Authority; and the Authority charges the user on a basis other than that solely to cover the costs of the service.

The Trading Accounts operated by the Authority during the year were:

| 2018/19 | | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| Expenditure £'000 | Income £'000 | (Surplus) / Deficit £'000 | | Expenditure £'000 | Income £'000 | (Surplus) / Deficit £'000 |
| 422 | 286 | 708 | Newham Catering & Cleaning Services | 0 | 0 | 0 |
| 414 | (509) | (95) | Building Control | 499 | (360) | 139 |
| 1,007 | (1,058) | (51) | Markets | 1,033 | (1,021) | 12 |
| 642 | 0 | 642 | Repairs & Maintenance Service (RMS) | 0 | (1,701) | (1,701) |
| **2,485** | **(1,281)** | **1,204** | **Total** | **1,532** | **(3,082)** | **(1,550)** |

Newham Catering and Cleaning Services (NCCS) provide catering management, cleaning, waste and pest control services primarily to schools within Newham. This service is no longer provided by NCCS and is now provided by the wholly owned subsidiary - Juniper Ventures Ltd (see note 38).

Building Control is responsible for ensuring that building work meets legally required standards and is authorised to make a charge and any surplus is used for future related work as laid out in the Building (Local Authority Charges) Regulations 2010.

Markets trading account charges clients for the administration of Market/Street trading duties and as such any surplus should be ring fenced for Market Activities in line with the London Local Authorities Act 1990.

The Repairs and Maintenance Service (RMS) is a trading division within the Inclusive Economy and Housing Directorate that provides over 100,000 housing repairs, cyclical and statutory maintenance as well as capital stock improvements to over 27,000 Newham Council Tenants and Leaseholders properties as well as providing services to support the Councils highways responsibilities. The range of services has extended to support repairs and maintenance in public buildings, some schools and Tenant Management Organisations and the reinstatements to housing voids both in and out of the borough. The change between the 18/19 deficit position to a 19/20 surplus position is largely due to a review of the recharge allocation.

## 31. Pooled Budgets

Introduced in April 2015, the Better Care Fund is the largest financial incentive to date for the integration of Health and Social Care. It requires Clinical Commissioning Groups (CCG's) and Local Authorities in each area to pool budgets and agree integrated spending plans determining how their Better Care Fund allocations will be most efficiently resourced. In 2015/16, Central Government committed £3.8 billion to the Better Care Fund, with many local areas contributing an additional £1.5 billion, taking the total spending power of the Better Care Fund to £5.3 billion.

In 2017/18, the government made funding available to local authorities, worth £1.5 billion by 2019/20, which is included in the BCF. In looking ahead to later years it is important that BCF plans are aligned to other programmes of work including Sustainability Transformation Plans (STPs), new models of care as set out in the NHS Five Year Forward View and delivery of 7-day services. The local flexibility to pool more than the mandatory amount has remained. This agreement has been formed in accordance with the provisions within Section 75 of the National Health Service Act 2006. A robust governance infrastructure is in place to monitor the schemes within the BCF. Schemes are monitored through the BCF Governance and Delivery Group with regular updates provided to the Health and Wellbeing board for the duration of the section 75 agreement.

The Joint Health and Wellbeing Strategy provides the platform for our vision to become realised through common and shared themes that are reflected in all local key initiatives including Integrated care, Transforming Service Together, Care Close to Home Delivery Plans, NHS Newham clinical commissining group (NCCG) Operating plan, Personal Health Budgets, Primary Care Co-commissioning, Carers Strategy and Sustainability Transformation Plans. The Authority and NCCG have defined within the Section 75 confirmed funding levels required to operate these services and they are reviewed on an annual basis. Some schemes are demand led and partners make relevant contributions depending on the type of services being accessed.

All parties to the better care fund pooled budget agreement have joint control. The better care fund pooled budget is a joint arrangement solely for the purpose of working together, with no single body having power of control over the other parties to the agreement. Each partner then accounts for its share of income, expenditure, assets liabilities and cash flows in line with the agreement.

The following table analyses the funding provided and the expenditure met from Better Care Fund:

| | 2018/19<br>£'000 | 2019/20<br>£'000 |
|---|---|---|
| **Funding provided to the pooled budget:** | | |
| London Borough of Newham | (87,379) | (85,008) |
| NHS Newham Clinical Commissioning Group (NCCG) | (52,065) | (53,310) |
| **Total funding** | **(139,443)** | **(138,318)** |
| | | |
| **Expenditure met from the pooled budget:** | | |
| London Borough of Newham | 87,379 | 85,008 |
| NHS Newham Clinical Commissioning Group (NCCG) | 52,065 | 53,310 |
| **Total expenditure** | **139,443** | **138,318** |
| | | |
| **Net deficit/(surplus) arising on the pooled budget during the year** | **-** | **-** |

Below is a summary of the funding agreed with the CCG, Newham and governed by the LAs Health & Well Being

| **Scheme Name** | **2019/20 Total BCF Actuals £000s** |
|---|---|
| RAID and support | 949 |
| Funding for existing Social Care arrangements | 8,645 |
| Continuing Care | 5,114 |
| NHS Funded Nursing Care | 842 |
| Disabled Facilities Grant / Social Care Capital Grant | 2,510 |
| Community Equipment – (Enabled Living Service) | 3,021 |
| Protection of Adult Social Care | 5,258 |
| Funding for Care Act | 1,000 |
| Community Prescription Service | 360 |
| Rehab and Community services | 31,893 |
| Care Management Arrangements | 6,489 |
| Care Packages and Placements | 55,093 |
| Public Health Commissioning | 6,827 |
| Market Sustainability | 7,211 |
| Out of Hospital / Admission Avoidance | 2,176 |
| Wheelchair Services | 930 |
| **Total** | **138,318** |

## 32. Members' Allowances

The total of members' allowances and expenses paid in 2019/20 (excluding National Insurance Contributions) was £1,380k compared to £1,191k in 2018/19. The increase is due to a number of additional posts created and reflects the revised scheme for 2019/20 agreed by Full Council on the 18th February 2019. Full details of members' allowances paid are available on the website and upon request in writing to Member Services, 4th Floor, West Wing, Newham Dockside, London E16 2QU.

https://www.newham.gov.uk/council/councillors%E2%80%99-allowances-expenses/1

## 33. Officers' Remuneration

The Accounts and Audit (England) Regulations 2015 require local authorities to disclose the number of employees whose remuneration was £50,000 or more in the financial year, expressed in bands of £5,000. This includes the remuneration of senior employees which is shown overleaf.

| 2018/19 Non Teaching Employees | 2018/19 Teaching Employees | 2018/19 Total Employees | Earnings Band | 2019/20 Non Teaching Employees | 2019/20 Teaching Employees | 2019/20 Total Employees |
|---|---|---|---|---|---|---|
| 113 | 213 | 326 | 50 - 54,999 | 152 | 200 | 352 |
| 50 | 129 | 179 | 55 - 59,999 | 80 | 132 | 212 |
| 39 | 69 | 108 | 60 - 64,999 | 67 | 83 | 150 |
| 36 | 43 | 79 | 65 - 69,999 | 35 | 39 | 74 |
| 20 | 17 | 37 | 70 - 74,999 | 39 | 30 | 69 |
| 16 | 10 | 26 | 75 - 79,999 | 29 | 13 | 42 |
| 11 | 16 | 27 | 80 - 84,999 | 15 | 13 | 28 |
| 8 | 8 | 16 | 85 - 89,999 | 5 | 10 | 15 |
| 2 | 4 | 6 | 90 - 94,999 | 3 | 5 | 8 |
| 6 | 4 | 10 | 95 - 99,999 | 6 | 6 | 12 |
| 7 | 5 | 12 | 100 - 104,999 | 6 | 3 | 9 |
| 3 | 2 | 5 | 105 - 109,999 | 6 | 2 | 8 |
| 4 | 4 | 8 | 110 - 114,999 | 3 | 2 | 5 |
| 0 | 1 | 1 | 115 - 119,999 | 2 | 2 | 4 |
| 0 | 3 | 3 | 120 - 124,999 | 2 | 2 | 4 |
| 2 | 0 | 2 | 125 - 129,999 | 1 | 1 | 2 |
| - | - | - | 130 - 134,999 | - | - | - |
| 1 | 1 | 2 | 135 - 139,999 | 1 | 1 | 2 |
| - | - | - | 140 - 144,999 | 1 | - | 1 |
| - | - | - | 145 - 149,999 | - | - | - |
| - | - | - | 150 – 154,999 | - | 2 | 2 |
| 1 | 0 | 1 | 155 – 159,999 | - | - | - |
| - | - | - | 160 – 164,999 | - | - | - |
| 1 | - | 1 | 165 – 169,999 | - | - | - |
| 1 | - | 1 | 170 – 174,999 | - | - | - |
| - | - | - | 190 - 195,999 | 1 | - | 1 |
| - | - | - | 210 - 214,999 | - | 1 | 1 |
| - | - | - | 220 - 224,999 | 1 | - | 1 |
| 1 | 1 | 2 | 255 - 259,999 | - | - | - |
| **322** | **530** | **852** | **Total £50,000 and over** | **455** | **547** | **1,002** |

During 2019/20 there was an increase in the number of officers whose remuneration exceeded £50k. This was due to a number of factors including; inflationary pay increases, staff moving up spinal points, recruitment of permanent senior staff into vacant posts and a higher number of exit payments which meant some staff with base salary below £50k exceeded the threshold.

## 33. Officers' Remuneration (contd.1)

Senior employees whose annual salary for the year was equal to or greater than £150,000 (pro-rata) or who were fulfilling a Statutory Chief Officer post (in accordance with the Local Government and Housing Act 1989) are listed below:

**2019/20**
**Council Officers**

| Name and position | Salary Fees and Allowances | Compensation for loss of employment | Council's contribution to Pension Fund | Total Remuneration |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Chief Executive Officer - Ms A Loderick (Joined 15/04/2019) | 190,009 | - | 38,952 | **228,961** |
| Corporate Director of Adults & Health (DASS) - Mr C Ansell | 128,572 | - | 26,357 | **154,930** |
| Corporate Director of Children & Young People (DCS) - Mr T Aldridge (Joined 14/10/2019) | 76,522 | - | 15,687 | **92,209** |
| Corporate Director of Environment and Sustainable Transport - Mr J Blake (Joined 25/11/19) | 53,550 | - | - | **53,550** |
| Corporate Director of People, Policy & Performance - Mrs J Crowe (Joined 09/12/2019) | 40,079 | - | 8,216 | **48,295** |
| Corporate Director of Resources (s151) - Mr C Hall (Joined 24/06/2019) | 120,868 | - | 24,778 | **145,646** |
| Director of Legal & Governance (Monitoring Officer) - Mr D Fenwick □ | 140,123 | | 28,228 | **168,351** |
| Director of Public Health - Mr J Strelitz (Joined 24/04/2019) | 96,130 | - | 19,720 | **115,850** |
| Newham CYPS Commissioner (Brighter Futures) Mrs G Subramaniam-Mooney (Joined 10/01/20) | 29,023 | | 5,950 | **34,972** |
| Acting Director of Environment and Community - Mr S Letchford (Acting up arrangements ended 30/09/2019) | 66,550 | - | 21,581 | **88,131** |
| Executive Director of Strategic Commissioning - Ms G Siggins (Left 30/04/2019) | 44,113 | 177,465 | 2,901 | **224,479** |
| Interim Chief Executive Officer - Mrs K Kerswell (Left 14/04/2019) | 15,003 | 61,238 | - | **76,241** |
| Interim Director of Enforcement - Mr M Hooper (Left 23/04/2019) | 7,636 | - | 1,420 | **9,056** |
| Interim Director Regeneration and Planning - Ms Elaine Elkington (Left 12/07/2019) | 70,091 | - | - | **70,091** |
| **Total** | **1,078,269** | **238,703** | **193,790** | **1,510,761** |

**Senior Officers' Pay - LBN Controlled Companies**

The Council has a number of wholly owned companies which deliver a range of services including housing investments, contract cleansing & catering, waste disposal and street cleansing and other social care services. For the larger companies, information on remuneration of the highest paid company director is provided below. The financial performance and position of these companies are consolidated into the Council's group accounts and summary information on these are also included in Note 38 - Councils Association with External Bodies.

| Company and Position | Salary | Expenses | Total Remuneration |
|---|---|---|---|
| Enabled Living Healthcare Ltd - Managing Director | 84,872 | 7,424 | **92,296** |
| iXact Limited - Managing Director | 84,358 | 11,494 | **95,851** |
| Juniper Ventures LTD - Managing Director | 100,317 | 5,000 | **105,317** |
| Mint Group PLC - Managing Director | 84,360 | 12,363 | **96,723** |
| Public Realm Services - Managing Director | 84,360 | 7,640 | **92,000** |
| Red Door Ventures (RDV) - Managing Director | 112,120 | 0 | **112,120** |
| **Total** | **550,386** | **43,920** | **594,307** |

**2018/19**

| Name and position | Salary Fees and Allowances | Compensation for loss of employment | Council's contribution to Pension Fund | Total Remuneration |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Mr K Bromley-Derry - Chief Executive Officer (Left 31/08/2018) | 44,199 | 196,333 | 4,102 | **244,634** |
| Mrs K Kerswell - Interim Chief Executive Officer | 127,379 | - | - | **127,379** |
| Ms G Siggins - Executive Director of Strategic Commissioning | 166,482 | - | 34,129 | **200,611** |
| Mr N Bracken - Chief Operating Officer (Left 11/05/2018) | 18,428 | 154,000 | 3,778 | **176,206** |
| Mr S Letchford - Interim Director of Environment and Community | 107,078 | - | 21,951 | **129,029** |
| Mr M Hooper - Interim Director of Enforcement | 106,281 | - | 21,788 | **128,069** |
| Mrs J Sherwood - Interim Director of Regeneration and Planning | 103,281 | - | 21,173 | **124,453** |
| Ms J Moon - Director of Commissioning Education and Skills (Left 15/04/2018) | 8,683 | - | 1,780 | **10,463** |
| Ms P Javeri - Director of Techonology and Innovation | 110,664 | - | 22,686 | **133,350** |
| Mr D Fenwick - Director of Legal Service | 137,951 | - | 27,758 | **165,709** |
| Mr C Ansell - Director of Commissioning Support Unit | 110,664 | - | 22,686 | **133,350** |
| Ms D Morelli - Interim Director of Environment & Community | 92,867 | - | 19,038 | **111,905** |
| Ms S Roberts - Interim Director of Enforcement | 82,704 | - | 16,954 | **99,658** |
| Ms D Hindson - Executive Director of Financial Sustainability (Left 11/05/2018) | 28,158 | 131,805 | 3,778 | **163,741** |
| Ms M Peachey - Director of Public Health (Left 20/04/2018) | 10,781 | 100,950 | 1,410 | **113,141** |
| **Total** | **1,255,600** | **583,088** | **223,009** | **2,061,697** |

## 33. Officers' Remuneration (contd.2)

**Exit Packages**

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. There was an increase in the number and total cost of exit packages during 2019/20 due to the Council's voluntary Redundancy Scheme designed to deliver agreed savings over the MTFP. However, average cost of exit packages reduced from £31k in 2018/19 to £21k in 2019/20.
In addition to the £2.5m exit payments made to the 118 staff leaving through the redundancy scheme, additional pensions contribution of £0.389m were also made on behalf of those that were awarded early retirement.

| Exit package cost band (including special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band (£000s) | |
|---|---|---|---|---|---|---|---|---|
| | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 |
| £0 – £20,000 | 14 | 7 | 12 | 72 | 26 | 79 | 240 | 937 |
| £20,001 – £40,000 | 8 | - | 3 | 26 | 11 | 26 | 320 | 698 |
| £40,001 – £60,000 | 3 | - | 1 | 10 | 4 | 10 | 178 | 527 |
| £60,001 – £80,000 | 1 | 1 | - | 1 | 1 | 2 | 75 | 130 |
| £80,001 – £100,000 | - | - | - | - | - | - | - | - |
| £100,001 – £150,000 | 2 | - | - | - | 2 | - | 246 | - |
| £150,001 – £250,000 | 2 | - | - | 1 | 2 | 1 | 350 | 207 |
| **Total** | **30** | **8** | **16** | **110** | **46** | **118** | **1,409** | **2,499** |

## 34. External Audit Costs

The Authority's external auditors are Ernst & Young LLP and the table below details the amounts due to the external auditors in respect of the following services.

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Fees payable to Auditors with regard to the external audit of the Authority | 168 | 168 |
| Additional fees payable to Auditors with regard to the previous year's external audit of the Authority | 207 | 315 |
| Additional fees to Auditors with regard to objection to the accounts | 0 | 120 |
| Fees payable to Auditors with regard to the external audit of the pension fund | 16 | 16 |
| Additional fees payable to auditors with regard to the external audit of the pension fund (prior year) | 16 | 16 |
| Fees payable to Auditors with regard to the certification of grant claims and returns | 35 | 32 |
| | **442** | **667** |

## 35. Dedicated Schools Grant

The Council's expenditure on schools is funded by grant funding provided bey the Department of Education - the Dedicated School Grant (DSG). The DSG is ring-fenced and can only be applied to meet expenditure included in the School Budget as per the School and Early Years Finance (England) (No 2) Regulations 2019. Funding is calculated by centralised funding formula. The Schools budget includes elements for a restricted range of services provided on an Authority-wide basis, and for the Individual Schools Budget, which is divided into a budget share for each school. Spend on the two elements are required to be accounted for seperately. Like many authorities Newham has experienced difficulty in meeting its obligations with respect to High Needs from within the formula funding, this has led to a significant overspend in 2019-20. Newham is working with its schools and the DFE to review this overspend and reduce it for future years.

| | 2019/20 | | |
|---|---|---|---|
| | **Central Expenditure £'000** | **ISB £'000** | **Total £'000** |
| Final DSG for 2019/20 before academy Recoupment | - | - | 419,223 |
| Academy figure recouped for 2019/20 | - | - | (182,336) |
| Total DSG after academy recoupment for 2019/20 | - | - | **236,887** |
| Plus: Brought forward from 2018/19 | - | - | 1,149 |
| Agreed initial budgeted distribution in 2019/20 | 66,564 | 171,472 | **238,036** |
| In-year adjustments | (36,866) | 36,866 | - |
| Final budget distribution for 2019/20 | **29,698** | **208,338** | **238,036** |
| Less: Actual central expenditure | (37,290) | - | (37,290) |
| Less: Actual ISB deployed to schools | - | (208,338) | (208,338) |
| **Carry-forward to 2020/21** | (7,592) | 0 | (7,592) |

| | 2018/19 | | |
|---|---|---|---|
| | **Central Expenditure £'000** | **ISB £'000** | **Total £'000** |
| Final DSG for 2018/19 before academy Recoupment | - | - | 411,621 |
| Academy figure recouped for 2018/19 | - | - | (170,769) |
| Total DSG after academy recoupment for 2018/19 | - | - | **240,852** |
| Plus: Brought forward from 2017/18 | - | - | 2,074 |
| Agreed initial budgeted distribution in 2018/19 | 54,250 | 188,676 | **242,926** |
| Final budget distribution for 2018/19 | **54,250** | **188,676** | **242,926** |
| Less: Actual central expenditure | (53,592) | | (53,592) |
| Less: Actual ISB deployed to schools | | (188,676) | (188,676) |
| Plus Local authority contribution for 2018/19 | 491 | | 491 |
| **Carry-forward to 2019/20** | 1,149 | - | 1,149 |

## 36. Other Long Term Liabilities

The group other long term liabilities is not materially different to the authority's other long term liabilities. The authority's other long term liabilities are made up of the following items. Further information on each line can be found in the notes referred to against each line.

| | **2018/19 £'000** | **2019/20 £'000** |
|---|---|---|
| Finance Leases (Note 40) | (2,328) | (51,668) |
| HAA Mortgages | (275) | 0 |
| PFI Liability (Note 41) | (106,355) | (100,259) |
| Pensions Liability (Note 44) | (837,123) | (689,417) |
| Section 106 | (28,319) | (33,132) |
| **Total** | **(974,400)** | **(874,476)** |

## 37. Related Party Transactions

The Council is required to disclose material transactions, set at a total of above £25k for this purpose, with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government has effective control over the general operations of the Council - it 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).

The Council has prepared this disclosure in accordance with its interpretation and understanding of IAS 24 and its applicability to the public sector utilising current advice and guidance.

**Pension Fund**

The Fund is administered by the London Borough of Newham. During the reporting period, the Council incurred costs of £0.88m in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses (see Note 10). As at 31 March 2020 the Fund owed the Council £1.45m.

**Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' Allowances paid in 2019/20 is shown in Note 32. Members of the Authority participate in and are members of a variety of other public bodies and community groups. The Council has well established mechanisms and procedures for preventing undue influence. Part of this mechanism is the disclosure of interests in the register of Members' interests which is open to public inspection on the Authority's website.

| Organisation | Payments made during 2019/20 | Amounts owed at 31/03/20 | Income received during 2019/20 | Income due at 31/03/20 | |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | Members |
| Active Newham | 2,335 | 7 | 3,776 | 716 | Daniel Blaney |
| East London Waste Authority | 1,083 | | 1,039 | | James Asser |
| Kensington Primary School t/a Tapscott Learning Trust | 638 | | 26 | | Aisha Siddiqah |
| Newham College of Further Education | 1,364 | | 12 | | James Beckles<br>Quintin Peppiatt |
| Rosetta Art Centre | 190 | | | 13 | Canon Ann Easter |
| Sparrows Trading Company Limited | 52 | | 1 | - | Canon Ann Easter |
| | | | | | Officers |
| Greater London Authority | 425 | | 1 | 48 | Jessica Crowe |
| Newham Learning Partnership (Project Co) Limited | 10,208 | | | | Dave Baldock |
| Newham Transformation Partnership Limited | 7,950 | | 359 | | Dave Baldock |
| Public Realm Services Limited | 6,572 | 1 | 4,471 | 444 | Colin Ansell |

All transactions have been made on an arm's length basis and at commercial terms. Enquiries can be made with the Council regarding these transactions via Freedom of Information requests.

## 38. Council's Association with External Bodies

The Council has significant interests in a variety of entities, including Subsidiaries, Investments, Associates and Jointly Controlled Operations. Significant interests have been identified as:

**Subsidiaries**

**Red Door Ventures Limited (Renamed Populo Living Limited from June 2020)** - A wholly-owned subsidiary company that was formed in March 2014 to facilitate the Authority's construction and investment in private rental properties within the Borough. Ordinary share capital constitutes 19,442,332 Ordinary shares of £1 each as at 31 March 2020 (15,807,332 £1 Ordinary shares as at 31 March 2019). In 2019/20, the company made a loss (reflecting trading with RDV Design and Build Limited, a subsidiary undertaking) of £2.7m (2018/19: loss of £2.8m). This entity is controlled by the Authority and is deemed to be material for the purposes of group consolidation.
Payments made during the year totalled £24m and £1.2m income was received for the year.

RDV's Directors that have held office between 1 April 2019 and 31 March 2020 are as follows:
Robin Atkin-House, Stephen Benson, Suzanne Forster, Sarah Gaventa, Michael Holland, John Swinney and Nigel Taylor

A copy of RDVs' financial statements can be obtained by writing to:
Red Door Ventures, 373 High Street, Stratford, London, E15 4QZ
Email: info@populoliving.co.uk
Website: www.populoliving.co.uk

**Better Together Limited** - Incorporated in January 2016, it is anticipated that this limited company will deliver the Authority's Shared Lives Programme. A single Ordinary £1 share is in issue, held by the Mayor and Burgesses of the London Borough of Newham. This company started trading in June 2016. No payments were made during 2019/20 and £0.01m was owed as at 31st March 2020.

The company disclosed a profit after tax of £0.002m in 2019/20 and has net assets of £0.172m

There are 6 Board members - Sarah Havard, James Smith, Gisela Iveson, Rafiuddin Patel, Kelly Donna and Margaret Minter.

A copy of Better Together's accounts can be obtained by writing to:
Stratford Advice Arcade 107-109 The Grove, Stratford, London, E15 1HP
Email: sarah@bettertogether.org.uk
Website: www.cqc.org.uk/provider/1-2494562383

**The Language Shop Limited** - A wholly-owned company incorporated in February 2014 which offers translation and interpretation services. Share capital amounts to 100 Ordinary shares of £1 each.

The company has 5 Directors in place - Aprile Harman, Samuel Lingard, Jaimin Patel, Zoe Power and Joven Carino.
Payments made during the 2019/20 totalled £6.1m and income of £2m was received in the year.

A copy of TLS's financial statements can be obtained by writing to:
Chief Executive, 1000 Dockside Road, Beckton, London, E16 2QU
Email: languageshop@newham.gov.uk
Website: www.languageshop.org

**The Language Shop Trustee Limited** - A private dormant company limited by guarantee incorporated in January 2016. The company has 2 board members, Aprile Harman and Jaimin Patel.

**Future Newhome Limited** - A subsidiary company wholly-owned by the Authority, established to acquire a portfolio of property which will be offered at a range of discounts to market rents to people on a range of incomes.

The company's 2019/20 draft financial results disclosed a profit of £0.39m (£1.9m loss in 2018/19). There were 4 board members in the year to 31 March 2020. Payments made during 2019/20 totalled £7m and £0.7m was owed from this company as at 31 March 2020.

Future Newhome's directors that have held office between 1 April 2019 and 31 March 2020 are as follows:
Sandy Hamberger, David Morris and W.F.M. Stokes

A copy of Future New Home's financial statements can be obtained by writing to:
Chief Executive, 1000 Dockside Road, Beckton, London E16 2QU
Email: Bobby.Arthur@newham.gov.uk

**Public Realm Service Limited (PRS)** - A wholly owned subsidiary, established as a street cleaning services provider. This company was incorporated in July 2016 and currently has 3 board members in place. Profit after tax declared as £0.5m for 2019/20.

Public Realm Service's directors that have held office between 1 April 2019 and 31 March 2020 are as follows:
Colin Ansell, Joanne Beaseley and John Edwaes Wild.

A copy of PRS's financial statements can be onbtained by writing to:
Administration Reception Central Depot, Folkestone Road, East Ham, London E6 6BX
Email: info@publicrealmservices.co.uk
Website: www.publicrealmservices.co.uk

## 38. Council's Association with External Bodies (contd.1)

**The Good Support Group Limited** - A wholly owned subsidiary which provides high quality care and support activities to the authority and surrounding area. This company was incorporated in October 2016 and currently has 3 board members: David Gibbs, Pauline Jones and Simon Whitlock. Currently this company has stoppped trading from 31st March 2020 and is in the process of being liquidated.

A copy of Good Support Group's financial statements can be obtained by writing to:

The Community Resource Centre, 200 Chargeable Lane, London E13 8DW

Email: enquiries@thegoodsupportgroup.com

Website: www.thegoodsupportgroup.com

**London Network for Pest Solutions Limited** - A wholly owned subsidary which provides pest control services. This company was incorporated in October 2016 and currently has 2 board members in place: Paul Cooper and Pradeep Lawrence. Profit after tax declared as £0.03m for 2019/20.

A copy of London Network for Pest Solutions financial statements can be obtained by writing to:
86-90 Paul Street, London EC2A 4NE
Email: info@lnpestsolutions.com
Website: www.lnpestsolutions.com

**Early Start Education Limited** - Incorporated in August 2016, this company will provide residents with high quality early years education including free child care to those who are entitled. This is a wholly owned subsidary and there are currently 3 board members in place: Sharon Cox , Justin Elder and Simon Whitlock. Profit after tax declared as £0.038m for 2019/20.

A copy of Early Start Education's financial statements can be obtained by writing to:
2-24 Shrewsbury Road, London E7 8AL
Email: Justin.elder@earlystartgroup.com

**Ixact Limited** - A subsidiary company wholly-owned by the Authority, established as a cleaning services provider.
The companies 2019/20 financial results disclosed a profit of £0.153m and net assets of £0.397m. Payments of £4.6m were made during 2019/20 and £0.05m was owed from this company as at 31 March 2020.

Ixact's Directors that have held office during the year ended 31 March 2020 are as follows:
Graeme Waugh, Anoop Goyal and Nurun Nehar

A copy of Ixact's financial statements can be obtained by writing to:
Chief Executive, Central Depot, Folkestone Road, London E6 6BX
Email: Graeme.Waugh@ixactlimited.com
Website: www.ixactlimited.com

**Mint Cleaning Limited** - A subsidiary company wholly-owned by the Authority, established as a cleaning services provider.

The company's 2019/20 financial results disclosed a profit of £0.2m and net assets of £0.6m. Payments of £4.8m was made during 2019/20 and £0.2m was owed from this company as at 31 March 2020.

Mint's Directors that have held office during the year ended 31 March 2020 are as follows:

Sandy Hamberger, Dean Pamenter and Brian Veale

A copy of Mint's financial statements can be obtained by writing to:
Chief Executive, Central Depot, Folkestone Road, London E6 6BX
Email: Brian.Veale@MintCleaningGroup.co.uk
Website: www.mintcleaninggroup.com

**Juniper Pursuits Limited -** Juniper Pursuits Limited is a wholly owned subsidiary of Juniper Ventures Limited. The company's 2019/20 financial results disclosed a profit after tax of £0.011m and net assets of £0.5m.

Juniper Pursuits Ltd Directors that have held office between 1st April 2019 and 31st March 2020 are as follows:
David Gibbs, Steve Giles, Michael Hales, Philippa Terry, Clare Tyler, Bridget Holland and Paul Thorogood.

A copy of Juniper Pursuits financial statements can be obtained by writing to: 29 The Old Town Hall, 29 Broadway, Stratford, London E15 4BQ

Email: michael.hales@juniperventures.co.uk

**Juniper Ventures Limited -** The company's 2019/20 financial results disclosed a profit after tax of £0.034m and net assets of £0.051m.

Juniper Ventures Ltd Directors that have held office between 1st April 2019 and 31st March 2020 are as follows:

David Gibbs, Steve Giles, Michael Hales, Philippa Terry and Clare Tyler.

A copy of Juniper Ventures financial statements can be obtained by writing to: 29 The Old Town Hall, 29 Broadway, Stratford, London E15 4BQ

Email: michael.hales@juniperventures.co.uk

Website: www.juniperventures.co.uk

## 38. Councils Association with External Bodies (contd.2)

**Every Child (Achieving Their Potential) Limited** - Every Child is a wholly owned subsidiary of the authority.

Every Child (Achieving Their Potential) Directors that have held office between 1st April 2019 and 31st March 2020 are as follows:

June Fileti and Susan Spencer

A copy of Every Child (Achieving Their Potential) financial statements can be obtained by writing to:

Every Child (Achieving Their Potential) Limited 1000 Dockside Road, Newham Dockside, London E16 2QU

Email: info@everychild.com

Website: www.everychild.com

**Health and Care Space Newham Limited** is jointly controlled by London Borough of Newham and East London NHS trust. The company's 2019/20 financial results disclosed a loss of £0.4m, and net assets of £6m.

Health & Care Space Newham Ltd Directors that have held office as at 31st March 2020 are as follows:

Andrew Ireland, Steven Course, Colin Ansell and Mohit Venkataram.

A copy of their financial statements can be obtained by writing to:

Health and Care Space Newham Ltd, 1000 Dockside Road, Newham Dockside, London E16 2QU

Email: Ian.Gallagher@activenewham.org.uk

**Enabled Living Healthcare Limited**

Enabled Living Healthcare is wholly owned subsidiary of the authority. The company's 2019/20 financial results disclosed a profit after tax of £0.036m and net assets of £0.383m.

Directors that have held office between 1st April 2019 and 31st March 2020 are as follows:

Mathew Sheehan, Martin Blow, Kirsten Smilge and Dorothy Coleman

A copy of their financial statements can be obtained by writing to:

7 Alpine Way, Beckton, London, E6 6LA

Email: info@enabledlivinghealthcare.co.uk

Website: www.enabledlivinghealthcare.co.uk

**Investments**

**Active Newham** - A Leisure Trust that has managed the Authority's leisure, sports and volunteering opportunities in Newham since January 2013. The Authority has 4 of 10 places on the Board of Trustees, and therefore no overall voting majority.

Full details of Members and their associated transactions with the Authority are disclosed within Note 37.

Total payments of £2.3m were made during 2019/20, and income of £4.8m was received during the year.

**Newham Learning Partnership (Hold Co) Limited** - Immediate parent undertaking of Newham Learning Partnership (Project Co) Limited. The company was formed as a Special Purpose Vehicle (SPV) for the construction and subsequent maintenance and management of two secondary schools in the Newham area under Private Finance Initiative (PFI) arrangements. The Authority holds 9% of the company's Ordinary shares and is therefore unable to exert significant influence over the company's decision-making processes.

**Newham Learning Partnership (Project Co) Limited** - A wholly-owned subsidiary of Newham Learning Partnership (Hold Co) Limited. The company provides construction and maintenance services to two secondary schools in Newham under a Private Finance Initiative (PFI) contract. The schools included under the PFI contract are Rokeby School and Lister Community School.

**Newham Partnership Working Limited** - A company limited by guarantee, this entity was incorporated in December 2011. The company's primary purpose is to provide Health and Safety, Human Resources, Information and Communication Technology (ICT) and other associated support services to local schools. In the opinion of the company's directors, there is no one single controlling party. The Authority has the ability to appoint 3 of the 19 Board members in place, and is therefore unable to exert significant influence over the entity.

Total payments of £0.3m were made and an income of £0.1m was received during 2019/20.

**Newham Transformation Partnership Limited** - This company was formed in December 2008 and provides design and construction services for new schools in Newham under the Building Schools for the Future initiative in addition to investing in joint ventures whose business activities include the provision of construction and maintenance services for new Borough schools. The company additionally supplies ICT services across a number of schools. Based upon a 10% shareholding, the Council is unable to control this entity.

Total payments of £7.9m were made during the year and income of £0.5m was received in 2019/20.

**Newham Foundation** – A company limited by guarantee, the Foundation was formed by the Authority and Newham College of Further Education in 2002 with the central aim of providing accommodation facilities and programmes for the improvement and development of education within the Borough. The Authority holds 19% of the overall voting rights established and is unable to exert significant influence over decision-making processes.

## 38. Councils Association with External Bodies (contd.3)

**Associate**

**oneSource Partnership Limited** - A dormant company which has not traded since incorporation in April 2014. The company's Ordinary share capital is divided equally between the Authority (50%) and the London Borough of Havering (50%).

Full details of Members and transactions with the Authority are disclosed below under Joint Committees.

**Jointly Controlled Operations**

**Choice Homes UK** – A partnership between 6 Local Authorities and 2 Housing Associations that provides a choice-based lettings service to East London residents. Since formation in 2002, the function has grown ostensibly and now services other London Boroughs, in addition to geographical areas outside of London. The Authority is 1 of 8 partners involved in the arrangement. Each has an equal vote, and therefore no overall voting majority exists. The partners make collective decisions on strategic matters including service growth and development.

**Joint committees**

OneSource is a public sector shared back-office support service which is supported by members through a joint committee arrangement. The joint committee receive key reports and make strategic decisions about OneSource's operation. OneSource was set up with a view to making savings by eliminating duplication, reducing senior management costs and introducing more efficient processes. OneSource started on 1 April 2014, when the London Boroughs of Havering and Newham contributed almost all their support services for the two authorities including HR, ICT, Finance, Legal services, Exchequer and Transactional services, Asset Management and Business services (Newham's Exchequer service was subsequently removed during the course of 2016/17). On the 1st April 2016 the London Borough of Bexley joined the joint committee arrangement. Bexley joined in a more limited capacity than Havering and Newham with oneSource providing Finance (excluding procurement) and Exchequer and Financial Transactional services to the London Borough of Bexley.

The oneSource outturn position for 2019/20 is disclosed below and is split between the Newham, Bexley and Havering Authorities. The Newham share is charged against the Comprehensive Income and Expenditure Statement.

**oneSource**

| | 2018/19 | 2019/20 |
|---|---|---|
| **Net Expenditure** | **£'000** | **£'000** |
| Exchequer and Transactional Ser | 6,555 | 6,550 |
| Finance | 9,844 | 10,638 |
| Business Services | 1,621 | 973 |
| Legal and Governance | 2,225 | 2,847 |
| ICT | 8,934 | 8,791 |
| Asset Management | 2,345 | 2,119 |
| Strategic and Operational HR | 2,687 | 3,043 |
| **Total Net Expenditure** | **34,211** | **34,961** |
| **Cost Sharing:** | | |
| London Borough of Newham | 15,740 | 16,557 |
| London Borough of Havering | 15,633 | 15,852 |
| London Borough of Bexley | 2,838 | 2,552 |
| **Total** | **34,211** | **34,961** |

As at 31 March 2020, the Authority owed £1.019m to the London Borough of Havering and £0.274m to the London Borough of Bexley. This amount is disclosed within the 'Other Local Authorities' heading in Note 22 Receivables.

The Newham Joint Committee Council Members are Councillors Fiaz, Gray and Paul, the Havering Joint Committee Council Members are Councillors Benham, Ramsey and White (D) and the Bexley Joint Committee Member is Councillor Leaf.

The following oneSource Chief Officers have joint managerial responsibility for services across both Authorities and as such have significant influence over the operational effectiveness and decision-making policies of this arrangement. Their roles are defined below:

| Shared oneSource role | Employing Organisation | Period |
|---|---|---|
| Executive Director | London Borough of Havering | April 2019 - March 2020 |
| Director of Asset Management | London Borough of Havering | April 2019 - March 2020 |
| Director of Exchequer and Transactional | London Borough of Havering | April 2019 - March 2020 |
| Director of Legal and Governance | London Borough of Newham | April 2019 - March 2020 |
| Director of Human Resources | London Borough of Havering | April 2019 - March 2020 |
| Director of Business Development | London Borough of Havering | April 2019 - March 2020 |
| Director of Finance | London Borough of Newham | April 2019 - March 2020 |
| Director of ICT | London Borough of Newham | April 2019 - March 2020 |

## 39. 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 contracts), 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The movement in the CFR is analysed in the second part of this note.

| 31 March 2019 £'000 | | 31 March 2020 £'000 |
|---|---|---|
| **993,667** | **Opening CFR** | **1,032,675** |
| | **Capital investment** | |
| 77,551 | Property, Plant and Equipment | 82,872 |
| 24,520 | Revenue Expenditure Funded from Capital under Statute | 31,694 |
| 21,981 | Loans to Organisations | 17,537 |
| **124,053** | | **132,103** |
| | **Sources of finance** | |
| (6,167) | Capital receipts | (3,223) |
| (49,902) | Government grants and other contributions | (47,114) |
| (26,357) | Major Repairs Allowance | (16,951) |
| (2,618) | MRP/loans fund principal including PFI / finance lease | (2,338) |
| **(85,044)** | | **(69,626)** |
| **1,032,675** | **Closing CFR** | **1,095,152** |

# 40. Leases

## Authority as Lessor

### Finance Leases

The Authority has leased out property at Stratford Centre, Caxton and Nene on finance leases with terms ranging from 77-136 years

The Authority has a gross investment in the lease, made up of minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long-term receivable for the interest in the property acquired by the lessee and finance income earned by the Authority.

| **Minimum Lease Payments** | **2018/19 £'000** | **2019/20 £'000** |
|---|---|---|
| **Finance Lease Receivable** | | |
| Current | 34 | 417 |
| Non - Current | 9,192 | 56,136 |
| Interest | 28,251 | 77,353 |
| **Total** | **37,443** | **133,906** |

The increase in lease payments is due to the Council entering into a 50 year lease with London Docklands Limited to operate a 209 bedroom Hamton-by-Hilton hotel acquired by the Council during the year. The hotel is located on Dockside Road, Royal Docks, London.

| **Gross Investment in Lease** | **2018/19 £'000** | **2019/20 £'000** |
|---|---|---|
| Not later than one year | 407 | 2,357 |
| Later than one year and not later than five years | 1,627 | 9,427 |
| Later than five years | 35,443 | 122,122 |
| **Total** | **37,477** | **133,906** |

| **Minimum Lease Payments** | **2018/19 £'000** | **2019/20 £'000** |
|---|---|---|
| Not later than one year | 34 | 417 |
| Later than one year and not later than five years | 139 | 1,801 |
| Later than five years | 9,053 | 54,335 |
| **Total** | **9,226** | **56,553** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20 £1.126m (£1.168m in 2018/19) additional rents were payable to the authority.

### Operating Leases

The Future minimum lease payments due under non – cancellable leases in future years are set out below:

| | **2018/19 £'000** | **2019/20 £'000** |
|---|---|---|
| Within 1 year | 12,453 | 10,225 |
| Within 2 – 5 years | 41,629 | 31,259 |
| Over 5 years | 225,429 | 50,842 |
| **Minimum Lease payments** | **279,511** | **92,326** |

# 40. Leases (contd.1)

## Authority as a Lessee

### Finance Leases

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

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| **Other Land and Buildings** | | |
| Stratford Workshop | 3,659 | 3,659 |
| Industrial Site | 588 | 588 |
| Greenshields Industrial Estate | - | 4,994 |
| **Total** | **4,247** | **9,241** |

The future minimum lease payments at the end of each reporting period are set out below:

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| **Finance Lease liabilities (net present MLP)** | | |
| Current | 14 | 571 |
| Non - Current (Note 36) | 2,328 | 51,668 |
| Finance Costs Payable in future years | 3,472 | 34,682 |
| | **5,814** | **86,921** |

The increase in lease payments is due to the Council entering into a 50 year lease agreement with Royal Mail Pension Fund to acquire a 209 bedroom Hampton-by-Hilton hotel located on Dockside Road, Royal Docks, London.

### Minimum Lease payments

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Within 1 year | 126 | 1,724 |
| Within 2 – 5 years | 504 | 6,897 |
| Over 5 years | 5,184 | 78,299 |
| **Minimum Lease payments** | **5,814** | **86,920** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20 £295k (£245k in 2018/19) contingent rents were payable.

### Operating Leases

The Future minimum lease payments due under non – cancellable leases in future years are set out below:-

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Within 1 year | 23,426 | 23,085 |
| Within 2 – 5 years | 26,262 | 2,532 |
| Over 5 years | 8,439 | 104 |
| **Minimum Lease payments** | **58,127** | **25,721** |

## 41. Private Finance Initiatives And Similar Contracts

As at 31st March 2020, the Authority has five long-term contracts in place under Private Finance Initiative (PFI) arrangement, details of which are summarised below:

**(i) Schools PFI 1**

This is a 25 year contract to design, build and operate 3 Schools - Kingsford Secondary, Plaistow and Kaizen Primary Schools. At the end of the contract, control of the assets revert back to the Authority. The Authority has recognised these assets on the Balance Sheet.

**(ii) Schools PFI 2**

Schools PFI 2 is a second PFI scheme to build and operate Cumberland Secondary School. The contract is for 25 years and has 16 years left to run. At the end of the contract, control of the assets revert back to the Authority. The Authority has recognised these assets on the Balance Sheet.

**(iii) Canning Town PFI**

A 30 year contract for the refurbishment, maintenance and provision of landlord services for approximately 1,300 housing properties in Canning Town, East London. The Council has recognised these assets on the Balance Sheet.

**(iv) Forest Gate PFI**

A 20-year contract for the refurbishment, maintenance and provision of landlord services for approximately 1,300 housing properties in Forest Gate, East London. The Council has recognised these assets on the Balance Sheet.

**(v) BSF Wave 1**

This involves the design, building and operation of Lister and Rokeby Schools under Wave 1 of the Building Schools for the Future Programme. The scheme is for a term of 26 years, after which the assets will revert back to being controlled by the Authority. The assets are recognised on the Authority's Balance Sheet.

The value of assets held under the PFI schemes is summarised below:

| 2018/19 Council Dwellings £'000 | 2018/19 Other Land and Buildings £'000 | 2018/19 Total £'000 | | 2019/20 Council Dwellings £'000 | 2019/20 Other Land and Buildings £'000 | 2019/20 Total £'000 |
|---|---|---|---|---|---|---|
| 86,111 | 149,264 | **235,375** | Net book value at 1 April | 87,221 | 104,510 | **191,731** |
| | | | Adjustment to opening balance | | 8,700 | **8,700** |
| 1,290 | 1,248 | **2,538** | Additions | 1,168 | 1,559 | **2,727** |
| (1,794) | (3,935) | **(5,729)** | Depreciation and impairment | (1,817) | (2,282) | **(4,099)** |
| 2,228 | 1,434 | **3,662** | Revaluation | (379) | 8,607 | **8,228** |
| (614) | (43,501) | **(44,115)** | Disposals | (779) | - | **(779)** |
| **87,221** | **104,510** | **191,731** | **Net book value at 31 March** | **85,414** | **121,094** | **206,508** |

Movements in liabilities resulting from PFI or similar contracts are disclosed below:

| 2018/19 Council Dwellings £'000 | 2018/19 Other Land and Buildings £'000 | 2018/19 Total £'000 | | 2019/20 Council Dwellings £'000 | 2019/20 Other Land and Buildings £'000 | 2019/20 Total £'000 |
|---|---|---|---|---|---|---|
| (37,540) | (79,044) | **(116,584)** | Value at 1 April | (36,310) | (75,702) | **(112,012)** |
| 1,230 | 3,342 | **4,572** | Repayments made in year | 2,287 | 3,370 | **5,657** |
| **(36,310)** | **(75,702)** | **(112,012)** | **Value at 31 March** | **(34,023)** | **(72,332)** | **(106,355)** |

## 41. Private Finance Initiatives And Similar Contracts (contd.1)

### Future payments to be made

**Payments**

The Authority makes an agreed payment each year which is increased 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 contracts at 31st March (excluding any estimation of inflation and availability performance) are shown below.

| 2019/20 | Schools | | | Dwellings | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Repayment of Liability £'000 | Interest £'000 | Service Charge £'000 | Repayment of Liability £'000 | Interest £'000 | Service Charge £'000 | Repayment of Liability £'000 | Interest £'000 | Service Charge £'000 |
| Payment in 2020/21 | 3,882 | 6,222 | 3,747 | 2,214 | 3,123 | 6,898 | 6,096 | 9,345 | 10,645 |
| Payments within 2-5 yrs | 19,285 | 21,001 | 14,769 | 10,608 | 9,975 | 28,132 | 29,893 | 30,976 | 42,901 |
| Payments within 6-10 yrs | 28,172 | 14,984 | 16,542 | 15,540 | 5,371 | 29,542 | 43,712 | 20,355 | 46,084 |
| Payments within 11-15yrs | 19,332 | 5,497 | 8,833 | 5,352 | 883 | 13,680 | 24,684 | 6,380 | 22,513 |
| Payments within 16-20 yrs | 1,661 | 128 | 570 | 309 | 15 | 505 | 1,970 | 143 | 1,075 |
| **Total future payments (excluding any future indexation)** | **72,332** | **47,832** | **44,461** | **34,023** | **19,367** | **78,757** | **106,355** | **67,199** | **123,218** |

| 2018/19 | Schools | | | Dwellings | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Repayment of Liability £'000 | Interest £'000 | Service Charge £'000 | Repayment of Liability £'000 | Interest £'000 | Service Charge £'000 | Repayment of Liability £'000 | Interest £'000 | Service Charge £'000 |
| Payment in 2019/20 | 3,369 | 6,525 | 3,841 | 2,287 | 3,356 | 6,617 | 5,656 | 9,881 | 10,458 |
| Payments within 2-5 yrs | 18,169 | 22,623 | 14,383 | 9,521 | 10,949 | 28,335 | 27,689 | 33,572 | 42,719 |
| Payments within 6-10 yrs | 30,367 | 17,723 | 17,113 | 18,024 | 7,209 | 33,294 | 48,391 | 24,933 | 50,407 |
| Payments within 11-15yrs | 17,497 | 6,870 | 10,790 | 4,849 | 1,116 | 14,205 | 22,346 | 7,986 | 24,995 |
| Payments within 16-20 yrs | 6,301 | 616 | 2,176 | 1,629 | 93 | 2,922 | 7,930 | 710 | 5,098 |
| **Total future payments (excluding any future indexation)** | **75,703** | **54,358** | **48,303** | **36,310** | **22,723** | **85,373** | **112,012** | **77,082** | **133,676** |

## 42. Termination Benefits

Termination benefits paid to staff whose employment was terminated in 2019/20 totalled £2.5m (£1.409m in 2018/19).

Further details can be found in Note 33 (Officers' Remuneration).

## 43. Pension Schemes Accounted for as Defined Contribution Schemes

**Teachers**

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency. It provides teachers with defined benefits upon their retirement and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2019/20, the Authority paid £14.8m (£10.6m in 2018/19) to Teachers' Pensions (the government agency responsible for administering teachers pensions throughout England and Wales) in respect of teachers' pension costs. The Authority is responsible for all pension payments relating to added years it has awarded upon early retirement outside the terms of the teachers' pension scheme, together with the related increases. These costs are accounted for on a defined contribution basis.

**Public Health**

The Health and Social Care Act 2012 transferred responsibility for Public Health to Local Authorities with effect from 1 April 2013. As a result, the Council now employs staff who pay into the NHS Defined Benefit Scheme. The scheme is administered by the Department of Health but is accounted for on a defined contribution basis.

In 2019/20, the Authority paid £882k (£779k in 2018/19) to the Department of Health Pension scheme in respect of pension costs.

# 44. Defined Benefit Pension Schemes

## Participation in Pension Schemes

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

The Authority participates in post-employment schemes:

- The Local Government Pension Scheme, administered by London Borough of Newham - this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement - this is an unfunded benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.
- The Newham Pension Scheme is operated under the Regulatory Framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Investments and Accounts Committee of London Borough of Newham. Policy is determined in accordance with the Pension Fund Regulations. The Investment Managers of the Fund are appointed by the Committee. Members of the Committee are disclosed on www.newham.gov.uk.
- The principal risks of this defined benefit scheme are the longevity assumptions, statutory changes, structural changes (ie large-scale membership withdrawals), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by Statute as described in the Statement of Accounting Policies.

### 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 planned assets built up to meet these pension liabilities.

### Transactions Relating to Post-employment Benefits

The costs of retirement benefits are recognised in the reported cost of services when they are earned by employees, as opposed to when the benefits are eventually paid as pensions. However, the charge that the Authority is required to make against Council Tax is based upon the cash payable in the year, and therefore the true cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The transactions in this note have been recorded in the Comprehensive Income and Expenditure Statement and the General Fund and HRA balances (via the Movement in Reserves Statement) during the current year:

### Multi-employer defined benefit plan

Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The latest actuarial valuation of the Fund will be carried out as at 31 March 2019 and set contributions for the period from 1 April 2019 to 31 March 2024. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

On an Employer's withdrawal from the Fund, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulation 2013 which will determine the termination contribution due by the employer, on a set of assumptions deemed appropriate by the Fund Actuary.

In addition, as many unrelated employers participate in the Newham Pension Fund, there is an orphan liability risk. This is a risk where the employer leaves the Fund but does not have enough assets to cover their pension obligations and therefore the difference may fall on the remaining employers.

### McCloud Judgement - Post Balance Sheet Events

The potential impact of the McCloud & Sargeant judgement was taken into account last year, and is already included in the starting position for this report. The impact is therefore incorporated in the roll forward approach and is remeasured as at 31 March 2020.

## 44. Defined Benefit Pension Schemes (contd.1)

| | 2018/19 Funded | 2018/19 Unfunded | 2018/19 Total | 2019/20 Funded | 2019/20 Unfunded | 2019/20 Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | **£'000** | £'000 | £'000 | **£'000** |
| **Comprehensive Income and Expenditure Statement** | | | | | | |
| *Cost of Services:* | | | | | | |
| Service cost | 43,370 | (1,754) | **41,616** | 47,620 | (1,734) | **45,886** |
| Administration Expenses | 852 | - | **852** | 1,149 | | **1,149** |
| *Financing and Investment Income and Expenditure* | | | | | | |
| Net interest expense | 21,269 | 547 | **21,816** | 19,159 | 463 | **19,622** |
| **Total Post Employment Benefit Charged to the Surplus on the Provision of Services** | **65,491** | **(1,207)** | **64,284** | **67,928** | **(1,271)** | **66,657** |
| *Remeasurement in Other Comprehensive Income and Expenditure* | | | | | | |
| Return on Fund assets in excess of interest | (69,351) | - | **(69,351)** | 78,711 | | **78,711** |
| Change in financial assumptions | 94,446 | 689 | **95,135** | (181,802) | (977) | **(182,779)** |
| Change in demographic assumptions | (115,723) | (1,257) | **(116,980)** | (1,537) | 547 | **(990)** |
| Other actuarial (gains)/losses on assets | - | - | **-** | (10,737) | | **(10,737)** |
| Experience (gain)/loss on defined benefit obligation | - | - | **-** | (67,846) | (1,027) | **(68,873)** |
| Adjustment opening Pensions Reserve/liability | (8,442) | - | **(8,442)** | 70 | | **70** |
| **Total Remeasurements in Other Comprehensive Income and Expenditure** | **(99,070)** | **(568)** | **(99,638)** | **(183,141)** | **(1,457)** | **(184,598)** |

| **Movement in Reserves Statement** | 2018/19 Funded £,000s | 2018/19 Unfunded £,000s | 2018/19 **Total £,000s** | 2019/20 Funded £,000s | 2019/20 Unfunded £,000s | 2019/20 **Total £,000s** |
|---|---|---|---|---|---|---|
| Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits | (65,491) | 1,207 | **(64,284)** | (67,928) | 1,271 | **(66,657)** |
| *Actual amount charged against General Fund and HRA Balances for pensions in the year* | | | | | | |
| Employers' contributions payable to scheme | 27,092 | - | **27,092** | 29,765 | - | **29,765** |
| **Net adjustment between accounting basis and funding basis under regulations** | **(38,399)** | **1,207** | **(37,192)** | **(38,163)** | **1,271** | **(36,892)** |

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

| | 2018/19 Funded £,000s | 2018/19 Unfunded £,000s | 2018/19 **Total £,000s** | 2019/20 Funded £,000s | 2019/20 Unfunded £,000s | 2019/20 **Total £,000s** |
|---|---|---|---|---|---|---|
| Present value of the defined benefit obligation | 2,074,325 | 21,901 | **2,096,226** | 1,869,812 | 19,173 | **1,888,985** |
| Fair value of plan assets | (1,259,103) | - | **(1,259,103)** | (1,199,568) | - | **(1,199,568)** |
| **Net Liability in balance sheet** | **815,222** | **21,901** | **837,123** | **670,244** | **19,173** | **689,417** |

## 45. Defined Benefit Pension Schemes (contd.2)

| | 2018/19 | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| | Funded | Unfunded | **Total** | Funded | Unfunded | **Total** |
| | £'000 | £'000 | **£'000** | £'000 | £'000 | **£'000** |
| **Reconciliation of the Movements in the Fair Value of Fund Assets** | | | | | | |
| **Opening fair value of assets** | **(1,192,216)** | **-** | **(1,192,216)** | **(1,259,103)** | **-** | **(1,259,103)** |
| Adjustment opening Pensions Reserve/liabili | **(8,442)** | | | 70 | | 70 |
| Interest on assets | (29,813) | - | **(29,813)** | (29,959) | - | **(29,959)** |
| Return on assets less interest | (69,682) | - | **(69,682)** | 78,711 | - | **78,711** |
| Other actuarial gains | - | - | **-** | (10,737) | - | **(10,737)** |
| Administration expenses | 1,092 | - | **1,092** | 1,149 | - | **1,149** |
| Contributions by employer | (27,092) | - | **(27,092)** | (29,765) | - | **(29,765)** |
| Contributions by scheme participants | (8,340) | - | **(8,340)** | (9,232) | - | **(9,232)** |
| Estimated benefits paid | 53,256 | - | **53,256** | 56,578 | - | **56,578** |
| Settlement prices paid | 22,134 | - | **22,134** | 2,720 | - | **2,720** |
| **Closing fair value of assets** | **(1,259,103)** | **-** | **(1,259,103)** | **(1,199,568)** | **-** | **(1,199,568)** |

| | 2018/19 Funded | 2018/19 Unfunded | 2018/19 Total | 2019/20 Funded | 2019/20 Unfunded | 2019/20 Total |
|---|---|---|---|---|---|---|
| **Reconciliation of the Movements in the defined benefit obligation** | | | | | | |
| **Opening defined benefit obligation** | **2,068,109** | **23,676** | **2,091,785** | **2,074,325** | **21,901** | **2,096,226** |
| Current service cost | 45,595 | | **45,595** | 49,226 | | **49,226** |
| Interest cost | 51,082 | 547 | **51,629** | 49,118 | 463 | **49,581** |
| Change in financial assumptions | 94,443 | 689 | **95,132** | (181,802) | (977) | (182,779) |
| Change in demographic assumptions | (115,723) | (1,257) | **(116,980)** | (1,537) | 547 | (990) |
| Experience loss/(gain) | - | | **-** | (67,846) | (1,027) | **(68,873)** |
| Liabilities settled | (40,879) | (1,754) | **(42,633)** | (5,748) | (1,734) | **(7,482)** |
| Estimated benefits paid | (53,256) | | **(53,256)** | (56,578) | | **(56,578)** |
| Past service costs & curtailments | 16,614 | | **16,614** | 1,422 | | **1,422** |
| Contributions by scheme participants | 8,340 | | **8,340** | 9,232 | | **9,232** |
| **Closing defined benefit obligation** | **2,074,325** | **21,901** | **2,096,226** | **1,869,812** | **19,173** | **1,888,985** |

# 44. Defined Benefit Pension Schemes (contd.3)

**Assets**

The return on the Fund (on a bid value basis) for the year to 31 March 2020 is estimated to be 8%.

The estimated asset allocation is as follows:

| Employer asset share - bid value | 31 March 2019 | | 31 March 2020 | |
|---|---|---|---|---|
| | £'000 | % | £'000 | % |
| Equities | 721,006 | 57% | 662,495 | 55% |
| Gilts | 74,011 | 6% | 77,284 | 6% |
| Other Bonds | 101,477 | 8% | 84,831 | 7% |
| Property | 127,401 | 10% | 143,733 | 12% |
| Cash | 133,955 | 11% | 45,162 | 4% |
| Other | 101,253 | 8% | 186,063 | 16% |
| **Total** | **1,259,103** | **100%** | **1,199,568** | **100%** |

The following table provides a more detailed analysis of the Employer's assets as at 31 March 2020:

| | Quoted/Unquoted | 31 March 2020 |
|---|---|---|
| **Corporate Bonds** | | |
| UK | Quoted | 0.0% |
| Overseas | Quoted | 7.1% |
| **Equities** | | |
| UK | Quoted | 15.2% |
| Overseas | Quoted | 32.6% |
| **Property** | | |
| All | Unquoted | 12.0% |
| **Fixed Interest Government Securities** | | |
| UK | Quoted | 2.5% |
| Overseas | Quoted | 3.9% |
| **Others** | | |
| Absolute return portfolio | Unquoted | 8.9% |
| Hedge Fund | Unquoted | 4.2% |
| Private Equity | Unquoted | 3.3% |
| Private Debt | Unquoted | 6.6% |
| London CIV | Unquoted | 0.0% |
| Cash/Temporary Investments | Unquoted | 0.2% |
| Debtors | Unquoted | |
| Debtors | Unquoted | 0.1% |
| Creditors | Unquoted | 2.8% |
| Creditors | Quoted | 0.6% |
| | | 100.0% |
| **Total** | | **100.0%** |

# 44. Defined Benefit Pension Schemes (contd.4)

### 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 upon employee assumptions including mortality rates and salary levels.

The liabilities of the Local Government Pension Scheme and the Newham Pension Scheme have been estimated by Barnett Waddingham, an independent firm of actuaries. Pension Fund estimates are based upon the latest full valuation of the scheme as at 31 March 2020.

The significant assumptions used by the actuary are:

| | 2018/19 | | 2019/20 | |
|---|---|---|---|---|
| | Funded | Unfunded | Funded | Unfunded |
| **Life expectancy from age 65 years** | | | | |
| **Retiring today** | | | | |
| Males | 21.6 | 21.6 | 21.2 | 21.2 |
| Females | 24.0 | 24.0 | 23.9 | 23.9 |
| **Retiring in 20 years** | | | | |
| Males | 23.3 | n/a | 22.8 | n/a |
| Females | 25.8 | n/a | 25.5 | n/a |
| **Financial Assumptions** | | | | |
| RPI increases (%p.a.) | 3.4% | 3.4% | 2.7% | 3.0% |
| CPI increases (%p.a.) | 2.4% | 2.4% | 1.9% | 2.0% |
| Salary increases (%p.a.) | 3.9% | 0.0% | 2.9% | n/a |
| Pension increases (%p.a.) | 2.4% | 2.5% | 1.9% | 2.0% |
| Discount rate (%p.a.) | 2.4% | 2.2% | 2.4% | 2.3% |

An estimate of the Employer’s future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the “spot rate” approach adopted at the previous accounting date to reflect national auditor preferences.

Similarly to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. The approach has changed from the “spot rate” approach adopted at the previous accounting date to reflect national auditor preferences.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% p.a. below RPI i.e. 1.9% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods, recent independent forecasts and the duration of the Employer’s liabilities. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority’s proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue.

Salaries are assumed to increase at 1.0% p.a. above CPI. This differs from the salary increase assumption at the previous accounting date and has been updated in line with the most recent funding valuation.

## 44. Defined Benefit Pension Schemes (contd.5)

### Sensitivity analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions itemised in the previous table. The analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the unit credit method.

| | Impact on Defined Benefit Obligations | | |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Adjustment to discount rate** | +0.1% | 0.0% | -0.1% |
| Present value of total obligations | 1,834,184 | 1,869,812 | 1,906,168 |
| Projected service cost | 44,457 | 45,579 | 46,731 |
| **Adjustment to long term salary increase** | +0.1% | 0.0% | -0.1% |
| Present value of total obligations | 1,872,070 | 1,869,812 | 1,867,571 |
| Projected service cost | 45,579 | 45,579 | 45,579 |
| **Adjustment to pension increases and deferred revaluation** | +0.1% | 0.0% | -0.1% |
| Present value of total obligations | 1,904,037 | 1,869,812 | 1,836,234 |
| Projected service cost | 46,735 | 45,579 | 44,451 |
| **Adjustment to life expectancy assumption** | + 1 Year | None | - 1 Year |
| Present value of total obligations | 1,957,036 | 1,869,812 | 1,786,767 |
| Projected service cost | 47,149 | 45,579 | 44,061 |

### Risk Management

The Fund recognises that the inherent risks involved in many of its activities and its governance arrangements, described in the preceding section, are designed to ensure that risk management is undertaken at the highest level.

The Fund's approach to Risk Management is covered in the following policies:

- Investment Strategy Statement
- Funding Strategy Statement
- Socially Responsible Investment Policy
- Communications Policy
- Governance Policy

These are included within the Pension Fund Annual Report. In addition, risks are measured and managed via a central Risk Register which is continually revised and updated. The Risk Register is an addendum to the Investment Strategy Statement. Both the Pension Fund Annual Report and Investment Strategy Statement can be found at www.newham.gov.uk.

### Impact on the Authority's Cash Flows

The objective of the Scheme is that employers' contributions are maintained at a constant rate. The Authority has agreed a strategy with the Scheme's actuary to achieve funding level of 100% during the next 20 years. Funding levels are monitored on an annual basis. The latest actuarial valuation was carried out at March 2019 and the contributions payable by the participating employers were reviewed as part of that valuation.

## 45. Contingent Liabilities

The following organisations are admitted bodies of the pension fund have a guarantee in place with the Authority to guard against the possibility of being unable to meet their pension obligations. The Authority guarantees to meet the pension obligations of these admitted bodies in the event of default:

Active Newham
Better Together
Change, Grow, Live
Early Start
Enabled Living
The Good Support Company
iXact
London Network for Pest Solutions
Mint
Public Realm Services

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

Newham Council is an Authority defined by the Local Government Act 1972 as primarily providing statutory services to the local population on a not-for-profit basis. As such, few financial instruments are used by way of commercial business. However, the funding mechanism means that during the year, the Authority may hold substantial assets and liabilities. The Authority uses financial instruments to manage the risks arising from holding assets and liabilities.

The authority's activities expose it to a variety of financial risks, including:

**Credit Risk**: the possibilities that other parties might fail to pay amounts due to the authority.

**Liquidity Risk:** The possibility that the authority might not have funds available to meet its commitments to make payments.

**Market Risk**: the possibility that financial loss may arise for the authority as a result of changes in such measures as interest rates.

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

• by formally adopting the requirements of the Code of Practice;
• by approving annually in advance prudential and treasury indicators for the following three years limiting the Authority’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 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 Authority’s financial instrument exposure. Actual performance is also reported annually to Members.

The annual Treasury Strategy which incorporates the prudential indicators was approved by the Council on 18th March 2020 and the mid-year treasury Strategy was approved by Council on 20th January 2020 and is available on the Council website. The key limits within the Strategy were:
• The Authorised Limit for 2019/20 was set at £1,977m (*£1,827m 2018/19). This is the maximum limit of external borrowing or other long term liabilities
• The Operational Boundary was expected to be £1,875m (*£1,725m 2018/19). This is the expected level of debt and other long term liabilities
• The maximum amounts of net fixed and variable interest rate exposure were set at £1200m and £700m (£1200m and £700m 2018/19)

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

### Credit Risk

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

## 46. Nature and Extent of Risks Arising from Financial Instruments (contd.1)

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 and Standard and Poor's Ratings Services. The Annual Investment Strategy 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. An exception is made for part-nationalised banks. Additional selection criteria are also applied after this initial criterion is applied. Details of the Investment Strategy (part of the annual treasury management strategy mentioned above) can be found on the Council's website.

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

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £311.8m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2020 that this was likely to crystallise. The figures quoted below all represent principal balances only.

| 31-Mar-19 | | | 31-Mar-20 | |
|---|---|---|---|---|
| Long term | Short term | Credit Rating | Long term | Short term |
| £000s | £000s | | £000s | £000s |
| - | (30,000) | AAA | | (1,800) |
| - | (5,000) | AA- | | (3,000) |
| - | (92,000) | A+ | (15,000) | (90,000) |
| - | (10,000) | A | | (15,000) |
| - | - | A- | | 0 |
| (20,000) | (30,000) | BBB (UK government part owned) | | |
| (68,000) | (255,500) | Local authorities | (20,000) | (142,000) |
| - | (25,000) | Unrated -other | | (20,000) |
| (5,000) | - | Unrated Corporate Bonds | (5,000) | |
| **(93,000)** | **(447,500)** | Total Investments | **(40,000)** | **(271,800)** |

Using the expected credit loss model the calculated loss allowance for investments at amortised cost is negligible therefore having no impact on the carrying value of investments.

Credit risk arise from the Council's exposure to other debtors; this excludes monies from government and public institutions. Payments for services are either required in advance or due at the time the service is provided.

Write off of debtors is subject to Council procedures.

The Council Long term debtor is mainly in relation to lease agreements, Loans to subsidiary undertakings and shared equity interest. Shared equity interest has been carried at fair value and therefore no requirement to calculate an impairment allowance. The lease agreement has been reviewed using a simplied approach for calculating the expected credit loss. Due to the low level of risk the loss allowance has been based on a lifetime expected credit loss based on probability of repayment. The calculated loss allowance for lease receivables is negligible therefore having no impact on the carrying value. Credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

For loans provided to subsidiary undertakings, expected credit loss has been based on the Council agreeing to defer counterparty loan repayments for a period during which the Counterparty's liquidity position is constrained. The credit loss results from the opportunity cost of not being able to reinvest the deferred repayments until a later date. The calculated expected credit loss is negligible therefore having no impact on the carrying value.

Other collateral and soft loans balances have been reviewed for expected credit loss and have been assessed based on the simplified approach looking at probability of default which has resulted in no change in carrying value.

The debtor balances as per Note 22 have been reviewed for loss allowance, providing details of material balances. These debtors have been grouped into Housing, Adult Social Care and Other. For each category of debt there has been an assessment of recoverability based on past collection rates therefore using the probably matrix to determine the loss allowance.

## 46. Nature and Extent of Risks Arising from Financial Instruments (contd.2)

**Liquidity Risk**

The Authority 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. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at unfavourable interest rates. The Authority sets limits on the proportion of its fixed rate borrowing for specified periods. The strategy is to ensure that no more than:
(a) 90% of fixed interest rate loans are due to mature within a five year period; and
(b) 90% of variable interest loans are due to mature within a two year period.

The maturity analysis of the Authority's financial liabilities is as follows:

| | 31 March 2019 | 31 March 2020 |
|---|---|---|
| | **Carrying Amount £'000** | **Carrying Amount £'000** |
| Public Works Loans Board | 210,039 | 358,882 |
| Market debt | 687,656 | 490,418 |
| **Total** | **897,695** | **849,300** |

Maturity analysis of financial liabilities

| | 31 March 2019 | 31 March 2020 |
|---|---|---|
| | **£'000** | **£'000** |
| Less than 1 year | 342,224 | 153,119 |
| Between 1 and 2 years | 14,814 | 55,320 |
| Between 2 and 5 years | 68,596 | 25,737 |
| Between 5 and 10 years | 12,494 | 4,854 |
| More than 10 years | 459,567 | 610,270 |
| **Total** | **897,695** | **849,300** |

The Authority has a number of market Lender Option, Borrowers' Option (LOBO) loans within it's borrowing portfolio. As at the 31st March 2020 20% of the total portfolio was made up of LOBO debt.

Newham has 11 LOBO loans - they are by type and nominal value

| | 31 March 2020 |
|---|---|
| | **£000** |
| Vanilla LOBO (6) | 95,000 |
| Stepped LOBO (3) | 30,000 |
| Zero to Par LOBO (2) | 40,000 |
| Total | **165,000** |

The Authority has a number of market Lender Option, Borrowers' Option (LOBO) loans within its borrowing portfolio. The nature of LOBO agreements is that after an initial fixed period, at periodic intervals throughout the loan, the lender has the option of amending the interest rate. At this point, if the revised interest rate is deemed unacceptable by the Authority, as the borrower it has the option to repay the loan without penalty. To mitigate the risk of having to repay these loans ahead of the actual maturity date, the Authority keeps under review the potential for lenders to propose changes to the interest rate at the scheduled dates within each agreement. This is done through assessing the probability of the interest rates being revised both in the current market environment and during stressed market conditions. To date the probability of lenders seeking to revise interest rates on the Authority's LOBO loans has been low, although this may be influenced in the future by changes to the lenders appetite to reschedule their loan books.

## 46. Nature and Extent of Risks Arising from Financial Instruments (contd.3)

### Market Risk

Interest Rate Risk: The Authority is exposed to risks arising from movements in interest rates.

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

Borrowing at variable rates - the interest expense charged to the Surplus / Deficit on the Provision of Services will rise.

Borrowings at fixed rates - the fair value of the liabilities will fall.

Investments at variable rates - the interest income credited to the Surplus /Deficit on the Provision of Services will rise

Investments at fixed rates - the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus and Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivables on variable rate borrowings and investment will be posted to the Surplus / Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have quoted market prices will be reflected in Other Comprehensive Income and Expenditure.

The Treasury Management Strategy aims to mitigate these risk by setting an upper limit of £1,200m on net external debt that can be subject to fixed interest rates and £700m on net external debt subject to variable rates. At 31 March 2020 100% of the debt portfolio was held in fixed rate instruments.

Investments are also subject to movements in interest rates. The Authority is making use of money market funds which pay a variable rate of interest. This risk has to be balanced against actions taken to mitigate credit risk.

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

| | 2018/19 | 2019/20 |
|---|---|---|
| | £'000 | £'000 |
| Decrease in interest payable on variable rate borrowings | (1,500) | 0 |
| Increase in interest receivable on variable rate investments | (5,095) | (4,048) |
| **Impact on Comprehensive Income and Expenditure Statement** | **(6,595)** | **(4,048)** |

The approximate impact of a 1% fall in interest rates would be as shown above but with the movements being reversed. These assumptions are based on the same methodology as used in the ‘Fair Value’ disclosure note.

**Price Risk:** The Authority does not invest in equity shares and therefore is not subject to any price risk (i.e. the risk that the Authority will suffer loss as a result of adverse movements in the price of financial instruments). The Authority has investment in equity in relation to its own subsidiaries which is for the purpose of service delivery.

**Foreign Exchange Risk**: The Authority, has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

# 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 on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

| 2018/19 | | 2019/20 |
|---|---|---|
| **£'000** | | **£'000** |
| | **Income:** | |
| (81,281) | Rent from Dwellings (gross) | (83,553) |
| (2,677) | Rent from Other Properties (gross) | (1,476) |
| (9,405) | Tenant contributions to Services and Facilities | (8,459) |
| (6,562) | Leaseholder contributions to Services and Facilities | (7,039) |
| (7,540) | Government subsidy towards the financing of PFI Schemes | (7,315) |
| - | Contribution Towards Expenditure | (900) |
| **(107,465)** | **Total income** | **(108,742)** |
| | **Expenditure:** | |
| 20,983 | Repairs and Maintenance | 15,818 |
| 38,397 | Supervision and Management | 46,623 |
| 2,355 | Rent, rates, taxes and other charges | 2,947 |
| 20,277 | Depreciation and amortisation of non-current assets | 19,337 |
| 1,099 | Revaluation of non-current assets | 16,674 |
| 243 | Revenue expenditure funded from capital under statute | 105 |
| 200 | Debt Management Costs | 135 |
| 2,708 | Movement in Impairment Allowance | 1,287 |
| **86,262** | **Total expenditure** | **102,926** |
| **(21,203)** | **Net income of HRA services as included in whole Authority Comprehensive Income and Expenditure Statement** | **(5,816)** |
| 205 | HRA services share of Corporate and Democratic Core | 205 |
| **(20,998)** | **Net income of HRA services** | **(5,611)** |
| | **HRA share of the operating income and expenditure included in the whole Authority Comprehensive Income and Expenditure Statement:** | |
| 1,274 | Gain on sale of HRA non-current assets | 13,990 |
| 16,562 | Interest payable and similar charges | 59,537 |
| (4,355) | Movement on the fair value and income - Investment Properties | (717) |
| (857) | HRA Interest and investment income | (3,802) |
| (26,226) | HRA share of capital grants and contributions receivable | (18,806) |
| **(13,602)** | **Total** | **50,202** |
| **(34,600)** | **(Surplus) for year on HRA services** | **44,591** |

## Statement of Movement on the Housing Revenue Account

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| (34,600) | (Surplus) on the HRA Income and Expenditure Statement | 44,591 |
| 26,388 | Adjustments between accounting basis and funding basis under regulations | (54,544) |
| **(8,212)** | **Net increase before transfers to or from reserves** | **(9,953)** |
| (64,042) | Balance on the HRA as at the end of the previous reporting period | (72,254) |
| **(72,254)** | **Balance on the HRA as at the end of the current reporting period** | **(82,207)** |

## 47. Notes to the Movement on the Housing Revenue Account Statement

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| - | Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with Statute | (45,574) |
| (1,274) | Gain on sale of HRA non-current assets | (13,990) |
| (1,037) | HRA share of contributions to or from the Pensions Reserve | (1,387) |
| 7,228 | Transfers from capital adjustment account | (14,306) |
| 20,277 | Transfer from the Major Repairs Reserve | 20,769 |
| 1,194 | Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements | (56) |
| **26,388** | **Net additional amount required by statute to be debited or credited to the HRA balance for the year** | **(54,544)** |

Further details on the amounts required by Statute to be debited or credited to the HRA balance for the year can be found in Note 9.

## 48. Numbers and Types of Dwellings in the Housing Stock

| 2018/19 Number | Type of dwelling | 2019/20 Number |
|---|---|---|
| 3,185 | Low rise flats | 3,189 |
| 4,921 | Medium rise flats | 4,882 |
| 3,266 | High rise flats | 3,239 |
| 4,618 | Houses | 4,620 |
| **15,990** | **Total** | **15,930** |

## 49. Balance Sheet Valuation of HRA Assets

| 31 March 2019 £'000 | | 31 March 2020 £'000 |
|---|---|---|
| | **Operational assets** | |
| 1,203,227 | Dwellings | 1,190,676 |
| 83,910 | Other land and building | 108,323 |
| | **Non-Operational assets** | |
| 82,055 | Surplus assets not held for sale | 59,766 |
| - | Assets held for Sale | 6,136 |
| 35,419 | Investment properties | 33,897 |
| 360 | Assets Under Construction | 360 |
| **1,404,971** | | **1,399,158** |

## 50. Vacant Possession

As at 31st March 2020, the vacant possession value of dwellings within the HRA was £4.763 billion (£4.813 billion as at 31st March 2019). The difference between vacant possession value and the Balance Sheet value of dwellings within the HRA shows the economic cost to government of providing council housing at less than open market rents, net of the impairment to the value of the housing Stock.

## 51. Major Repairs Reserve

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.

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| **(70,629)** | **Balance at 1 April** | **(64,549)** |
| (16,037) | Depreciation: Stock | (16,167) |
| (4,240) | Non-stock | (3,170) |
| - | Additional Contribution to MRR | (1,432) |
| 26,357 | Major Repairs Reserve applied | 16,945 |
| **(64,549)** | **Balance at 31 March** | **(68,373)** |

## 52. Capital Expenditure and Financing

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| | **Expenditure** | |
| 36,861 | Council Dwellings, Land and other Property | 33,361 |
| | **Financing** | |
| (26,357) | Major Repairs Reserve | (16,945) |
| (6,167) | RTB Receipts | (3,138) |
| | Loans Fund | (10,961) |
| (4,337) | Capital Grants and Contributions | (2,317) |
| **(36,861)** | | **(33,361)** |

## 53. Capital Receipts

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| 25,104 | Sales of Council Dwellings | 20,389 |
| 8,288 | Sales of Land and Other Property | 996 |
| **33,392** | | **21,385** |

## 54. Depreciation and Amortisation

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| 16,037 | Dwellings | 16,167 |
| 3,083 | Other land and buildings | 2,752 |
| 1,157 | Surplus assets not held for sale | 418 |
| **20,277** | **Total** | **19,337** |

The total depreciation charge for Council assets during 2019/20 was £19.337m. This is £0.940m lower than 2018/19 and is linked to the in-year asset revaluations, which resulted in increasing useful life of many assets and thereby reducing their annual depreciation charge.

## 55. Impairment Losses

The Authority is required to disclose the value of impairment together with an explanation of any impairment losses in the financial year in respect of Land, Dwellings and Other Property within the Authority's HRA.

During 2019/20, there was no impairment losses recognised in the accounts (none in 2018/19).

## 56. Revenue Expenditure Funded from Capital Under Statute

This is expenditure which would be funded from revenue under normal accounting practice but is financed from capital resources under legislation. During 2019/20, HRA revenue expenditure funded from capital under statute totalled £0.105m (£0.243m in 2018/19).

## 57. Rent Arrears

The total gross rent arrears at 31 March 2020 was £11.176m, an increase of £1.921m (21%) from the balance of £9.255m at 31 March 2019. The Authority has made provision for possible uncollectable debts of £9.187m (£8.032m at 31 March 2019). The provision is based on the Authority's experience of write-offs over the last 5 years, known future debt to be written off and the estimated impact of future changes to the Housing Benefits system.

## Collection Fund 2019/20

The Collection Fund is an agent's statement that reflects the statutory obligation on the London Borough of Newham (as the billing authority) to maintain a separate Collection Fund. The statement shows the transactions of the Billing Authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. The surplus and deficit on the Collection Fund is shared between the preceptors: Central Government, Greater London Authority and London Borough of Newham. Any residual surplus or deficit at the end of the financial year relating to London Borough of Newham is taken into account in setting the level of Council Tax for the following year.

| 2018/19 | | | | | 2019/20 | | | |
|---|---|---|---|---|---|---|---|---|
| Council Tax £'000 | Business Rates £'000 | Business Rates Supp. £'000 | Total £'000 | | Council Tax £'000 | Business Rates £'000 | Business Rates Supp. £'000 | Total £'000 |
| | | | | **Income** | | | | |
| (100,484) | | | **(100,484)** | Income from Council Tax | (108,502) | | | **(108,502)** |
| | (151,131) | | **(151,131)** | Income from Business Rates | | (164,075) | | **(164,075)** |
| | (1,532) | | **(1,532)** | Transitional Relief - Business Rates | | 169 | | **169** |
| | | (4,990) | **(4,990)** | Business Rate Supplements | | | (5,006) | **(5,006)** |
| | | | | **Contributions towards previous years' Collection Fund deficit:** | | | | |
| | (945) | | **(945)** | Central Government | | 2,490 | | **2,490** |
| | (1,509) | | **(1,509)** | London Borough of Newham | | (4,337) | | **(4,337)** |
| | (2,575) | | **(2,575)** | Greater London Authority | | (921) | | **(921)** |
| **(100,484)** | **(157,692)** | **(4,990)** | **(263,166)** | **TOTAL INCOME** | **(108,502)** | **(166,674)** | **(5,006)** | **(280,182)** |
| | | | | **Expenditure** | | | | |
| | | | | **Precepts** | | | | |
| | | | **-** | Central Government | | 35,518 | | **35,518** |
| 72,811 | 95,503 | | **168,314** | London Borough of Newham | 79,764 | 68,194 | | **147,958** |
| 22,211 | 53,720 | | **75,931** | Greater London Authority | 25,290 | 38,359 | | **63,649** |
| | | | | **Business Rate Supplement** | | | | |
| | | 4,981 | **4,981** | Payment to Greater London Authority | | | 4,996 | **4,996** |
| | | 9 | **9** | Cost of collection | | | 10 | **10** |
| | | | | **Charges to Collection Fund** | | | | |
| 681 | 0 | | **681** | Write-offs of uncollectable amounts | 1,668 | 0 | | **1,668** |
| 346 | 572 | | **918** | Increase/(decrease) in bad debt provision | 846 | (278) | | **568** |
| | 7,439 | | **7,439** | Increase in provision for appeals | | 4,762 | | **4,762** |
| | 381 | | **381** | Cost of collection | | 373 | | **373** |
| | | | | **Other transfers** | | | | |
| | 1,634 | | **1,634** | Enterprise Zone | | 1,806 | | **1,806** |
| | | | | **Apportionment of previous year's estimated surplus** | | | | |
| | | | **-** | Central Government | | | | **-** |
| 5,000 | | | **5,000** | London Borough of Newham | 790 | | | **790** |
| 1,481 | | | **1,481** | Greater London Authority | 241 | | | **241** |
| **102,530** | **159,249** | **4,990** | **266,769** | **TOTAL EXPENDITURE** | **108,599** | **148,734** | **5,006** | **262,339** |
| **2,046** | **1,557** | **0** | **3,603** | **(Surplus)/Deficit arising during the year** | **97** | **(17,940)** | **0** | **(17,843)** |
| (2,514) | 2,008 | 0 | **(506)** | (Surplus)/Deficit b/f at 1 April | (468) | 3,565 | 0 | **3,097** |
| **(468)** | **3,565** | **0** | **3,097** | **(Surplus)/Deficit c/f at 31 March** | **(371)** | **(14,375)** | **0** | **(14,746)** |

## Notes to the Collection Fund

### 58. Calculation of the Council Tax Base

The Council Tax is calculated per equivalent Band D property. In order to determine the number of equivalent Band D properties, the Council Tax Base is calculated. All properties are categorised into one of eight bandings depending upon the valuation of the property. An adjustment is then made for properties that are subject to discounts such as single person or non-residency. The resulting number of properties per valuation banding is then adjusted to calculate the number of equivalent Band D properties, using a defined ratio. Finally the tax base is adjusted to reflect an anticipated collection rate of 96.80% for 2019/20.

| 2018/19 | | | Council Tax band | | | 2019/20 | | |
|---|---|---|---|---|---|---|---|---|
| Number of chargeable dwellings | Band D equivalent dwellings | Council tax payable | Band | Ratio to Band D | Property value £ | Number of chargeable dwellings | Band D equivalent dwellings | Council tax payable |
| 3,113 | 2,074 | 839.18 | A | 6/9 | up to 40,000 | 3,161 | 2,107 | 887.59 |
| 22,352 | 17,385 | 979.05 | B | 7/9 | 40,001 - 52,000 | 22,826 | 17,753 | 1,035.53 |
| 40,091 | 35,636 | 1,118.91 | C | 8/9 | 52,001- 68,000 | 41,103 | 36,536 | 1,183.46 |
| 17,936 | 17,936 | 1,258.77 | D | 1 | 68,001 - 88,000 | 18,983 | 18,983 | 1,331.38 |
| 3,047 | 3,725 | 1,538.49 | E | 11/9 | 88,001 - 120,000 | 3,623 | 4,428 | 1,627.24 |
| 668 | 966 | 1,818.22 | F | 13/9 | 120,001 - 160,000 | 953 | 1,377 | 1,923.11 |
| 139 | 232 | 2,097.95 | G | 15/9 | 160,001 - 320,000 | 179 | 298 | 2,218.98 |
| 14 | 29 | 2,517.54 | H | 2 | 320,001 and over | 15 | 31 | 2,662.77 |
| **87,360** | **77,983** | | | | | **90,843** | **81,514** | |
| | (2,495) | | | Less Allowance for Non-Collection | | | (2,608) | |
| | **75,488** | | | **Council Tax base** | | | **78,906** | |

### 59. Income from Business Rates

Under the arrangements for uniform business rates, the Council collects National Non-Domestic Rates (NNDR) or business rates for its area, based on local rateable values and multipliers set by Central Government. There are two multipliers:
(i) the small business multiplier was 49.1p (48.0p in 2018/19); and
(ii) the standard multiplier was 50.4p (49.3p in 2018/19).
The total amount, less reliefs and other reductions, is shared between the Department of Communities and Local Government, who receive 25% (2018/19 0%), and the London Borough of Newham and Greater London Authority, who retain 48% (2018/19 64%) and 27% (2018/19 36%) respectively.

The total business rateable value for Newham at 31 March 2020 was £405,238,419 (2018/19 £382,296,179).

# Pension Fund Accounts

# 2019/20 Pension Fund Accounts

| 2018/19 £'000 | | Notes | 2019/20 £'000 |
|---|---|---|---|
| | **Dealings with members, employers and others directly involved in the fund:** | | |
| 51,870 | Contributions | 7 | 56,167 |
| 2,857 | Individual transfers in from other pension funds | | 5,255 |
| **54,727** | | | **61,422** |
| (55,031) | Benefits | 8 | (59,283) |
| (4,438) | Payments to and on account of leavers | 9 | (8,537) |
| **(59,469)** | | | **(67,820)** |
| **(4,742)** | **Net withdrawals from dealing with members** | | **(8,624)** |
| (5,452) | Management expenses | 10 | (6,391) |
| **(10,194)** | **Net deductions including fund management expenses** | | **(15,022)** |
| | **Returns on investments** | | |
| 23,066 | Investment income | 11 | 28,249 |
| (323) | Taxes on income | | (229) |
| 95,176 | Profit and losses on disposal of investments and changes in the Market value of investments | 12 | (77,854) |
| **117,919** | **Net return on investments** | | **(49,834)** |
| **107,725** | **Net decrease in the assets available for benefits during the year** | | **(64,857)** |
| **1,328,286** | **Opening net assets of the Fund** | | **1,436,011** |
| **1,436,011** | **Closing net assets of the Fund** | | **1,371,154** |

# Net Asset Statement

| 2018/19 £'000 | | Notes | 2019/20 £'000 |
|---|---|---|---|
| 1,285,865 | Investment assets | 12 | 1,357,306 |
| (3,752) | Investment liabilities | | (32,177) |
| 102,568 | Cash deposits | | 46,497 |
| **1,384,681** | **Total invested assets** | | **1,371,626** |
| 53,193 | Current assets | 19 | 2,004 |
| (1,863) | Current liabilities | | (2,476) |
| **51,330** | **Net current assets** | | **(472)** |
| **1,436,011** | **Net assets of the Fund available to fund benefits at 31 March** | | **1,371,154** |

# Notes to the Pension Fund Accounts

## Note 1: Description of Fund

The London Borough of Newham Pension Fund (‘the Fund’) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Newham. The Local Authority is the reporting entity for this Fund.

The following description of the Fund is a summary only, for more detail reference should be made to the Fund’s Annual Report 2019/20.

### a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by the London Borough of Newham to provide pensions and other benefits for pensionable employees of the London Borough of Newham and a range of other scheduled and admitted bodies within the borough. Teachers are not members as they are included within other national pension schemes.

The Fund is overseen by the Pensions Committee (the Committee), of the London Borough of Newham supported by the Local Pension Board (‘the Board’) and day to day operations have been delegated to the Statutory Section 151 officer

### b) Membership

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

Organisations participating in the Fund include:

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

There are a total of 65 employer organisations (see note 17) within the Fund including the Local Authority itself; 55 employers have active members and 10 employers without active members. Membership details are as set out below:

| 31 March 2019 | Membership | 31 March 2020 |
|---|---|---|
| 51 | Number of employers with active members | 55 |
| | **NUMBER OF EMPLOYEES IN SCHEME** | |
| 5,558 | London Borough of Newham | 5,357 |
| 4,197 | Other employers | 4,017 |
| **9,755** | **Total** | **9,374** |
| | **NUMBER OF PENSIONERS** | |
| 7,257 | London Borough of Newham | 7,306 |
| 431 | Other employers | 454 |
| **7,688** | **Total** | **7,760** |
| | **NUMBER OF DEFERRED MEMBERS** | |
| 10,188 | London Borough of Newham | 10,297 |
| 1,426 | Other employers | 1,737 |
| **11,614** | **Total** | **12,034** |
| **29,057** | | **29,168** |

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are matched by employers contributions which are set based on triennial actuarial funding valuations. The last full valuation of the Fund was at 31 March 2019, employer contribution rates range from 12% to 28.1% of pensionable pay, the average employer rate is 17.5%.

### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

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

There are a range of other benefits provided including early retirement, disability pensions and death benefits. For more details, please refer to the Fund's scheme handbook available from http://www.yourpension.org.uk/handr/Newham-Publications.aspx.

## Note 2: Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its year-end position as at 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* ("the code") which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20 by the Pension Fund.

The accounts report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take account of the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose (see Note 18).

The accounts have been prepared on a going concern basis.

# Note 3: Summary of Significant Accounting Policies

## Fund account – revenue recognition

### a) Contribution income

Normal contributions are accounted for on an accruals basis as follows;

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.

- Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contribution in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial assets.

### b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in.

### c) Investment income

- Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

- 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.

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

- Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

## Fund account – expense items

### d) Benefits payable

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

### e) Taxation

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

### f) Management expenses

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

**Administrative expenses**

All staff costs of the pension administration team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

**Oversight and governance costs**

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

**Investment management expenses**

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

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

Where an investment manager's fee note has not been received by the year end date, an estimate based upon the Market value of their mandate as at the end of the year is used for inclusion in the Fund account. In 2019/20 £0.793m of fees are based on such estimates (2018/19 £0.861m).

Private Equity management fees are estimated by taking a portion of the total management fees of the private equity partnership based on the percentage of the Fund holdings with the partnership. In 2019/20 £0.335m of fees is based on such estimates (2018/19: £0.548m).

**Net assets statement**

### g) Financial assets

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

The values of investments as shown in the NAS have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 14). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

### h) Foreign currency transactions

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

### i) Derivatives

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

### j) Cash and cash equivalents

Cash comprises cash in hand in terms of temporary deposits, amounts held by the Fund's external managers and invested in money market funds.

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

### k) Financial liabilities

A financial liability is recognised in the NAS on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the Fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e. the amount carried in the NAS is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

### l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the NAS (Note 18).

### m) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the fund. AVCs are not included in the accounts in accordance with section 4(1) (b) of The LGPS (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 20). The AVC provider is Clerical Medical and contributions are also collected for life assurance policies provided by Utmost Life and Pensions (previously managed by Equitable Life).

### n) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

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

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

## Note 4: Critical judgements in applying accounting policies

**Pension fund liability**

The liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised (see Note 18).

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

## Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported. Estimates and assumptions are made taking into account historical experience, current trends and future expectations. The items in the NAS for which there is a significant risk of material adjustment in the following year are as follows.

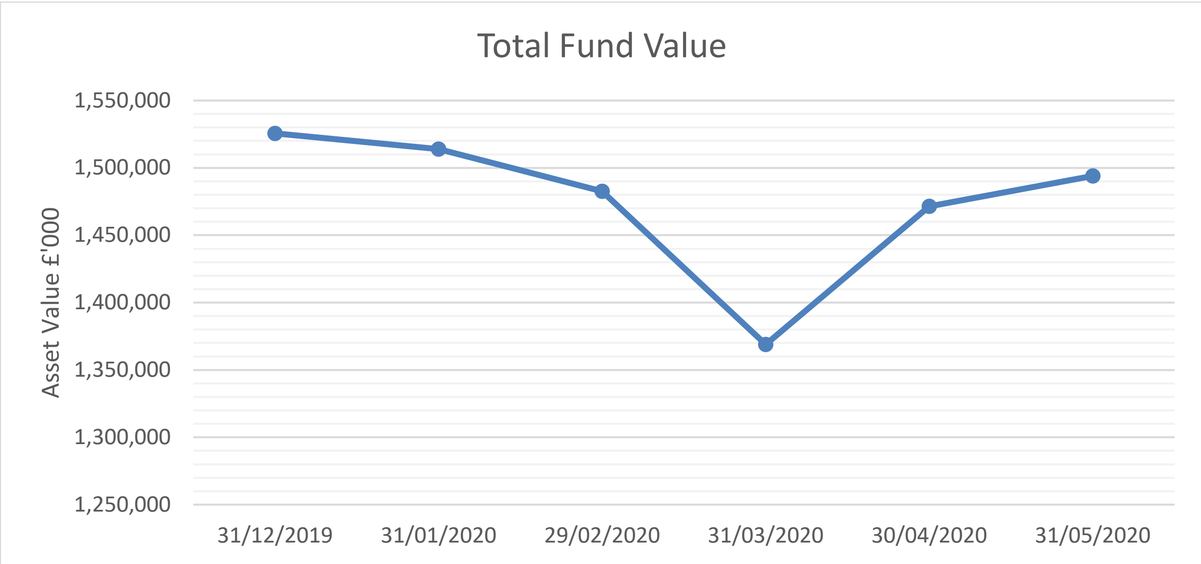
| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| **Actuarial present value of promised retirement benefits (Note 18)** | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates, returns on fund assets and the impact of the judgement regarding age discrimination case in the Fire Service and Judiciary pension schemes, referred as McCloud Judgement. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. | The effects on the present value of total pension obligation in individual assumptions can be measured. For instance:<br>• a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £43m<br>• a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £3m, and<br>• a one year increase in assumed life expectancy would increase the liability by approximately £98m. |
| **Covid-19** | Prior to the COVID-19 pandemic, the Fund had made significant gains with the value reaching £1.49Bn as at 29 February 2020.<br>The pandemic has created market volatility and economic uncertainty affecting the value of the assets in the Fund.<br>There may also be an impact on the pension liabilities in the Fund, for example if the longevity of members differs from that in the actuary's assumptions.<br>At this time, it is too early to determine the full impact that the pandemic will have on the Fund. | Sensitivity analysis of the valuation of unquoted assets (see Note 16).<br><br>The valuation results and employer contributions were assessed as at 31 March 2019. Employer contributions have not been revisited but the position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively. |

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| **Private equity, private debt and real assets investments (Note 14)** | Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines 2012*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private equity investment in the financial statements is £196m. There is a risk that this investment may be under or overstated in the accounts. |
| **Diversified alternative funds (Note 14)** | The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total diversified alternative fund value in the financial statements is £58m. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 5% around the net asset values on which the hedge fund of funds valuation is based. This equates to a tolerance of +/- £2.9m. |

## Note 6: Events after the Reporting Date

The World Health Organisation (WHO) declared a COVID 19 pandemic on 11 March 2020. This caused a world-wide public health emergency and significantly impacted global markets resulting in increased market volatility.

The impact on global markets was at its most severe around 31 March 2020 amid considerable uncertainty about the scale of the problem and ability of the Governments of major economies to implement effective policy responses. However, there has since been a strong recovery in markets and as most of the Fund assets are held in listed assets such as equities and fixed income there has been a strong recovery in Fund values as illustrated in the graph below in the period 31/12/2019 through to 31/05/2020.




Publication of valuation data released by investment managers of illiquid assets (25% of the investment portfolio valuation at 31 March 2020) lag the accounting end date by one quarter and so impact of the pandemic on their valuations does not feature in these financial statement. However given the recovery that has taken place subsequently and ongoing volatility of assets, COVID-19 is considered a non-adjusting event.

## Note 7: Contributions Receivable

| 2018/19 £'000 | By Category | 2019/20 £'000 |
|---|---|---|
| **12,640** | **Employees contributions** | **13,468** |
| | Employers contributions: | |
| 28,077 | Normal contributions | 29,495 |
| 9,583 | Deficit recovery contributions | 11,364 |
| 1,570 | Augmentation contributions | 1,840 |
| **39,230** | **Total Employers contributions** | **42,699** |
| **51,870** | **Total** | **56,167** |

| 2018/19 £'000 | By Authority | 2019/20 £'000 |
|---|---|---|
| 35,041 | Administering Authority | 38,134 |
| 6,755 | Admitted Body | 6,756 |
| 10,074 | Scheduled Body | 11,277 |
| **51,870** | **Total** | **56,167** |

## Note 8: Benefits Payable

| 2018/19 £'000 | By Category | 2019/20 £'000 |
|---|---|---|
| (44,052) | Pensions | (46,698) |
| (9,940) | Commutation and lump sum retirement benefits | (11,100) |
| (1,039) | Lump sum death benefits | (1,485) |
| **(55,031)** | **Total** | **(59,283)** |

| £'000 | By Authority | £'000 |
|---|---|---|
| (52,129) | Administering Authority | (54,118) |
| (927) | Admitted bodies | (2,590) |
| (1,975) | Scheduled bodies | (2,575) |
| **(55,031)** | **Total** | **(59,283)** |

## Note 9: Payments to and on account of leavers

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| (321) | Refunds to members leaving service | (545) |
| (4,117) | Individual transfers | (7,992) |
| **(4,438)** | **Total** | **(8,537)** |

## Note 10: Management Expenses

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| (630) | Administrative costs | (670) |
| (4,304) | Investment management expenses | (7,314) |
| (518) | Oversight and governance costs | (640) |
| **(5,452)** | **Total** | **(6,391)** |

## Note 10a: Investment Management Expenses

Investment management expenses are further analysed below in line with the CIPFA Guidance *Accounting for Local Government Pension Scheme Management Expenses (2016).*

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| (4,026) | Management fees* | (5,850) |
| (145) | Custody fees | (150) |
| (133) | Transaction fees* | (1,314) |
| **(4,304)** | **Total** | **(7,314)** |

* The new cost transparency initiative provides an industry standard for the recording and reporting of investment expenses. This enables the Fund to provide greater cost analysis and is reflected in the increased figures on investment expenses when compared to the previous year. See note 3 (f) investment management expenses.

## Note 10b: External Audit Costs

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| (16) | Payable in respect of external audit* | (60) |
| **(16)** | **Total** | **(60)** |

* 2019/20 was a triennial valuation year which requires a great deal of membership analysis and actuary estimation, therefore addition audit work to test assumptions is undertaken.

## Note 11: Investment Income

| 2018/19 £'000 | | 2019/20 £'000 |
|---|---|---|
| 2,575 | Fixed interest unit trust | 2,466 |
| 9,208 | Equity dividends | 9,028 |
| 3,489 | Pooled property investments | 4,142 |
| 3,353 | Pooled fixed income | 3,230 |
| 3,323 | Private debt | 5,693 |
| 4 | Real assets | 2,581 |
| 347 | Diversified alternatives | 407 |
| 767 | Interest on cash deposits | 701 |
| **23,066** | **Total** | **28,249** |

## Note 12: Reconciliation of Movements in Investments and Derivatives

| | Market value as at 31 March 2019 £'000 | Purchases during the year and derivative payments £'000 | Sales during the year and derivative receipts £'000 | Change in Market value during the year £'000 | Market value as at 31 March 2020 £'000 |
|---|---|---|---|---|---|
| Equities | 401,854 | 89,912 | (70,551) | (61,637) | 359,578 |
| Fixed interest securities | 84,219 | 34,824 | (34,719) | 8,918 | 93,242 |
| Pooled investments | 456,681 | 23,368 | - | (29,995) | 450,054 |
| Pooled property investments | 144,973 | 22,750 | (7,286) | 4,042 | 164,479 |
| Private equity/debt & real assets | 135,036 | 68,285 | (14,781) | 7,456 | 195,996 |
| Diversified alternatives | 58,329 | 13,495 | (10,689) | (3,598) | 57,537 |
| London collective investment vehicle | 150 | - | - | - | 150 |
| | **1,281,242** | **252,634** | **(138,026)** | **(74,814)** | **1,321,036** |
| Derivative contracts: | | | | | |
| Purchased/Written options | - | - | - | 10,103 | 10,103 |
| Forward currency contracts | 936 | 9,586 | (5,892) | (13,957) | (9,327) |
| | **1,282,178** | **262,220** | **(143,918)** | **(78,668)** | **1,321,812** |
| **Other Investment balances:** | | | | | |
| Cash deposits | 102,568 | | | 967 | 46,497 |
| Investment income due | 2,534 | | | - | 2,589 |
| Amount receivable for sales of investments | 854 | | | (8) | 1,828 |
| Amounts payable for purchases of investments | (3,457) | | | 34 | (1,100) |
| Spot FX Contracts | 4 | | | (179) | - |
| | **1,384,681** | | | **(77,854)** | **1,371,626** |

| | Market value as at 31 March 2018 £'000 | Purchases during the year and derivative payments £'000 | Sales during the year and derivative receipts £'000 | Change in Market value during the year £'000 | Market value as at 31 March 2019 £'000 |
|---|---|---|---|---|---|
| Equities | 476,499 | 101,981 | (250,584) | 73,958 | 401,854 |
| Fixed interest securities | 45,546 | 69,775 | (35,111) | 4,009 | 84,219 |
| Pooled investments | 424,129 | 27,328 | - | 5,224 | 456,681 |
| Pooled property investments | 131,197 | 10,727 | (7,171) | 10,220 | 144,973 |
| Private equity/debt & real assets | 65,404 | 77,012 | (13,740) | 6,360 | 135,036 |
| Diversified alternatives | 62,883 | 25,138 | (34,263) | 4,571 | 58,329 |
| London collective investment vehicle | 150 | - | - | - | 150 |
| | **1,205,808** | **311,961** | **(340,869)** | **104,342** | **1,281,242** |
| Derivative contracts: | | | | | |
| Forward currency contracts | 3,991 | 6,637 | (2,353) | (7,339) | 936 |
| | **1,209,799** | **318,598** | **(343,222)** | **97,003** | **1,282,178** |
| **Other Investment balances:** | | | | | |
| Cash deposits | 74,768 | | | (1,150) | 102,568 |
| Investment income due | 2,589 | | | - | 2,534 |
| Amount receivable for sales of investments | 40,536 | | | (278) | 854 |
| Amounts payable for purchases of investments | (720) | | | (159) | (3,457) |
| Spot FX Contracts | (289) | | | (240) | 4 |
| | **1,326,683** | | | **95,176** | **1,384,681** |

## Note 12b: Analysis of Investments

| Market value as at 31 March 2019 £'000 | Analysis of Investments | Market value as at 31 March 2020 £'000 |
|---|---|---|
| | **Equities** | |
| 47,346 | UK quoted | 32,663 |
| 354,508 | Overseas quoted | 326,915 |
| **401,854** | | **359,578** |
| | **Fixed interest securities** | |
| 34,192 | UK public sector quoted | 34,761 |
| 50,027 | Overseas public sector quoted | 58,481 |
| **84,219** | | **93,242** |
| | **Pooled funds - additional analysis** | |
| 182,882 | UK Equity unit trusts | 176,122 |
| 115,473 | Overseas fixed interest unit trusts | 131,838 |
| 136,592 | Overseas equity unit trusts | 119,883 |
| 21,734 | Overseas managed alternatives | 22,211 |
| **456,681** | | **450,054** |
| | **Pooled property investments** | |
| 79,302 | UK pooled property investments | 82,635 |
| 65,671 | Overseas pooled property investments | 81,844 |
| **144,973** | | **164,479** |
| | **Private equity/debt & real assets** | |
| 39,965 | Overseas private equity | 45,001 |
| 55,902 | Private debt | 90,086 |
| 39,169 | Real assets | 60,908 |
| **135,036** | | **195,995** |
| | **Diversified alternatives** | |
| 58,329 | Diversified alternatives | 57,537 |
| **58,329** | | **57,537** |
| | **London collective investment vehicle** | |
| 150 | London collective investment vehicle | 150 |
| **150** | | **150** |
| | **Cash and cash equivalents** | |
| 19,267 | UK Cash and Bank Deposits | 9,072 |
| 22,301 | Overseas Cash and Bank Deposits | 7,909 |
| - | Variation Margin account | 1,076 |
| 61,000 | Temporary Deposits | 28,440 |
| **102,568** | | **46,497** |

| Market value as at 31 March 2019 £'000 | Analysis of Investments | Market value as at 31 March 2020 £'000 |
|---|---|---|
| | **Other investment assets** | |
| 1,229 | Forward currency contracts | 31,854 |
| 4 | Spot FX contracts | - |
| 2,535 | Investment income due | 2,589 |
| 854 | Amount receivable for sales | 1,828 |
| **4,622** | | **36,271** |
| | **Investment liabilities** | |
| (295) | Derivative liabilities | (31,077) |
| (3,457) | Amounts payable for purchases | (1,100) |
| **(3,752)** | | **(32,177)** |
| **1,384,681** | **Total investment assets** | **1,371,626** |

## Note 12c: Investments analysed by Fund manager

| Market value as at 31 March 2019 £'000 | % | Fund manager | % | Market value as at 31 March 2020 £'000 |
|---|---|---|---|---|
| | | *Investments managed outside of the London CIV asset pool* | | |
| 163,925 | 11.8 | Aberdeen Standard | 12.4 | 169,651 |
| 16,430 | 1.2 | Arcmont (formally Bluebay) | 2.0 | 29,170 |
| 22 | - | Baring | - | 21 |
| 7,278 | 0.5 | Brightwood | 1.8 | 25,207 |
| 3,919 | 0.3 | Brockton | 0.5 | 6,348 |
| 141,591 | 10.2 | CBRE | 11.6 | 158,745 |
| 31,835 | 2.3 | Fiera Capital | 3.9 | 52,828 |
| 50,925 | 3.7 | HarbourVest | 3.6 | 49,530 |
| 61,000 | 4.4 | In-house temporary cash deposits | 2.1 | 28,440 |
| 7,342 | 0.5 | Kgal Capital | 0.6 | 8,609 |
| 150 | - | London Collective Investment Vehicle | - | 150 |
| 417,011 | 30.1 | Longview | 26.6 | 364,188 |
| 21,734 | 1.6 | Man FRM | 1.6 | 22,211 |
| 65,488 | 4.7 | Morgan Stanley | 4.3 | 58,762 |
| 3,017 | 0.2 | Northern Trust cash deposits | 0.1 | 1,637 |
| - | - | Payden & Rygel | 1.3 | 18,017 |
| 33,052 | 2.4 | Permira | 2.7 | 37,676 |
| 35,295 | 2.6 | River & Mercantile | 2.9 | 39,626 |
| 5,189 | 0.4 | Robeco | 0.4 | 4,801 |
| | | *Investments aligned with London CIV asset pool* | | |
| 319,478 | 23.1 | Legal and General (LGIM) | 21.6 | 296,009 |
| **1,384,681** | **100** | **Total** | **100** | **1,371,626** |

## Individual investments exceeding 5% of net assets

| | Market value as at 31 March 2019 | % of total fund | Market value as at 31 March 2020 | % of total fund |
|---|---|---|---|---|
| | £'000 | % | £'000 | % |
| Aberdeen World Opportunistic Bond | 110,284 | 7.97 | 109,018 | 7.95 |
| LGIM - <15YR Index-linked gilts | 81,244 | 5.87 | 84,549 | 6.16 |
| CBRE Global Alpha Fund | - | - | 69,062 | 5.04 |
| | **191,528** | | **262,629** | |

## Note 12c: Stock Lending

The Fund does not carry out stock lending directly, and is an investor of a pooled fund with the passive equity manager, LGIM, who carry out stock lending as part of the Fund's activities. Stock Lending occurs in limited number of overseas equities index funds.

The Stock Lending programme is managed and administered by the custodian of the funds (Citibank) within the risk control parameters set by LGIM. The programme has been operating for over 10 years and enjoys an indemnity from Citibank. Stock lending is only undertaken with counterparties who have satisfied the requirements in terms of market capability and minimum credit standing.

All income arising from stock lending less the custodian/administrator's costs are credited to the Funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2020, the value of quoted equities on loan was £120m (2018/19: £137m). These equities continue to be recognised in the Fund's financial statements.

## Note 13: Analysis of Derivatives

**Objectives and policies for holding derivatives**

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

The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Aberdeen Standard, Morgan Stanley and River and Mercantile. A substantial increase is attributed to the risk overlay solution which has been provided by River and Mercantile. A breakdown of forward contracts held by the Fund as at 31 March 2020 is given below:

**Open forward currency contracts**

| Settlements | Currency bought | Local value | Currency sold | Local value | Asset value | Liability value |
|---|---|---|---|---|---|---|
| | | **000** | | **000** | **£'000** | **£'000** |
| Up to one month | GBP | 59,406 | USD | (77,728) | 58 | (3,331) |
| Up to one month | USD | 3,774 | GBP | (3,022) | 64 | (43) |
| One to six months | USD | 5,238 | GBP | (4,467) | 16 | (264) |
| One to six months | GBP | 150,562 | USD | (190,853) | 1,467 | (4,650) |
| One to six months | GBP | 51,878 | EUR | (61,466) | 94 | (2,667) |
| One to six months | EUR | 1,598 | GBP | (1,488) | - | (72) |
| **Open forward currency contracts at 31 March 2020** | | | | | **(1,699)** | **(11,027)** |
| **Net forward currency contracts at 31 March 2020** | | | | | | **(9,328)** |

**Prior year comparative**

| | | |
|---|---|---|
| Open forward currency contracts at 31 March 2019 | **1,229** | **(295)** |
| Net forward currency contracts at 31 March 2019 | | **934** |

## Note 14: Fair Value - Basis of Valuation

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| Market quoted investments | Level 1 | Published bid market price ruling on the final day of accounting period | Not required | Not required |
| Quoted bonds | Level 1 | Market value based on current yields | Not required | Not required |
| Exchange traded pooled investments | Level 1 | Closing bid value on published exchanges | Not required | Not required |
| Overseas bond options | Level 2 | Fixed income securities are priced based on evaluated prices provided by independent pricing services. | Evaluated price feeds | Not required |
| Pooled investments - unit trusts | Level 2 | Closing bid price where bid and offer are published | NAV-based pricing set on a forward pricing basis | Not required |
| Structured equity | Level 2 | Estimated valuation reported by counterparty | Market information such as interest rates, equity values, implied volatility, implied dividends | Reported values are estimates and do not represent trading value to enter into or close a position. |
| Pooled investments-property funds | Level 3 | Closing bid price where bid and offer are published | NAV-based pricing set on a forward pricing basis | Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts. |
| Pooled investments-hedge funds | Level 3 | Closing bid price where bid and offer are published | NAV-based pricing set on a forward pricing basis | Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund’s own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts. |
| Private (Unquoted) equity / debt and real assets | Level 3 | Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)* | • Earnings before interest, tax, depreciation and amortisation multiple<br>• Revenue multiple<br>• Discount for lack of marketability<br>• Control premium | Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited 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 2020.
The figures set out below are our assessment (rounded for simplicity) of the 1 year volatility for the asset classes held. Markets experienced significant levels of volatility in the months leading up to 31 March 2020 and the valuation ranges allow for that heightened volatility. However, in the longer-term, we expect these ranges to return to levels similar to those shown in last year's accounts.

| Description of asset | Assessed valuation range (+/-) | Value as 31 March 2020 | Value on increase | Value on decrease |
|---|---|---|---|---|
| | | £'000 | £'000 | £'000 |
| Pooled investments-hedge funds | 15% | 23,080 | 26,542 | (19,618) |
| Private equity | 15% | 45,001 | 51,751 | (38,251) |
| Property funds | 20% | 128,942 | 154,730 | (103,153) |
| Private debt* | 20% | 90,086 | 108,103 | (72,069) |
| Real assets** | 10% | 60,908 | 66,999 | (54,818) |
| **Total** | | **348,017** | **408,125** | **(287,909)** |

*Private debt is combined totals of the following managers; Arcmont , Brightwood & Permira
**Real assets is combined totals of the following managers; Fiera & KGAL

## Note 14a: Fair Value Hierarchy

Assets and liabilities have been classified three levels, according to the quality and reliability of information used to determine fair values.

**Level 1 –**where the fair values are derived from adjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

**Level 2 –** Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

**Level 3 –** Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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

| Values at 31 March 2020 | Quoted market price Level 1 £'000 | Using observable inputs Level 2 £'000 | With significant observable inputs Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Financial assets at fair value through profit and loss | 391,470 | 595,384 | 348,017 | 1,334,871 |
| Assets at amortised cost | 65,359 | 3,573 | - | 68,932 |
| Financial liabilities at fair value through profit and loss | - | (32,177) | - | (32,177) |
| **Net financial assets** | **456,829** | **566,780** | **348,017** | **1,371,626** |

| Values at 31 March 2019 | Quoted market price Level 1 £'000 | Using observable inputs Level 2 £'000 | With significant observable inputs Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Financial assets at fair value through profit and loss | 435,039 | 577,761 | 269,676 | 1,282,476 |
| Assets at amortised cost | 103,178 | 2,778 | - | 105,956 |
| Financial liabilities at fair value through profit and loss | - | (3,751) | - | (3,751) |
| **Net financial assets** | **538,217** | **576,788** | **269,676** | **1,384,681** |

## Note 14b: Reconciliation of Fair Value Measurements within Level 3

| | Market value as at 31/03/2019 £'000 | Transfers in/out of level 3 £'000 | Purchases £'000 | Sales £'000 | Unrealised gains (losses) £'000 | Realised gains (losses) £'000 | Market value as at 31/03/2020 £'000 |
|---|---|---|---|---|---|---|---|
| Pooled investments-hedge funds | 23,383 | - | 5,130 | (5,401) | (686) | 654 | 23,080 |
| Private equity | 39,965 | - | 6,670 | (7,809) | 1,342 | 4,833 | 45,001 |
| Property funds | 111,257 | - | 62,962 | (49,510) | 3,320 | 913 | 128,942 |
| Private debt | 55,902 | - | 42,147 | (6,681) | (1,952) | 670 | 90,086 |
| Real assets | 39,169 | - | 19,468 | (291) | 2,579 | (17) | 60,908 |
| **Total** | **269,676** | - | **136,377** | **(69,692)** | **4,603** | **7,054** | **348,017** |

* table does not add through due to rounding

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the Market value of investments line of the Fund of account.

## Note 15: Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement heading.

| Market value as at 31 March 2019 | | | | Market value as at 31 March 2020 | | |
|---|---|---|---|---|---|---|
| **Fair value through profit and loss £'000** | **Assets at amortised cost £'000** | **Liabilities at amortised cost £'000** | | **Fair value through profit and loss £'000** | **Assets at amortised cost £'000** | **Liabilities at amortised cost £'000** |
| | | | **Financial assets** | | | |
| 401,854 | - | - | Equities | 359,578 | - | - |
| 84,219 | - | - | Fixed Interest Securities | 93,242 | - | - |
| 456,681 | - | - | Pooled funds | 450,054 | - | - |
| 144,973 | - | - | Pooled property Investments | 164,479 | - | - |
| 135,036 | - | - | Private equity/debt & real assets | 195,995 | - | - |
| 58,329 | - | - | Diversified alternatives | 57,537 | - | - |
| 150 | - | - | London collective investment vehicle | 150 | - | - |
| - | 153,286 | - | Cash and cash equivalents | - | 46,531 | - |
| 1,229 | - | - | Derivatives | 31,854 | - | - |
| 4 | - | - | Spot currency contracts | - | - | - |
| 2,534 | - | - | Loans and receivables | 2,589 | - | - |
| 854 | - | - | Amounts receivable for sales | 1,828 | - | - |
| - | 568 | - | Sundry debtors and prepayments | - | 854 | - |
| **1,285,863** | **153,854** | **-** | **Total Financial Assets** | **1,357,306** | **47,385** | **-** |
| | | | **Financial liabilities** | | | |
| (295) | - | - | Derivatives | - | - | (31,077) |
| - | - | (1,863) | Sundry creditors | - | - | (2,476) |
| - | - | (3,457) | Spot currency contracts | - | - | (1,100) |
| **(295)** | **0** | **(5,320)** | **Total Financial liabilities** | **-** | **-** | **(34,635)** |
| **1,285,568** | **153,854** | **(5,320)** | **Total** | **1,357,306** | **47,385** | **(34,635)** |

## Note 15a: Net Gains and Losses on Financial Instruments

| 31 March 2019 £'000 | | 31 March 2020 £'000 |
|---|---|---|
| | **Financial Assets** | |
| 104,340 | Fair value through profit and loss | (74,814) |
| - | Loans and receivables | 1,002 |
| | **Financial Liabilities** | |
| (7,339) | Fair value through profit and loss | (3,854) |
| (1,825) | Loans and receivables | (188) |
| **95,176** | **Total** | **(77,854)** |

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.

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

## Note 16: Nature and Extent of Risks arising from Financial Instruments

### Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### Market risk

Market risk is the risk of loss emanating from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.
In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis, and manage any identified risk in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter (OTC) equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

### 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 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. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

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

**Other price risk – sensitivity analysis**

In consultation with its investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for 2019/20, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

In light of the COVI-19 pandemic we have increased the sensitivity as advised by investment advisor to reflect the market movement.

| Asset type | Movement % | Market value as at 31 March 2020 £'000 | Movement on increased value £'000 | Movement on decreased value £'000 |
|---|---|---|---|---|
| Equities | 20 | 359,578 | 431,494 | 287,662 |
| Fixed interest securities | 20 | 93,242 | 111,890 | 74,594 |
| Pooled funds | 20 | 450,054 | 540,065 | 360,043 |
| Pooled property investments | 20 | 164,479 | 197,375 | 131,583 |
| Private equity | 15 | 45,001 | 51,751 | 38,251 |
| Private debt | 20 | 90,086 | 108,103 | 72,069 |
| Real assets | 10 | 60,908 | 66,999 | 54,817 |
| Diversified alternatives | 15 | 57,537 | 66,168 | 48,906 |
| London collective investment vehicle | 20 | 150 | 180 | 120 |
| Cash and cash equivalents | 0 | 46,497 | 46,497 | 46,497 |
| Other investment assets | 0 | 36,271 | 36,271 | 36,271 |
| Investment liabilities | 0 | (32,177) | (32,177) | (32,177) |
| **Total Investment assets** | | **1,371,626** | **1,624,616** | **1,118,636** |

| Asset type | Movement % | Market value as at 31 March 2019 £'000 | Movement on increased £'000 | Movement on decreased £'000 |
|---|---|---|---|---|
| Equities | 10 | 401,854 | 442,039 | 361,669 |
| Fixed interest securities | 10 | 84,219 | 92,641 | 75,797 |
| Pooled funds | 10 | 456,681 | 502,349 | 411,013 |
| Pooled property investments | 10 | 144,973 | 159,470 | 130,476 |
| Private equity | 10 | 39,965 | 43,962 | 35,969 |
| Private debt | 10 | 55,902 | 61,492 | 50,312 |
| Real assets | 10 | 39,169 | 43,086 | 35,252 |
| Diversified alternatives | 10 | 58,329 | 64,162 | 52,496 |
| London collective investment vehicle | 10 | 150 | 165 | 135 |
| Cash and cash equivalents | 10 | 102,569 | 112,826 | 92,312 |
| Other investment assets | 10 | 4,622 | 5,084 | 4,160 |
| Investment liabilities | 10 | (3,752) | (4,127) | (3,377) |
| **Total Investment assets** | | **1,384,681** | **1,523,149** | **1,246,213** |

**Interest rate risk**

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

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

**Interest rate – risk sensitivity analysis**

The Fund recognises that interest rates can vary and affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that there is a low probability that long-term average rates are expected to move less move by more than 100 basis points (1%) from one year to the next and experience suggests that such movements are unlikely.

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 +/- 1% change in interest rates.

| | Market value as at 31 March 2020 £'000 | Value on 1% price increase £'000 | Value on 1% price decrease £'000 |
|---|---|---|---|
| **Asset type** | | | |
| Cash and Cash equivalents | 46,497 | 46,962 | 46,032 |
| Fixed interest securities | 225,080 | 227,330 | 222,829 |
| Cash balances | 34,716 | 35,063 | 34,368 |
| **Total** | **306,293** | **309,355** | **303,229** |

| | Market value as at 31 March 2019 £'000 | Value on 1% price increase £'000 | Value on 1% price decrease £'000 |
|---|---|---|---|
| **Asset type** | | | |
| Cash and Cash equivalents | 102,568 | 103,594 | 101,542 |
| Fixed interest securities | 199,692 | 201,689 | 197,695 |
| Cash balances | 50,718 | 51,225 | 50,211 |
| **Total** | **352,978** | **356,508** | **349,448** |

**Interest Receivable**

| Asset type | Market value as at 31 March 2020 £'000 | Value on 1% price increase £'000 | Value on 1% price decrease £'000 |
|---|---|---|---|
| Cash and Cash equivalents | 1,074 | 1,085 | 1,063 |
| Fixed interest securities | 1,744 | 1,762 | 1,727 |
| **Total** | **2,818** | **2,847** | **2,790** |

| Asset type | Market value as at 31 March 2019 £'000 | Value on 1% price increase £'000 | Value on 1% price decrease £'000 |
|---|---|---|---|
| Cash and Cash equivalents | 767 | 775 | 760 |
| Fixed interest securities | 1,907 | 1,926 | 1,888 |
| **Total** | **2,674** | **2,701** | **2,648** |

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

**Currency risk**

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 10%. A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows.

| Asset type | Market value as at 31 March 2020 £'000 | Value on 10% price increase £'000 | Value on 10% price decrease £'000 |
|---|---|---|---|
| Overseas quoted equities | 326,915 | 359,606 | 294,223 |
| Overseas public sector quoted | 58,481 | 64,329 | 52,633 |
| Overseas fixed interest unit trusts | 131,838 | 145,021 | 118,654 |
| Overseas equity unit trusts | 119,883 | 131,872 | 107,895 |
| Overseas managed alternatives | 22,211 | 24,432 | 19,990 |
| Overseas pooled property investments | 81,844 | 90,029 | 73,660 |
| Overseas private debt | 90,086 | 99,095 | 81,077 |
| **Total** | **831,258** | **914,384** | **748,132** |

| Asset type | Market value as at 31 March 2019 £'000 | Value on 10% price increase £'000 | Value on 10% price decrease £'000 |
|---|---|---|---|
| Overseas quoted equities | 354,508 | 389,959 | 319,057 |
| Overseas public sector quoted | 50,027 | 55,029 | 45,024 |
| Overseas fixed interest unit trusts | 115,473 | 127,020 | 103,926 |
| Overseas equity unit trusts | 136,592 | 150,251 | 122,933 |
| Overseas managed alternatives | 21,734 | 23,907 | 19,560 |
| Overseas pooled property investments | 65,671 | 72,238 | 59,104 |
| Overseas private debt | 55,902 | 61,492 | 50,311 |
| **Total** | **799,907** | **879,896** | **719,915** |

a) **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. The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The Fund has also set limits as to the maximum sum placed on deposit with individual financial institutions. In addition, the Fund 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, as shown below.

| Summary | Rating | Asset value as at 31 March 2019 £'000 | Asset value as at 31 March 2020 £'000 |
|---|---|---|---|
| **Held with Custodian** | | | |
| Northern Trust custody cash accounts | AAA | 41,568 | 18,057 |
| **Money market funds** | | | |
| BNP Paribas | AAA | 27,100 | - |
| Federated Prime Rate | AAA | 1,124 | - |
| Standard Life | AAA | 10 | - |
| **Bank current accounts** | | | |
| Lloyds | AA- | 465 | 35 |
| **Total** | | **70,267** | **18,092** |

The Fund has experienced no defaults from fund managers, brokers or bank accounts over the past five years.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Fund has not experienced any actual defaults in recent years and the current practice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties. All contributions due at 31 March 2020 and 31 March 2019 (£1.1m and £1.9m respectively) were received in the first two months of the respective financial year.

**Liquidity risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £1.7m (31 March 2019: £56.3m).

The Fund also has access to an overdraft facility for short-term cash needs (up to seven days). This facility is only used to meet timing differences on pension payments. As at 31 March 2020 the balance on this facility stood at £0 (31 March 2019: £0). The Fund last used the overdraft facility in April 2019 for 1 day.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2020 the value of liquid assets represented 73.7% of the total Fund value (31 March 2019: 79.8% of the total Fund assets).

b) **Refinancing risk**

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

## Note 17: Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and comes into effect on 1 April 2020.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases a maximum period of 12 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring addition employer contributions.

At the 2019 actuarial valuation, the Fund was assessed as 96% funded (85% at the March 2016 valuation). This corresponded to a deficit of £58m (2016 valuation: £201m) at that time.

Individual employers' rates will vary depending on the demographic and actuarial factors particular to each employer.

The following employers have no active members, nor have they made any contributions to the Fund in either 2018/19 or 2019/20 however each employer may have deferred, pensioner, dependent or frozen members;

- Community Links
- David Webster Ltd
- East London Waste Authority
- FM Conway
- Greenwich Leisure Ltd
- Independent Housing Ombudsman
- Magistrates Court
- Newco Enterprises
- Stratford Renaissance Partnership
- Thames Gateway London Partnership

The contribution rates for each employer are as follows;

| Employer Name | | Status | Contribution Rate | Employee Contribution 2018/19 | Employee Contribution 2019/20 | Employer Contribution 2018/19 | Employer Contribution 2019/20 |
|---|---|---|---|---|---|---|---|
| 1. | Active Newham | Admitted body | 17.6 | 11 | 12 | 112 | 34 |
| 2. | Agate Momentum Trust | Scheduled body | 18.6 | 56 | 61 | 177 | 187 |
| 3. | Better Together | Admitted body | 12.0 | 11 | 11 | 20 | 20 |
| 4. | Big Education Trust (School 21) | Scheduled body | 12.0 | 74 | 84 | 138 | 155 |
| 5. | Birkin | Admitted body | 17.7 | 0 | 0 | 1 | 1 |
| 6. | Bobby Moore Academy | Scheduled body | 12.0 | 27 | 17 | 67 | 28 |
| 7. | Boleyn Trust | Scheduled body | 23.8 | 318 | 340 | 1,216 | 1,334 |
| 8. | Brampton Manor School | Scheduled body | 23.5 | 77 | 84 | 273 | 299 |
| 9. | Britannia Education Trust | Scheduled body | 22.1 | 23 | 23 | 92 | 83 |
| 10. | Burnt Mill Academy Trust | Scheduled body | 24.1 | 41 | 43 | 161 | 168 |
| 11. | Carpenters TMO | Admitted body | ceased | 0 | 0 | -4 | 0 |
| 12. | Chobham Academy | Scheduled body | 12.0 | 67 | 75 | 137 | 150 |
| 13. | Churchill | Admitted body | 25.3 | 2 | 2 | 11 | 11 |
| 14. | Community Links Academy Trust | Scheduled body | 13.5 | 13 | 13 | 30 | 31 |
| 15. | Community Schools Trust | Scheduled body | 19.3 | 102 | 118 | 307 | 345 |
| 16. | Compass | Admitted body | 14.7 | 2 | 4 | 7 | 14 |
| 17. | Crime Reduction Initiative | Admitted body | 14.7 | 5 | 3 | 10 | 6 |
| 18. | Early Start | Admitted body | 14.5 | 62 | 59 | 144 | 139 |
| 19. | East London Science School | Scheduled body | 15.9 | 44 | 38 | 114 | 91 |
| 20. | EKO Trust | Scheduled body | 15.1 | 137 | 148 | 341 | 360 |
| 21. | Enabled Living | Admitted body | 18.5 | 54 | 54 | 166 | 165 |
| 22. | Every Child | Admitted body | 15.9 | 71 | 22 | 182 | 168 |
| 23. | iXact | Admitted body | 0.202 | 118 | 144 | 417 | 501 |
| 24. | Juniper Pursuits | Admitted body | 19.6 | 716 | 241 | 1,974 | 823 |
| 25. | Juniper Ventures | Admitted body | 19.5 | 0 | 378 | 0 | 1,293 |
| 26. | Langdon School | Scheduled body | 23.5 | 96 | 119 | 365 | 440 |
| 27. | Language Shop | Admitted body | 12.0 | 25 | 40 | 43 | 70 |
| 28. | LBN | Administering Authority | 20.5 | 8,340 | 9,092 | 26,701 | 29,042 |
| 29. | Leading Learning Trust | Scheduled body | 17.2 | 81 | 95 | 225 | 258 |
| 30. | Learning in Harmony | Scheduled body | 19.8 | 214 | 221 | 708 | 722 |

| Employer Name | Status | Contribution Rate | Employee Contribution 2018/19 | Employee Contribution 2019/20 | Employer Contribution 2018/19 | Employer Contribution 2019/20 |
|---|---|---|---|---|---|---|
| 31. London Academy of Excellence | Scheduled body | 12.0 | 20 | 20 | 37 | 38 |
| 32. London Design and Engineering | Scheduled body | 12.0 | 32 | 45 | 58 | 81 |
| 33. London Network for Pest Solutions | Admitted body | 14.7 | 30 | 31 | 71 | 72 |
| 34. Mint | Admitted body | 20.4 | 133 | 142 | 490 | 522 |
| 35. Mitie PFI | Admitted body | 20.2 | 4 | 4 | 13 | 12 |
| 36. New Vision Trust | Scheduled body | 17.5 | 185 | 191 | 624 | 633 |
| 37. Newham College of Further Education | Scheduled body | 16.7 | 409 | 411 | 969 | 1,017 |
| 38. Newham Collegiate | Scheduled body | 18.4 | 20 | 23 | 56 | 60 |
| 39. Newham Community Schools Trust | Scheduled body | 19.3 | 57 | 81 | 168 | 239 |
| 40. Newham Partnership Working | Admitted body | 20.2 | 171 | 140 | 471 | 414 |
| 41. Newvic College | Scheduled body | 14.2 | 170 | 156 | 370 | 346 |
| 42. Oasis Academy | Scheduled body | 12.0 | 17 | 20 | 33 | 38 |
| 43. Olive Dining – Cumberland | Admitted body | 19.5 | 0 | 5 | 0 | 17 |
| 44. Olive Dining - Forest Gate | Admitted body | 22.4 | 114 | 2 | 37 | 14 |
| 45. Olive Dining – Plashet | Admitted body | 22.4 | 0 | 4 | 0 | 14 |
| 46. Olive Dining - St.Angela's | Admitted body | 23.0 | 0 | 2 | 0 | 9 |
| 47. Our Lady of Grace | Scheduled body | 25.5 | 72 | 122 | 294 | 495 |
| 48. Pabulum – Lister | Admitted body | 25.3 | 0 | 5 | 0 | 22 |
| 49. Pabulum Monega | Admitted body | 22.9 | 15 | 2 | 64 | 8 |
| 50. Public Realm Services | Admitted body | 17.1 | 120 | 135 | 390 | 437 |
| 51. RM Education | Admitted body | 12.0 | 12 | 2 | 55 | 34 |
| 52. Stratford School | Scheduled body | 15.6 | 53 | 54 | 135 | 135 |
| 53. Tapscott Leading Trust | Scheduled body | 19.7 | 132 | 222 | 445 | 720 |
| 54. The Good Support Company | Admitted body | 19.3 | 85 | 105 | 311 | 376 |
| 55. Wilson Jones | Admitted body | 14.5 | 3 | 3 | 7 | 7 |
| | | | **12,640** | **13,468** | **39,230** | **42,698** |

* new employers in 2019/20
NB: Table may not add down due to rounding.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows;

**Financial assumptions in the 2019 Actuarial Valuation**

| Assumed returns at | 31 March 2020 | 31 March 2019 | 31 March 2018 |
|---|---|---|---|
| Discount rate | 2.35% | 2.40% | 2.55% |
| Pension increases | 1.90% | 2.40% | 2.30% |
| Salary increases | 2.90% | 3.90% | 3.80% |

**Mortality assumptions**

Future life expectancy based on the actuary's fund-specific mortality review was as follows.

| Life expectancy from age 65 | | 31 March 2020 | 31 March 2019 |
|---|---|---|---|
| Retiring today | Males | 21.2 | 21.6 |
| | Females | 23.9 | 24.0 |
| Retiring in 20 years | Males | 22.8 | 23.3 |
| | Females | 25.5 | 25.8 |

**Commutation assumptions**

Members will exchange half of their commutable pension for cash at retirement;

**50:50 option**

Less than 1% of active members (evenly distributed across age, service length and salary range) have taken up the 50:50 option.

## Note 18: Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 17). The actuary has also used valued ill health and death benefits in line with IAS 19.

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | | £m |
| (2,377.4) | Present value of promised retirement benefits | (2,163.3) |
| 1,434.5 | Fair value of scheme assets (bid value) | 1,372.7 |
| **942.9** | **Net Liability** | **790.6** |

An allowance for the potential impact of the McCloud & Sargeant judgement is included in the present value of promised retirement benefits.

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation (see Note 17) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

## Note 19: Current Assets

| 2018/19 | | 2019/20 |
|---|---|---|
| £'000 | | £'000 |
| 458 | Contributions due – employees | 481 |
| 1,449 | Contributions due – employers | 635 |
| 568 | Prepayments | 854 |
| 50,718 | Cash balances | 35 |
| **53,193** | **Total Current Assets** | **2,004** |

## Note 20: Additional Voluntary Contributions

| Market value at 31 March 2019 | | Market value at 31 March 2020 |
|---|---|---|
| £'000 | | £'000 |
| 736 | Clerical Medical | 802 |
| 195 | Utmost Life and Pensions | 156 |
| **931** | **Total** | **958** |

AVC contributions of £0.038m were paid directly to Clerical Medical during the year (£0.089m 2018/19). There have been no further contributions to Equitable Life either financial year.

These amounts are not included in the Fund accounts in accordance with Regulation 4 (1) (b) of the LGPS (management and Investment of funds) Regulations 2016.

## Note 21: Agency Services

The Fund pays discretionary awards to the former teachers of the London Borough of Newham, the amounts are fully reclaimed.

| 2018/19 | | 2019/20 |
|---|---|---|
| £'000 | | £'000 |
| 315 | Payments on behalf of London Borough of Newham | 307 |
| **315** | **Total** | **307** |

## Note 22: Related Parties

The Fund is administered by the London Borough of Newham. During the reporting period, the Council incurred costs of £0.88m (2018/19: £0.84m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses (see Note 10). As at 31 March 2020 the Fund owed the Council £1.45m (2018/19: £0.86m).

Of the Pensions Committee members there are no active members of the LGPS and four deferred members; Councillor John Gray, Councillor James Asser, Councillor Joshua Garfield (vice-chair) and Councillor Zulfiqar Ali.

## Note 22a: Key Management Personnel

Key management personnel are members of the pension fund committee, the Corporate Director of Resources, the Director of Exchequer and Transactional Services and the Head of Pensions & Treasury for oneSource. Total remuneration payable to key management personnel which is recharged to the Fund is set out below:

| 2018/19 | | 2019/20 |
|---|---|---|
| £'000 | | £'000 |
| 38 | Short-term benefits | 38 |
| 1,094 | Post-employment benefits | 1,085 |
| **1,132** | **Total** | **1,123** |

## Note 23: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments for private debt, property, private equity and diversified alternatives at 31 March 2020 totalled £246m (31 March 2019: £135m). There are no contingent liabilities to report.

Four admitted body employers in the Fund hold insurance bonds and ten admitted bodies have a guarantee in place with the Local Authority to guard against the possibility of being unable to meet the pension obligations. These bonds/guarantees are drawn in favour of the Fund and payment will only be triggered in the event of employer default. No such defaults have occurred in either 2019/20 or 2018/19.

New admitted bodies may be required to put an insurance bond in place if stipulated in the actuary's report. Admissions to the Fund are considered by the Pensions Committee.

## Glossary

**Accounting Period** - The period of time covered by the Council's accounts. The Council's financial year is from the period 1 April to the following 31 March.

**Accounting Policies** - The specific principles, bases, conventions, rules and practices applied by the Council in preparing and presenting the financial statements.

**Accounting Standards** - A set of rules explaining how accounts are to be kept (See 'International Financial Reporting Standards').

**Accrual** - The recognition of income and expenditure in the year that these amounts occur and not when any cash is received or paid.

**Accumulated Absences Account** - This account represents the value of leave rolled over from one financial year to another. This reserve account is used to avoid reducing General Fund reserves.

**Actuary** - An independent adviser to the Authority regarding the year-end financial position of the Pension Fund.

**Actuarial Valuation** - Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports on the Fund's financial position and recommended employers' contribution rates. The last full valuation of the Scheme was in 2013.

**Agency Services** - Services provided by, or for, another Local Authority or Public Body where the costs of carrying out the service are reimbursed.

**Amortisation** - The write-off of an intangible asset or loan balance to the Comprehensive Income and Expenditure Statement over an appropriate period of time.

**Amortised Cost** - The carrying value of an asset or liability in the Balance Sheet, whose value has been increased via the Comprehensive Income and Expenditure Statement.

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

**Billing Authority** - Refers to a Local Authority that is responsible for the collection of tax, both on behalf of itself and other local authorities in it's area.

**Budget** - A forecast of future expenditure plans for the Council. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that Council Tax is determined. Budgets are revised throughout the year for changes as necessary.

**Capital Adjustment Account** - Represents amounts set aside from revenue resources or capital receipts to finance expenditure on Property, Plant and Equipment (PPE) or for the repayment of external loans or certain other capital financing transactions.

**Capital Expenditure** - Expenditure on the purchase of new PPE or expenditure which adds to the value of an existing PPE asset.

**Capital Financing Requirement** - Represents the Authority's underlying need to borrow for a capital purpose.

**Capital Grants Receipts In Advance** - Balances of capital grants and contributions that have conditions which may require future repayment if not spent.

**Capital Grants Unapplied** - Grant balances that are used to fund future capital expenditure.

**Capital Receipt** - Income received from the sale of PPE such as land or buildings.

**Capital Receipts Reserve** - Represents proceeds from the sale of PPE available to meet future capital investment needs.

**Carrying Value** - In relation to the year-end value of Long Term Assets, the carrying amounts are based on the original costs of individual assets less any depreciation, amortisation or impairment costs recorded against these assets.

**Cash Equivalents** - Highly liquid, low-risk investments that can be easily and readily converted into cash.

**Chartered Institute of Public Finance and Accountancy (CIPFA)** - A professional accountancy body specialising in the public sector. CIPFA promotes best practice by issuing accounting guidance updates and Codes of Practice.

**Collection Fund** - A statutory account which receives Council Tax and National Non-Domestic Rates (NNDR) to cover the costs of services provided by the Council and it's precepting authorities.

**Collection Fund Adjustment Account** - The Collection Fund Adjustment Account represents the Council's share of the Collection Fund Surplus or Deficit for the year.

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

**Comprehensive Income and Expenditure Statement** - A statement showing the expenditure and income of the Council's services during the year demonstrating how costs have been financed from general Government grants and income from local taxpayers.

**Contingent Liability** - Where possible "one-off" future liabilities or losses are identified but the level of uncertainty is such that the creation of a provision within the accounts is not appropriate.

**Consumer Price Index (CPI)** - Measures the average change in retail prices of a basket of goods and services purchased by most UK households in order to provide an indication of the rate of inflation. The CPI includes some financial services in the basket of goods not included within the separate RPI calculation. CPI is the official measure of the inflation of consumer prices in the United Kingdom.

**Creditors** - Monies owed by the Council to external parties for goods and services received. Creditors are referred to as Payables within the Balance Sheet and supporting notes.

**Debtors** - Monies owed to the Council by individuals and organisations. Debtors are also referred to as Receivables within the Balance Sheet and supporting notes.

**Dedicated Schools Grant** - Grant monies provided by the Department for Education (DfE) that are ring-fenced to schools' budgets.

**Deferred Capital Receipts** - The balance of outstanding mortgages granted mainly to purchasers of Council Houses.

**Deferred Income – Receipt In Advance** - This represents an amount received as a result of the Council entering into a building lease. The receipt is subsequently released over the term of the lease.

**Deferred Liabilities** - These are future liabilities that the Council is contractually obliged to pay in future years. These liabilities often relate to Private Finance Initiative (PFI) schemes.

**Defined Benefit Pension Scheme** - An employer pension scheme which defines benefits independently of the contributions payable. Within this type of scheme, the Council is committed to a specified monthly benefit on retirement for employees that is predetermined by a formula based on the employee's earnings history, rather than depending directly on individual investment returns within the Pension Fund.

**Depreciation** - The measure of the wearing out, consumption or other reduction in the useful economic life of PPE assets, whether arising from use, the passage of time or obsolescence through technological or other changes.

**Earmarked Reserves** - Amounts set aside for a specific purpose to meet future expenditure commitments or potential liabilities, for which it is not appropriate to establish separate provisions.

**Fair Value** - In relation to the value of financial instruments, this is the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

**Finance Lease** - A lease that substantially transfers the risks and rewards associated with the ownership of an asset to the lessee.

**Financial Instrument** - A contract that gives rise to the creation of a financial asset for one entity and a corresponding financial liability or equity instrument of another.

**Financial Instruments Adjustment Account** - This account represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWLB) debt.

**Flippable Accrual** - A range accrual note where the issuer has the option to amend the interest rate to an alternative measure at specified dates in the future.

**General Fund (GF)** - The main revenue account from which the costs of providing the majority of the Council's services are met.

**Greater London Authority (GLA)** - A strategic Local Authority with a capital-wide role.

**Gross Spending** - The total cost of providing services before any income such as government grants, fees and charges are deducted.

**Group Accounts** - Where a Council has a material interest in a separate entity, this entity's assets and liabilities may need to be incorporated within a set of Group Accounts. If an Authority does control an entity, for accounting purposes, it is defined as a subsidiary.

**Heritage Asset** - An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

**Historic Cost** - Where the cost of an asset is defined by past purchase price rather than current market value.

**Housing Revenue Account (HRA)** - A summary account within the Statement of Accounts maintained separately from the General Fund in order to itemise the specific income and expenditure relating to the provision of Council Housing.

**Inverse Floating LOBO** - These LOBOs have a reference rate - this being the GBP 10 year SWAP rate. The interest rate payable is calculated by taking the agreed and fixed 'coupon rate' less the reference rate (GBP 10 year SWAP rate), so, as rates increase, the interest payable by the borrower is reduced. Call dates cannot be exercised until the first agreed date and thereafter vary from 1 year to every 5 years.

**Impairment** - A decrease in the value of PPE caused by a consumption of economic benefit or by a general reduction in price levels.

**Infrastructure Assets** - Inalienable assets; expenditure on which is only recoverable by continued use of the asset created. There is no prospect of future sale or alternative use. Examples include roads, bridges and tunnels.

**Intangible Assets** - Non-financial long-term assets that do not have physical substance but are identifiable and controlled by the Council, for instance purchased software licences.

**Interest Rate Risk** - The uncertainty of interest paid or received on variable rate financial instruments and the effect of fluctuations in interest rates on the fair values of such instruments.

**International Financial Reporting Standards (IFRS)** - The set of international accounting standards issued by the International Accounting Standards Board (IASB). Local Authorities are required to produce accounts based on IFRS.

**Inventories** - Comprises the value of stocks held and work in progress that has not been completed at year-end.

**Investment Properties** - Properties that are held by the Council solely to earn rental income and/or for capital appreciation purposes rather than for the delivery of services.

**Lender Option Borrower Option (LOBO)** – LOBO's are a long term borrowing instrument commonly used by banks. It is an alternative lender option to the Governments Public Works Loan Board. In simple terms the instrument gets its name because the lender has an option to set revised interest rates at predetermined dates and at which point the borrower has the option to accept the revised rates or pay the debt in full without penalty.

**Levy** - Payments to bodies such as the Environment Agency. The costs of running these bodies are funded by Local Authorities in the area concerned as determined by their Council Tax base. Such costs are met from the Council's General Fund.

**Long Term Assets** - Assets that yield benefit to the Council and the services provided for a period of greater than one year.

**Long Term Liabilities** - Amounts that are payable by arrangement within a period of greater than one year.

**Major Repairs Reserve** - Represents the funds available to meet capital investment needs in respect of Council Housing.

**Minimum Revenue Provision (MRP)** - The amount that has to be charged to revenue to provide for the redemption of debt. This provision does not apply within the HRA.

**Movement In Reserves Statement** - A summary of the Council's reserves at the year-end date split between usable and unusable reserves.

**National Non-Domestic Rates (NNDR) Pool** - Non-Domestic Rates (Business Rates) are paid into a central pool controlled by Central Government. These funds are subsequently redistributed to Councils on the basis of resident population.

**Net Book Value** - Applicable to the year-end value of PPE after depreciation has been deducted.

**Net Realisable Value** - The open market value of an asset less any expenses incurred in realising the asset.

**Non-Current Assets Held for Sale** - Items of PPE whose carrying amount is to be recovered principally through a sale rather than by continued use by the Council.

**Operating Lease** - A lease other than a finance lease; a lease which permits the use of an asset without substantially transferring the risks and rewards of ownership.

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

**Precept** - The charge made by the Greater London Authority on the Council to finance its net expenditure.

**Private Finance Initiative (PFI)** - Contracts whereby private sector suppliers provide services and/or capital investment in return for a unitary payment subject to agreed performance targets.

**Projected Unit Credit Method** - Pension Scheme valuation method whose key feature is to assess future service cost. The Actuary calculates the employer's contribution rate which will meet the cost of benefits accruing in the year following the valuation date.

**Property, Plant and Equipment (PPE)** - The land and building assets under the Council's control or ownership. Such assets have a physical existence and are expected to be used for a period exceeding one year.

**Provisions** - Amounts set aside for liabilities and losses which are certain or very likely to occur but where the exact amount or timing of the payment are uncertain.

**Public Works Loans Board (PWLB)** - Central Government agency which funds the majority of Local Government borrowing.

**Registered Social Landlord** - A not-for-profit, independent housing organisation registered with the Housing Corporation under the Housing Act 1996 which owns and manages social housing.

**Reserves** - Amounts set aside to fund items of anticipated expenditure that do not fall within the definition of a provision. These include general reserves or balances which every Council must maintain as a matter of prudence.

**Retail Price Index (RPI)** - Measures the average change in retail prices of a basket of goods and services purchased by most UK households so as to provide an indication of the rate of inflation. The RPI includes mortgage interest payments and Council Tax in the basket of goods not included in the CPI. The measure is published monthly by the Office for National Statistics.

**Revaluation Reserve** - Represents the increase in value of the Council's land and building assets from 1 April 2007 onwards.

**Revenue Contributions to Capital Outlay (RCCO)** - The Council's use of revenue monies to fund capital expenditure.

**Revenue Expenditure** - The day-to-day expenditure of the Council including costs such as wages and salaries, goods and services and capital financing charges.

**Revenue Support Grant (RSG)** - A general grant paid by Central Government to Local Authorities.

**Right to Buy** - The Council is legally required to sell Council Homes to tenants at a discount where the tenant wishes to buy their home. The cash amounts received from such sales are capital receipts, some of which will be retained by the Council to fund capital expenditure, whilst the remainder must be paid over to the Department for Communities and Local Government (DCLG) under pooling arrangements.

**Service Level Agreements (SLA)** - Agreements between operational units that state the price and specifications of the support service by one function to another.

**Soft Loan -** A loan that the Council provides at an interest rate below the established market rate to community or other not-for-profit organisations.

**Stepped LOBO -** These loans have agreed dates when the interest rate is 'stepped' up to another. Again, the lender does not have the option to change these rates but can demand repayment on the next call date. Call dates for these loans vary from every 2 years to every 10 years.

**Support Services -** Activities of a professional, technical and administrative nature which are not Council services in their own right, but which support front-line departments such as Finance, Information Technology and Human Resources.

**Surplus Assets -** Those assets which are not being used to deliver services but which do not meet the criteria to be classified as either Investment Properties or Non-Current Assets Held for Sale.

**Unusable Reserves -** These represent reserve balances that cannot be spent as part of an Authority’s medium-term financial plan. Examples include the Revaluation Reserve and Capital Adjustment Account.

**Usable Reserves -** Reserve balances that can be spent within an Authority’s medium-term financial plan. As best practice, all organisations must review reserve levels to ensure long-term financial stability. Usable reserves include the General Fund and the Housing Revenue Account (HRA).

**Value for Money (VfM) -** This term is used to describe the relationship between the Economy, Efficiency, and Effectiveness (known as the ‘three Es’) of a service, function or activity. Value for money is high when there is an optimum balance between all three.

**Vanilla LOBO -** These are fixed rate loans, the interest rate the borrower pays cannot be changed by the lender, the lender does though have the option to request repayment of the loan on the next call date. The call dates are set out in the loan documentation and vary from between every 6 months to every 3 years.

**Zero to Par LOBO** - The interest rate payable on these loans is fixed. Interest is not paid to the lender but added to the loan principal - or compounded. If the lender exercises their call option, only the interest compounded to date is payable by the borrower, thereafter the loan is converted to a vanilla type LOBO with the borrower paying interest to the lender annually and the lender able to exercise their call option every 5 years. If the lender does not exercise their option to receive the compounded interest, the principal plus compound interest is repaid (at Par) on the maturity date.

## Abbreviations used in Statement of Accounts

**AGS** Annual Governance Statement
**BSF** Building Schools for the Future
**CAA** Capital Adjustment Account
**CCG** Clinical Commissioning Group
**CFR** Capital Financing Requirement
**CIES** Comprehensive Income and Expenditure Statement
**CIPFA** Chartered Institute of Public Finance and Accountancy
**CPI** Consumer Price Index
**DEFRA** Department for Environment, Food and Rural Affairs
**DfE** Department for Education
**DSG** Dedicated Schools Grant
**DWP** Department for Work and Pensions
**EIR** Effective Interest Rate
**ELWA** East London Waste Authority
**EY** Ernst and Young LLP
**GAAP** Generally Accepted Accounting Principles
**GLA** Greater London Authority
**HMRC** Her Majesty's Revenue & Customs
**HRA** Housing Revenue Account
**IAS** International Accounting Standard
**IFRS** International Financial Reporting Standards
**LABGI** Local Authority Business Growth Incentive
**LASAAC** Local Authority (Scotland) Accounts Advisory Committee
**LATS** Landfill Allowance Trading Scheme
**LBN** London Borough of Newham
**LGPS** Local Government Pension Scheme
**LOBO** Lender's Option – Borrower's option
**LPFA** London Pensions Fund Authority
**MHCLG** Ministry of Housing Communities and Local Government
**MMI** Mutual Municipal Insurance
**MRA** Major Repairs Allowance
**MRP** Minimum Revenue Provision
**NCS** Net Cost of Services
**NPV** Net Present Value
**NRV** Net Realisable Value
**NNDR** National Non-Domestic Rates
**PFI** Private Finance Initiative
**PPA** Prior Period Adjustment
**PPE** Property, Plant and Equipment
**PwC** PricewaterhouseCoopers LLP
**PWLB** Public Works Loans Board
**REFCUS** Revenue Expenditure Funded by Capital under Statute
**RICS** Royal Institute of Chartered Surveyors
**RPI** Retail Price Index
**RSG** Revenue Support Grant
**RTB** Right To Buy
**SeRCOP** Service Reporting Code of Practice
**VAT** Value Added Tax
**VfM** Value for Money
**WDA** Waste Disposal Authority
**WGA** Whole of Government Accounts