Statement of Accounts 2017/18

a place where people choose to
live, work & stay

Contents

Narrative Report

The Council's Statement of Accounts

The Statement of Accounts for the London Borough of Newham provides a picture of the Council's financial position as at 31st March 2018. The format and content of the accounts is largely prescribed and is, in some parts, complex, although we try 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.

For detailed information about corporate governance, please refer to the Annual governance statement on page 149.

Introduction to Newham

The London Borough of Newham is situated in north east London, bordering the River Thames. Newham was one of the six host boroughs for the 2012 London Olympics and contains most of the Olympic Park including London Stadium. As well as legacy projects centred around the Olympic site, significant redevelopment is also underway elsewhere in the borough at Custom House, Canning Town and Royal Docks.

Newham is a youthful, vibrant and diverse place to live. The average age of residents is 30, with almost 40% of the population under 24 and only 7% over 65. People describing themselves as Asian or Asian British make up over 40% of the population but all 16 ethnic groups on the most recent Census are well represented.

Despite having a high percentage of people of working age in the Borough, average weekly wages are comparatively low and parts of Newham are amongst the most deprived in London. Strenuous efforts made in recent years to improve education, housing and job prospects are now starting to pay off, but in the meantime, more people in Newham rely on public services than in many parts of London or the UK.

Newham's Vision for the Future

Newham is the future of the capital - our population is the youngest in the country and this is reflected through the vibrancy and confidence you will find in the borough. We are also an ambitious place with ambitious plans; and young people are at the heart of those plans.

We are committed to improving people's lives, helping them fulfil their potential and boost aspirations. Our aim is to build an inspirational place in which everyone plays their part, regardless of social or economic circumstances.

By 2030, we fully expect Newham to be recognised across Europe as a leading economic and residential district of London. Newham will be known as a prosperous and forward looking borough, synonymous with health, opportunity, and sustainable employment.

We will have a strong and innovative local economy, served by some of the best transport links in the country and which is focused on modern low carbon industries including high quality retail and leisure. Most importantly, we will be a net contributor to London's economy, with our residents enjoying the same standard of living as other Londoners. The Five Olympic Host Boroughs have together agreed the Strategic Regeneration Framework, which sets out our aims for achieving convergence in living standards with the rest of London by 2030. The legacy of the 2012 Olympic and Paralympic Games is a key part of achieving this.

Taking the 2012 Games aside, Newham is well-placed to deliver this vision. London is moving east at an accelerated pace. Regeneration on a massive scale continues to progress, from the Olympic Park and Stratford City in the North of the borough, down through the £3.7 billion regeneration of Canning Town and Custom House and on to the rejuvenation of the Royal Docks. We have a once in a lifetime opportunity in one of the most deprived areas in the capital to create new chances for our residents - in terms of jobs, decent homes and modern high quality public services.

Newham's strength also lies in the wealth of diversity you find in the borough and which is underpinned by a strong commitment to delivering opportunities for all our residents. The key principles of our approach are:

- **Building personal and economic capacity:** Getting people into work, out of benefits and providing a more flexible and responsive education system that addresses vocational training as well as academic. We will also tailor services more to the needs of an individual, and improve support for residents, including the vulnerable.

- **Trust and fairness:** Creating transparent services where there is no ambiguity, such as in housing allocations. We will also strengthen community spirit, employment opportunities, and push to get the basics right, notably cleaner and safer streets.

- **Connecting people:** Getting people together through activities, from sports to events and ensuring our places and community are mixed by class, ethnicity and tenure. We will build communities, friendship and common purpose through cohesion. We also have a special responsibility as a Partnership and a wider community in helping to keep more vulnerable residents safe and supporting them to participate fully in the community.

Our Leadership and Workforce

The Council employs 4,734 people (excluding schools based staff) on full-time and part-time contracts, equating to a full-time equivalent of 3,730. This represents a 6.4% reduction in the workforce since March 2017.

2016/17 FTEs	Directorate	2017/18 FTEs
445	Adults	504
528	Business and Growth	535
6	Chief Operating Officer	12
636	Children's Services	555
986	Community and Environment	754
222	Enforcement and Safety	207
385	OneSource	377
215	Regeneration and Planning	216
562	Strategic Services	570
3,984	**Subtotal - Non-Schools**	**3,730**
5,084	Schools	3,769
9,068	**Total**	**7,499**

Financial Performance in 2017/18

Overview

Newham Council is responsible for managing cash flows of over £3bn. Key figures for 2017/18 include:

- Gross revenue expenditure (spending on day-to-day services) of £1.4bn;
- Income from fee, charges and grants of £1.3bn;
- Billing of £265m in council tax and business rates;
- Maintenance of fixed assets with a value of £2.8bn, including capital investment of £191m in housing, schools, highways and regeneration projects;
- Management of the £0.9bn Newham Pension Fund.

Revenue Spending in 2017/18

The final Revenue Outturn position for 2017/18 was an overspend of £10.1m. The table below summaries revenue expenditure as reported internal for budgeting purposes and differs from the statutory presentation of revenue shown in the comprehensive income and expenditure statement (page 21). Overall the surplus for the general fund and HRA is £3.3m as shown in the movement in reserve statement on page 23.

	Approved Budget	Outturn	Variance
Services	**£000**	**£000**	**£000**
Chief Executive	646	631	(15)
Adults & Housing Needs	90,037	89,994	(43)
Community and Environment	35,916	36,653	737
Children and Young People Service	83,987	95,789	11,802
Enforcement and Safety	(1,325)	(8,038)	(6,713)
Externalising Business Units	(294)	66	360
Leisure	-	(782)	(782)
Regeneration and Planning	7,406	5,347	(2,059)
Public Health	-	1,243	1,243
Chief Operating Officer	(2,580)	(283)	2,297
Customer Connect & Strategic Services	21,919	28,656	6,737
Financial Sustainability	2,093	1,810	(283)
Repairs & Maintenance Service	-	8,748	8,748
Business & Growth	656	(863)	(1,519)
Newham Catering & Cleaning Group	(562)	(258)	304
oneSource Non-shared	(7,527)	(462)	7,065
oneSource Shared	2,137	2,067	(70)
Resources	39,776	35,101	(4,675)
Total Spending on Services	**272,285**	**295,419**	**23,134**
Funding	**(272,285)**	**(285,249)**	**(12,964)**
Net deficit	**-**	**10,170**	**10,170**
Additonal funding from earmarked reserves	**-**	**(10,170)**	**(10,170)**
Surplus on general fund and HRA Balance in the year	**-**	**(3,317)**	**(3,317**
Total Surplus for the year	**-**	**(13,487)**	**(13,487)**

The most significant areas of overspend were as follows:

- **Children's and Young Peoples Services (CYPS)** was overspent by £11.8m against the budget allocation. This was principally due to overspends incurred in relation to Looked After Children, covering residential placements, leaving care, fostering and adoption, asylum and corporate parenting. Overspends on Disabled Children Packages, Triage services, Best Start in Life, Every Child a Musician and Financing Costs.
- **Customer Connect and Strategic Services** was overspent by £6.0m arising from the allocation and timing of target spending reductions following the restructuring of these services. Realignment of budgets together with a management action plan are in place for 2018/19.
- The **Repairs and Maintenance Service** was overspent by £8.7m, mainly due to higher than anticipated highways work.
- There was also a significant overspend of £7.1m within the **oneSource Non-shared** budget, this was primarily due a shortfall in anticipated rental income from the commercial property portfolio and additional expenditure on facilities management costs, including increased business rates following the revaluation in 2017.

These cost pressures were offset by significant underspends in **Regeneration and Planning** as a result of Development and Control achieving income in excess of anticipated and an underspend on administering regeneration projects and **Enforcement and Safety** primarily arising from parking operations and enforcement and underspend in licensing activity and neighbourhood crime reduction services. Centrally controlled **Resources** which includes contingency also contributed an offset against costs.

The funding available to the Council was also greater than budgeted, with an additional £5.0m received from investments and reduced borrowing costs. Additional S31 grant from Central Government to compensate Newham for lost income or additional cost caused by Government decisions and New Homes Bonus also contributed £3.0m. The Chief Finance Officer also applied one-off £10.1m from reserve to offset the exceptional cost pressures arising during the year

Prior year adjustment

The Council's asset register incorrectly held components of an asset, for which some components had accumulated a revaluation gain whilst others showed a valuation loss. Further, where previous valuation losses are reversed, the amounts must be adjusted for what the assumed depreciation would have been as if there had been no loss previously. The Council had previously written back the full amounts of the losses. These errors affected the amounts recognised in either the 'Net Cost of Services' or 'Other Comprehensive Income and Expenditure' lines of the CIES. The details for the prior year adjustments are shown In note 61.

Performance Overview 2017/18

The below provides a quick oversight of any issues of note with regards to the Council's performance as at March 2017/18.

Community & Environment, Customer Services and Housing

- **Use of Leisure centres** – attendance dropped slightly in 2017/18 with 1,657,676 visitors compared to 1,667,801 - this is 10,125 fewer than in 2016/17. This reduction is attributed to the closure of sites for refurbishment during December and January.

- **Street cleanliness - Litter** - end of year performance target has been achieved at 3.90% compared to 5.50% for 2016/17 (against a target of 6%). Performance improved in the last quarter of the year once new operating practices by the district companies settled, leading to better performance management practices. In comparison the average for London is 5.88% (17 borough submission - LAPS benchmarking).

- **Street cleanliness – Flyposting** end of year performance target has not been achieved at 5.50% against a target of 1.00% - although this remains lower than 5.80% for 2016/17. This indicator has been fluctuating for the last 12 periods and this is due to ongoing issues surrounding massage stickers being placed on lamp columns advertising services. However, there has been an decline in public reports of flyposting in 2017/18 compared to 2016/17 (294 v 452) with a reduction of 158 reports. In comparison the average for London is 2.88% (12 borough submission –LAPS benchmarking).

- **Fly tips reported by the public/ collected –** The number of fly tips reported by the public is reported at 17,535 for 2017/18, this is lower than 18,906 incidents reported 2016/17. Reporting by the public in general has been declining over the year with 1,371 fewer incidents reported in 2017/18 compared to the same period last year.

- **The number of households in temporary accommodation -** end of year performance stands at 4,501 compared to 4,457 in 2016/17. To the end of February 2017/18 1,970 households were accepted as homeless (compared to 1,970 homelessness applications submitted the previous year).

- **Enforcement activity private rented sector –** 229 actions have been taken this year (2017/18) compared to the 937 taken for the whole of 2016/17.

Enforcement and Safety

Crime figures – Recorded crime figures have increased in a number of categories in comparison with the picture for the same time last year (note these are absolute figures and do not take into consideration the rising population numbers and are reported quarterly.

- **Total notifiable offences** increased by 2,751 to 34,828 when compared with the previous year 2016/17 (32,077). Figures have also increased for knife crime in 2017/18 (785 v. 701), gun crime dropped (144 v. 157), theft from the person (1084 v.1043), theft from a motor vehicle (2,878 v. 2,873), personal robbery increased (1,967 v. 1,514), shoplifting also increased (2,248 vs. 2,121).

- Reductions have been seen in police recorded anti–social behaviour levels by 3.3% (9,110 vs. 10,855), (please note council recorded reactive ASB request also dropped by (18.541 vs. 19,179), violence with injury (2,233 vs. 2,256), and hate crime (659 v.712).

- **Fixed penalty notices issued (fly tipping, littering and other) -** The year to date at total 2,514 FPN's has been issued, this is reduction from the 2,809 issued in the previous year 2016/17.

Children's Services

- **Single assessments for children's social care completed within 45 days of referral** – year to date performance is 70.2%, this is an improvement compared to the 65.4% in 2016/17. In comparison the average for London is 82.3% and England is 82.9%.

- **Number of children with Child Protection Plans –** year to date performance is recorded at 324 (37.9 rate per 10,000 under 18). This is comparable to 2016/17 performance of 321 (37.6 rate per 10,000 under 18). 65 of these (20.1%) have had a plan for more than 12 months. Additional monitoring and intervention has been put in place to reverse the trend. 4 children have had plans in place for more than 24 months. This number has fallen over 2016/17 (8 recorded). In comparison the average for London is 39.1 and England is 43.3.

- **Looked after children** – Year to date 401 children were being looked after by the Council at the end. An increase from 396 in 2016/17. In comparison across the country the rate per 10,000 of looked after children in Newham is 46, this is below the average rate per for London(50.0) and England (62.0).

- **Adoptions / SGO's** – Year to date 27 children had been adopted or made the subject of Special Guardianship Orders (14 of these were adoptions). This compares with 27 for the same period last year.

Adults Services

- **Delayed transfers of care -** the total number of delayed discharges per 100,000 adult populations attributable to adult social care during 2017/18 to February 2018 was 1.2. In comparison the average for London is 2.8 and England is 4.5. (This is based on preliminary data).

- **Permanent admissions to residential and nursing care homes (adults 65+) –** There were 538 permanent admissions per 100,000 65yrs+ population during financial year 2017/18. In comparison, the average for London is 438 and England is 610.

Planning, Development and Regeneration

- **Planning applications -** 97.92% of major planning applications have been determined within 13 weeks (47/48) in 2017/18. This compares to 83% to December 2015 (24/29). In comparison the average for London is 87% (within 13 weeks or time agreed).

- **Planning Enforcement Notices -** 264 enforcement notices have been served in 2017/18, compared to 608 in 2016/17. In comparison the average for London is 52.

- **Workplace –** This year a total of 3,319 residents had been placed into work through workplace, a slight drop 3,349 achieved to December 2016/17.

Housing Revenue Account (HRA)

- The council owns approximately 16,200 homes
- £102m was collected in rents and service charges in 2017/18 (£110m in 2016/17)
- Revenue spending on repairs, maintenance and management was £60m (£60m in 2016/17)
- Capital investment in housing stock amounted to £20m (£35m in 2016/17)
- HRA Reserves were £64m as at 31 March 2018 (£56m as at 31 March 2017)

Capital Investment

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

In 2017/18, the Authority undertook £190.5m of capital investment across the Borough. The charts below illustrate total capital expenditure analysed by service area and how this was financed:

Figure 1 *Capital Expenditure by Service*

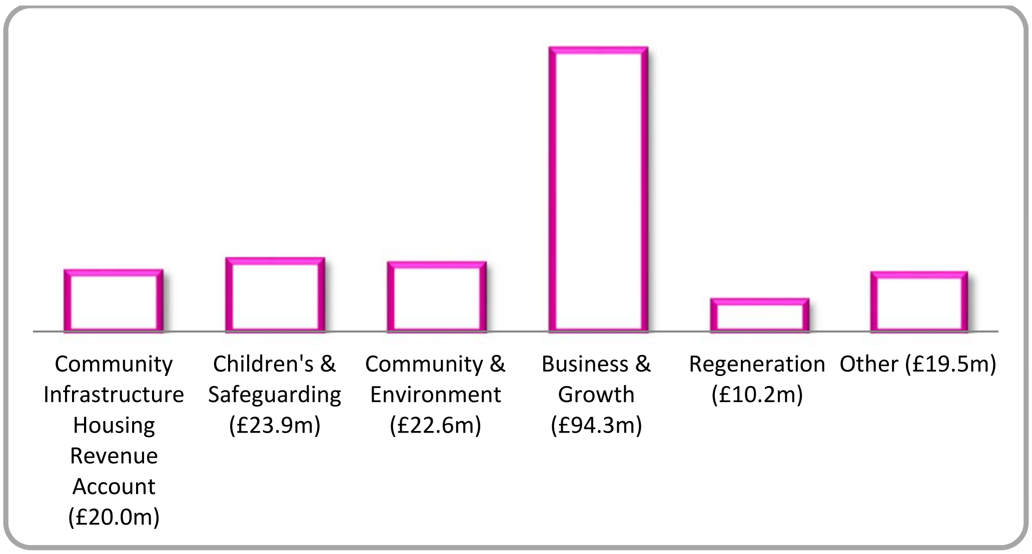
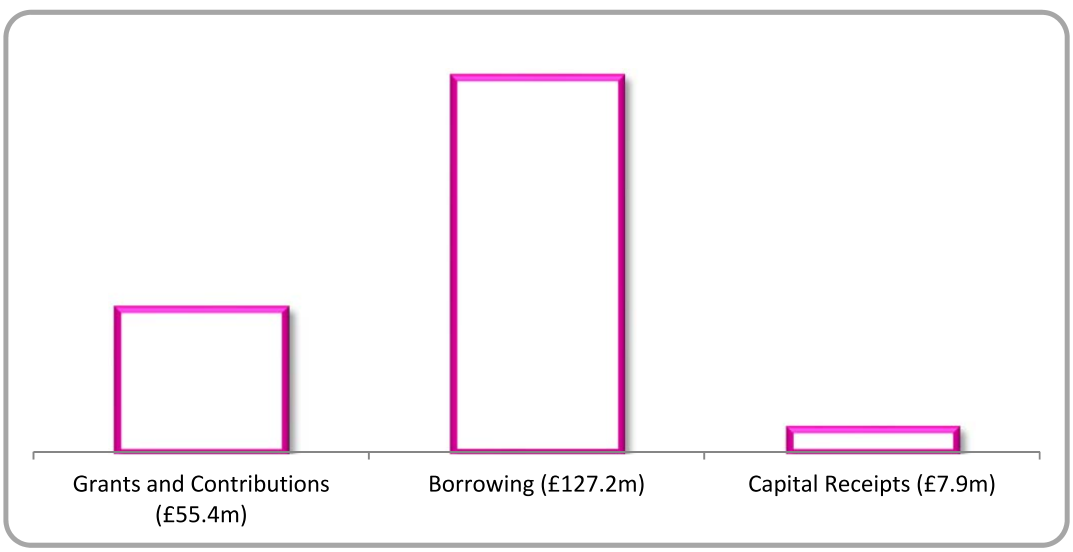
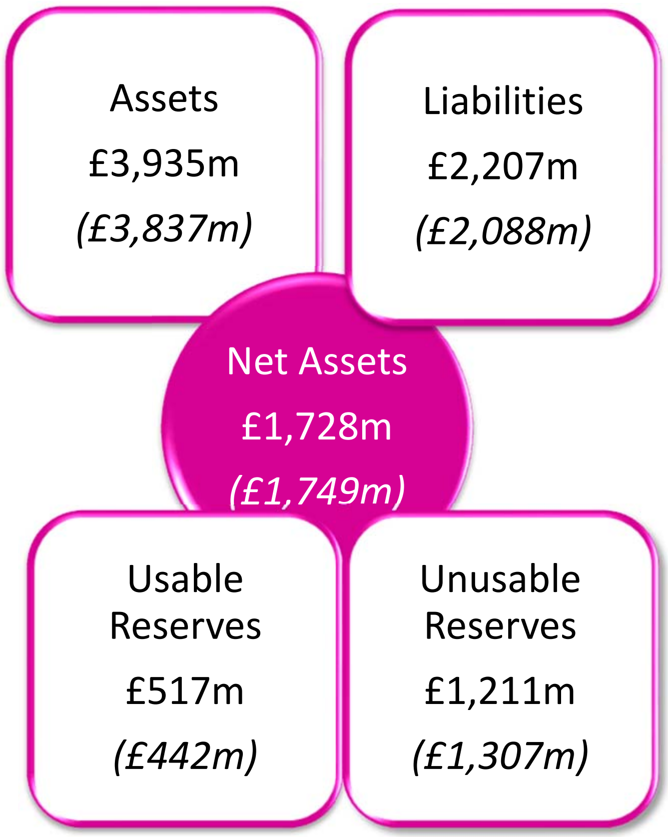


Figure 2 *Capital Financing*



Balance Sheet Position as at 31 March 2018

The below illustrates the Authority's single entity Balance Sheet position as at the end of the year. The figures shown in brackets are for 2016/17.



Pension Liabilities

- The pension liability (£0.9bn) represents the difference between the estimated cost of pensions payable in the future (£2.1bn), and the value of assets in the pension fund (£1.2bn);
- The Pension Fund is revalued every three years to set future contribution rates. The latest valuation was at 31 March 2016;
- The funding level at 31 March 2016 was assessed as 85% (73% in 2013);
- The plan is to bring the funding level to 100% within 20 years;
- The Council paid £50.6m for LGPS pensions in year (£46.8m in 16/17).

Group Undertakings

This is the first year that the Council have consolidated the following four wholly owned subsidiaries into the group accounts:

- Mint Group Ltd;
- i-Xact Ltd;
- The Language shop Ltd; and
- Public Realm Services Ltd

The Council also wound up Newham Legacy Investments, which exited a Joint venture partnership with the London Legacy Development Corporation, in relation to the management of the former Olympic Stadium.

Looking Ahead and Future Challenges

A net budget of £261.2m has been approved for 2018/19. There will be no increase to Newham's element of Council Tax, the 9th year in succession. No additional Adults Social Care precept will levied in the year.

Since 2011/12, significant savings have been required to meet revenue grant reductions arising from reductions in funding for local government as part of the ongoing austerity programme. Since 2010/11 £173.8m of savings have been identified, these savings have been incorporated into Service Budgets, including those on transforming the way Newham delivers its services. Any reduction in the delivery of front line services will only be considered as a last resort.

The 2018/19 Settlement outlined core funding allocations (Settlement Funding Assessment – SFA) for local authorities for the period 2018/19 to 2019/20 which indicate a budget gap of up £10.6m in 2019/20. The gap will need to be balanced through further savings and/or income growth and all possible options are currently being explored.

The Settlement covering the years 2018/19 to 2019/20 presented a continuation of the deep funding cuts faced by Newham over the last seven years. Since the current funding regime started in 2013/14, Newham has seen a dramatic reduction in the level of funding from Central Government. From 2013/14 to 2018/19, Newham's SFA has fallen by £90.9m or 37.2%. From 2018/19 to 2019/20 it is set to further fall by another £7.8m or 5.1% totalling a massive £98.7m, or 40.3% from 2013/14 to 2019/20.

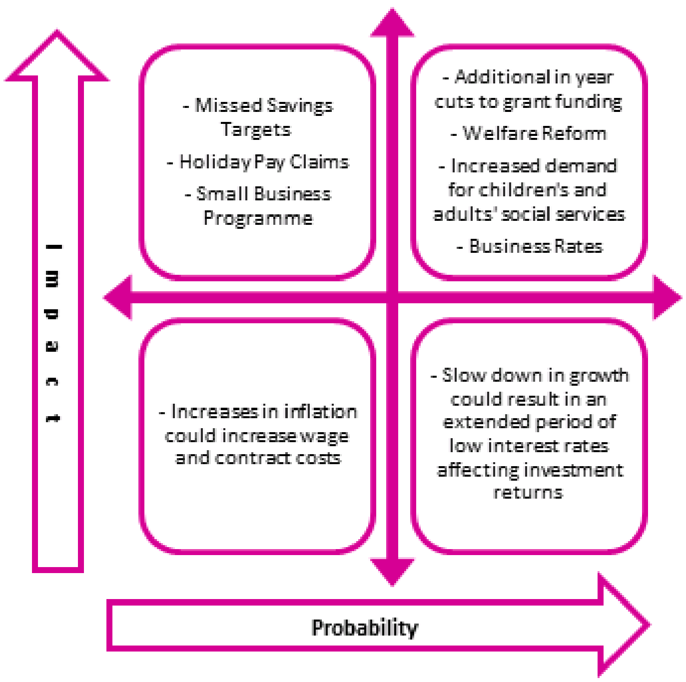
For 2018/19 all of the Councils in London have agreed to pilot a Retained Business Rates Scheme, which has released an additional £6.2m of vital funding to support front line services. However this is only a short term fix as the Government has announced a Business Rates reset in 2020 to coincide with the Fair Funding Review, there is a risk that the additional business rates being retained by Newham due to the growth in businesses in the Borough may be lost.

Beyond 2020 there remains a significant degree of uncertainty on the level of public sector funding that will be available. The Government is currently consulting on the Fair Funding Review which will impact how resources are allocated to Local Authorities from 2020/21. This is not considering the total funding available, which is likely to continue to reduce, but rather how the shrinking pot is divided between authorities. The risk is that weight is given to factors which have less impact for Newham, potentially reducing our assessment outcomes,, however to mitigate this Newham is actively engaged in the consultation process and will continue to argue the importance of factors such as population growth, deprivation, etc to assess the needs.

Key Strategic Risks for 2018/19

All Council departments maintain a risk register covering both operational and strategic issues which are assessed in terms of (1) the probability of the risk occurring and (2) the impact on the Council if it does. Risks are rated red, amber or green and reviewed on a monthly basis.

The Council's significant financial risks are set out below. Changes to grant funding, the new business rate retention scheme and increasing demand for services have been assessed as having the most impact as well as being the most likely to occur, but all eight risks are reflected in the medium term financial plan and Council budgets.



No events have occurred since the year-end which would have a significant impact on the Council's finances or corporate plans. On 29 March 2017 the Government triggered Article 50, the formal mechanism to facilitate the UK leaving the EU by 2019 however, it is too early as yet to estimate the potential impact on local authorities.

Explanation of the Key Accounting Statements

The key financial statements set out within this document include:

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

- **Expenditure Funding Analysis (EFA) –** This statement 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.

- **Comprehensive Income and Expenditure Statement (CIES)** – This statement summarises the expenditure and income for the year.

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

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

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

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

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

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 Chief Finance Officer.
- 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 Chief Finance Officer 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 Chief Finance Officer 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 Chief Finance Officer 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 2018 and its income and expenditure for the year ended 31 March 2018.

Signature:

D Baldock

Interim Chief Finance Officer

Date: 25/3/2019

Signature:

Councillor John Gray

Chair of Investments and Accounts Committee

Date: 25/3/19.

Independent auditors’ report to the Members of the London Borough of Newham

Opinion

We have audited the financial statements of London Borough of Newham for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Group and Single Entity Movement in Reserves Statement,
- Group and Single Entity Comprehensive Income and Expenditure Statement,
- Group and Single Entity Balance Sheet,
- Group and Single Entity Cash Flow Statement,
- Related notes 1 to 47 and 61, the Expenditure and Funding Analysis
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 48 to 58, and
- Collection Fund and the related notes 59 to 60.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Newham and Group as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. We are independent of the London Borough of Newham in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard and the Comptroller and Auditor General’s (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the Chief Finance Officer use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Other information

The other information comprises the information included in the narrative report set out on pages 3 - 13, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014
Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Conclusion

- **Procurement**

There has been a significant issue identified as part of the Annual Governance Statement in respect of the procurement processes undertaken by the Council. There have been a number of examples where process have not been adhered to which have impacted on the Council's ability to secure value for money.

The issues above are evidence of weaknesses in proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.

- **Governance (including financial control)**

Linked to the Governance of projects it has been identified that there are a number of weaknesses present in the Council's basic financial controls and procurement throughout 2017/18. There has been significant overspends on a number of projects that indicate that basic financial controls and budget monitoring are not in place, or being applied consistently across all areas of the Council and its operations. As a result, the Head of Internal Audit has qualified their opinion in such respects.

The issue above is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

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

Qualified Conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, with the exception of the matters reported in the basis of conclusion paragraph above, we are satisfied that, in all significant respects, London Borough of Newham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Chief Finance Officer

As explained more fully in the Responsibilities for the Statement of Accounts set out on page 14, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually

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

or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the London Borough of Newham had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Newham put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for 2017/18 until the following has taken place:

The 2014/15, 2015/16 and 2016/17 certificates are yet to be issued.

We have yet to complete the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion;

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

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

Use of our report

This report is made solely to the members of London Borough of Newham, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Newham and the London Borough of Newham's members as a body, for our audit work, for this report, or for the opinions we have formed.

Janet Dawson (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

London

27 March 2019

The maintenance and integrity of the London Borough of Newham web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 is analysis 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

The restated 2016/17 figures include prior year adjustments relating to incorrectly held components held within the councils asset register. These errors affected the amounts recognised in either the 'net cost of services' or Other comprehensive Income and Expenditure linesof the CIES and this is detailed in Note 61

Restated 2016/17				2017/18		
Net Expenditure Chargeable to the General Fund	**Adjustments between Funding and Accounting**	**Net Expenditure in the CI&ES**		**Net Expenditure Chargeable to the General**	**Adjustments between Funding and Accounting**	**Net Expenditure in the CI&ES**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
79,328	144	**79,472**	Adult Services	90,187	663	**90,850**
9,429	(13,381)	**(3,953)**	Central Services	26,431	(41,518)	**(15,087)**
100,615	3,501	**104,116**	Children's Services	86,409	61,466	**147,875**
39,522	796	**40,318**	Community and Environment	13,886	4,734	**18,620**
(58)	441	**383**	Enforcement and Safety	(8,318)	279	**(8,039)**
(71,686)	61,194	**(10,492)**	HRA	(39,923)	7,005	**(32,918)**
399	(128)	**271**	oneSource	2,055	478	**2,533**
11,876	(3,480)	**8,396**	oneSource - Non Shared	11,929	3,718	**15,647**
-	-	**-**	Public Health	1,243	-	**1,243**
6,811	(25)	**6,786**	Regeneration & Planning	5,634	2,284	**7,918**
7,895	-	**7,895**	Strategic Services	2,049	-	**2,049**
184,131	**49,062**	**233,193**	**Net Cost of Services**	**191,582**	**39,109**	**230,691**
(192,358)	52,684	**(139,674)**	Other Income and Expenditure	(204,421)	163,985	**(40,436)**
(8,227)	**101,746**	**93,519**	**Surplus or Deficit**	**(12,839)**	**203,094**	**190,255**
(220,180)			Opening General Fund and HRA Balance	**(228,407)**		
(8,227)			Less/Plus (Surplus) or Deficit on General Fund and HRA Balance in Year	(13,318)		
(228,407)			**Closing General Fund and HRA Balance at 31 March 2018**	**(241,725)**		

The figures for 2016-17 have been restated to be consistent with change in 2017/18 presentation - Other adjustments (which represents the difference between amounts debited/credited to the comprehensive income and expenditure statement and amounts payable /receivable to be recognised under statute) is now included as part of the net expenditure chargeable to the general column.

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.

The restated 2016/17 figures include prior year adjustments relating to incorrectly held components held within the councils asset register. These errors affected the amounts recognised in either the 'Net Cost of Services' or Other comprehensive Income and Expenditure lines of the CIES and this is detailed in Note 61.

2016/17 Restated					2017/18		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
114,822	(35,350)	**79,472**	Adult Services		192,292	(101,442)	**90,850**
10,688	(14,640)	**(3,953)**	Central Services		235,142	(250,229)	**(15,087)**
485,620	(381,504)	**104,116**	Children's Services		526,606	(378,731)	**147,875**
113,061	(72,743)	**40,318**	Community and Environment		49,846	(31,226)	**18,620**
9,759	(9,376)	**383**	Enforcement and Safety		19,815	(27,854)	**(8,039)**
107,152	(117,644)	**(10,492)**	HRA		76,151	(109,069)	**(32,918)**
10,250	(9,979)	**271**	oneSource		9,444	(6,911)	**2,533**
295,190	(286,794)	**8,396**	oneSource - Non Shared		44,059	(28,412)	**15,647**
17,646	(17,646)	**-**	Public Health		6,816	(5,573)	**1,243**
14,755	(7,969)	**6,786**	Regeneration & Planning		15,853	(7,935)	**7,918**
16,501	(8,606)	**7,895**	Strategic Services		12,403	(10,354)	**2,049**
1,195,444	**(962,251)**	**233,193**	**Cost of Services**		**1,188,427**	**(957,736)**	**230,691**
		85,424	Other Operating Expenditure	11			**218,326**
		100,780	Financing and Investment Income and Expenditure	12			**65,878**
		(325,877)	Taxation and Non-Specific Grant Income	13			**(324,640)**
		93,519	**(Surplus)/Deficit on Provision of Services**				**190,255**
		(480,143)	(Surplus)/Deficit on Revaluation of PPE and Heritage Assets	14,15			**(107,938)**
		267,412	Remeasurements of the Net Pensions Defined Benefit Liability	45			**(61,412)**
		(119,212)	**Total Comprehensive Income and Expenditure**				**20,905**

The housing benefit subsidy of £260m (£270m - 2017) and related expenditure of £275m (£275m - 2017) that was previously included within one source - Non shared reporting line in 16/17 has now been included within central services reporting line. The housing related income of £59m (£56m - 2017) and related expenditure of £62m (£61m - 2017) that was previously included within community and environment is now included within Adult services.

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.

2016/17 Restated					2017/18		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
114,822	(35,350)	**79,472**	Adult Services		192,292	(101,442)	**90,850**
27,688	(31,640)	**(3,952)**	Central Services		235,139	(250,229)	**(15,090)**
497,913	(393,797)	**104,116**	Children's Services		526,606	(378,731)	**147,875**
113,061	(72,743)	**40,318**	Community and Environment		49,846	(31,226)	**18,620**
13,585	(13,202)	**383**	Enforcement and Safety		19,815	(27,854)	**(8,039)**
107,152	(117,644)	**(10,492)**	HRA		72,807	(109,069)	**(36,262)**
10,250	(9,979)	**271**	oneSource		9,444	(6,911)	**2,533**
299,636	(291,240)	**8,396**	oneSource - Non Shared		44,059	(28,412)	**15,647**
17,646	(17,646)	**-**	Public Health		6,816	(5,573)	**1,243**
14,755	(7,969)	**6,786**	Regeneration & Planning		15,853	(7,935)	**7,918**
17,198	(9,306)	**7,892**	Strategic Services		20,211	(13,550)	**6,661**
1,233,706	**(1,000,516)**	**233,190**	**Cost of Services**		**1,192,888**	**(960,932)**	**231,956**
		85,424	Other Operating Expenditure	11			**218,326**
		63,091	Financing and Investment Income and Expenditure	12			**68,997**
		(325,877)	Taxation and Non-Specific Grant Income	13			**(324,640)**
		55,828	**(Surplus)/Deficit on Provision of Services**				**194,639**
		387	Tax on Profit				**215**
		56,215	**(Surplus)/Deficit on Provision of Services after Tax**				**194,854**
		(480,143)	(Surplus)/Deficit on Revaluation of PPE and Heritage Assets	14,15			(107,938)
		267,412	Remeasurements of the Net Pensions Defined Benefit Liability	45			(61,412)
		(156,516)	**Total Comprehensive Income and Expenditure**				**25,504**

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
Balance At 31 March 2016	**(19,490)**	**(174,460)**	**(26,229)**	**(59,244)**	**(51,988)**	**(64,122)**	**(395,533)**	**(1,234,061)**	**(1,629,594)**	**30,343**	**(1,599,251)**
Movement in Reserves during 2016/17 (Restated)											
(Surplus) or Deficit on Provision of Services	110,503	-	(16,984)	-	-	-	**93,519**	-	**93,519**	7,080	**100,599**
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	**(212,731)**	**(212,731)**	-	**(212,731)**
Total Comprehensive Income and Expenditure	**110,503**	**-**	**(16,984)**	**-**	**-**	**-**	**93,519**	**(212,731)**	**(119,212)**	**7,080**	**(112,132)**
Adjustments between accounting basis and funding basis under regulations	(105,739)	-	3,993	526	(31,071)	(7,171)	**(139,462)**	**139,462**	**-**	(44,766)	**(44,766)**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**4,764**	**-**	**(12,991)**	**526**	**(31,071)**	**(7,171)**	**(45,943)**	**(73,269)**	**(119,212)**	**(37,686)**	**(156,898)**
Transfers (To)/From Earmarked Reserves	(2,567)	19,131	(16,564)	-	-	-	**-**	-	**-**		**-**
(Increase)/Decrease In Year	**2,197**	**19,131**	**(29,555)**	**526**	**(31,071)**	**(7,171)**	**(45,943)**	**(73,269)**	**(119,212)**	**(37,686)**	**(156,898)**
Balance At 31 March 2017	**(17,293)**	**(155,329)**	**(55,784)**	**(58,718)**	**(83,059)**	**(71,293)**	**(441,476)**	**(1,307,330)**	**(1,748,806)**	**(7,343)**	**(1,756,149)**
Movement in Reserves during 2017/18											
(Surplus) or Deficit on Provision of Services	223,410		(33,155)	-	-	-	**190,255**	-	**190,255**	**4,599**	**194,854**
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	**(169,350)**	**(169,350)**	-	**(169,350)**
Total Comprehensive Income and Expenditure	**223,410**	**-**	**(33,155)**	**-**	**-**	**-**	**190,255**	**(169,350)**	**20,905**	**4,599**	**25,504**
Adjustments between accounting basis and funding basis under regulations	(227,990)	(481)	24,897	(11,917)	(40,704)	(9,499)	**(265,694)**	**265,694**	**-**	**(2,156)**	**(2,156)**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(4,580)**	**(481)**	**(8,258)**	**(11,917)**	**(40,704)**	**(9,499)**	**(75,439)**	**96,344**	**20,905**	**2,443**	**23,348**
Transfers (To)/From Earmarked Reserves	9,522	(9,522)	-	-	-	-	**-**	-	**-**	-	**-**
(Increase)/Decrease In Year	**4,942**	**(10,003)**	**(8,258)**	**(11,917)**	**(40,704)**	**(9,499)**	**(75,439)**	**96,344**	**20,905**	**2,443**	**23,348**
Balance At 31 March 2018	**(12,351)**	**(165,332)**	**(64,042)**	**(70,635)**	**(123,763)**	**(80,792)**	**(516,915)**	**(1,210,986)**	**(1,727,901)**	**(4,900)**	**(1,732,801)**
									-		-

Group and Single Entity Balance Sheet

	Notes	Single Entity 31 March 2017 Restated £'000	Single Entity 31 March 2018 £'000	Group Accounts 31 March 2017 Restated £'000	Group Accounts 31 March 2018 £'000
Property, Plant and Equipment	14	2,991,169	2,880,320	2,991,235	2,900,691
Heritage Assets	15	3,658	3,658	3,658	3,658
Investment Properties	16	114,321	205,900	139,526	262,640
Intangible Assets	17	664	462	1,076	846
Long Term Investments	18	212,583	156,508	207,599	145,000
Long Term Receivables	22	52,102	101,121	30,844	19,468
Long Term Assets		**3,374,497**	**3,347,969**	**3,373,938**	**3,332,303**
Short Term Investments	18	279,188	410,395	280,089	410,395
Inventories	19	1,544	2,171	1,543	2,171
Short Term Receivables	22	113,732	129,203	122,174	152,772
Cash and Cash Equivalents	21	67,703	45,029	69,450	51,789
Current Assets		**462,167**	**586,798**	**473,256**	**617,127**
Cash and Cash Equivalents Overdrawn	21	(29,858)	(47,637)	(29,858)	(47,637)
Short Term Borrowing	18	(223,967)	(221,814)	(223,967)	(221,814)
Short Term Payables	23	(130,009)	(131,279)	(131,607)	(138,723)
Short Term Provisions	24	-	(3,192)	-	(3,192)
Current Liabilities		**(383,834)**	**(403,922)**	**(385,432)**	**(411,366)**
Long Term Provisions	24	(10,320)	(11,826)	(10,320)	(11,826)
Long Term Borrowing	18	(579,795)	(720,378)	(579,623)	(720,378)
Other Long Term Liabilities	37	(1,072,215)	(1,029,461)	(1,074,762)	(1,031,780)
Capital Grants Receipts in Advance	13	(41,694)	(41,279)	(40,908)	(41,279)
Long Term Liabilities		**(1,704,024)**	**(1,802,944)**	**(1,705,613)**	**(1,805,263)**
Net Assets		**1,748,806**	**1,727,901**	**1,756,149**	**1,732,801**
Usable Reserves	25	(441,476)	(516,915)	(408,819)	(521,815)
Unusable Reserves	26	(1,307,330)	(1,210,986)	(1,347,330)	(1,210,986)
Total Reserves		**(1,748,806)**	**(1,727,901)**	**(1,756,149)**	**(1,732,801)**

I certify that the statement of accounts gives a true and fair view of the financial position of the authority at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.

D. Baldock

Dave Baldock
25 March 2019

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	
		2016/17 Restated	2017/18	2016/17 Restated	2017/18
	Note	£'000	£'000	£'000	£'000
Net Surplus/(Deficit) on the Provision of Services		(93,519)	(190,255)	(56,214)	(194,854)
Adjustments to Net Surplus on the Provision of Services for Non-Cash Transactions	27	237,862	302,143	206,294	303,246
Adjustments to Net Surplus on the Provision of Services that are Investing and Financing Activities	27	(58,246)	(104,438)	(58,246)	(104,438)
Net Cash Flows from Operating Activities		**86,097**	**7,450**	**91,834**	**3,954**
Investing Activities	28	(94,868)	(185,394)	(108,914)	(178,939)
Financing Activities	29	15,846	137,491	25,181	139,545
Net increase or (decrease) in Cash and Cash Equivalents		**7,075**	**(40,453)**	**8,101**	**(35,440)**
Cash and Cash Equivalents at the beginning of the Reporting Period		30,770	37,845	31,491	39,592
Cash and Cash Equivalents at the end of the Reporting Period	21	**37,845**	**(2,608)**	**39,592**	**4,152**

1. Statement of Accounting Policies

1.1 General

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at 31 March 2018. 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 2017/18* and the *Service Reporting Code of Practice for Local Authorities 2017/18*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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 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, it has been established that of the ten voluntary aided schools, control of eight of them remains with the diocese and therefore these eight 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.

Two Voluntary aided schools, St Antony's and St Francis are recorded within the Balance Sheet as these two Schools are Authority-owned. There are no lease arrangements with the diocese.

It has been verified that the other eight 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.

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.

1.3 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.

1.4 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).

1.5 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.

1.6 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 39 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 39.

1.7 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 into three types:

- Loans and receivables – assets which have fixed or determinable payments but are not quoted in an active market;
- Fair value through profit and loss – assets that have a quoted market price or do not have fixed or determinable payments, and which are "held for trading". "Held for trading" is defined as:
  - An asset acquired or incurred principally for the purpose of selling or repurchasing the asset in the near future; or
  - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of actual short-term profit taking; or
  - a derivative;
- Available-for-sale assets – assets that are not required to be classed as loans and receivables or fair value through profit and loss.

Long-term investments are intended to be held for use on a continuing basis within the activities of the Authority. Investments that do not meet this criteria are classified as current assets.

Loans and Receivables

Loans and receivables are recognised within the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. These items are subsequently carried at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

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

Additionally, the Authority has taken the decision, for policy reasons, to enter into a number of loan agreements (known as soft loans) that charge interest at below established market rates. When such soft loans are transacted, a loss is recognised in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal sum. Interest is accordingly credited to the Investment Income and expenditure line of the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the loan recipients, with the difference serving to increase the amortised cost of the loan to the Balance Sheet.

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, require that the impact of soft loans on the General Fund balance is the actual interest receivable for the year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the carrying value of the asset will be written down and a charge will be made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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.

Available-For-Sale Assets

Available-for-sale-assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for the interest are based on the amortised cost of the asset multiplied by the effective interest rate for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Fair values for available-for-sale assets are:

- equity instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis; and
- equity shares with no quoted market prices – independent appraisal of company valuations.

Where fair values cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Changes in fair value are balanced by an entry in the Available-For-Sale Reserve and the gain or loss is recognised in the Surplus or Deficit on Revaluation of Available-For-Sale Financial Assets. The gain or loss is recognised as a charge to the General Fund Balance when the asset is finally derecognised. Only where impairment losses have been incurred are these charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Reserve.

Fair Value through Profit and Loss assets

Fair value through profit and loss assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially and subsequently measured and carried at fair value.

Any unrealised gains or losses arising from changes in the market value of the instruments before they mature are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Similarly, any gains or losses on de-recognition of the assets are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.8 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.

1.9 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.

1.10 Long-Term Debtors

Long-term debtors relate to loans made to house purchasers and Housing Associations.

1.11 Grants

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.

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.

1.12 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.

1.13 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.

1.14 Provisions and Reserves

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.

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.

1.15 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.

1.16 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.

1.17 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.

1.18 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.

1.19 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.

1.20 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.

1.21 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.

1.22 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.

1.23 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.

1.24 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.

1.25 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 the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- Revenue from the provision of services is recognised when the Authority can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies 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.

1.26 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.

1.27 Accounting for Carbon Reduction Commitment Allowances

Allowances will be recognised as current or intangible assets in the Statement of Accounts. The liability is recognised as energy is consumed and is measured at the present market price of the number of allowances required to cover the emissions made. Income received from recycled allowances has no direct link to an Authority's purchase of allowances or carbon emissions. Income is recognised as it becomes receivable rather than accruing for the income based on its performance in the year.

1.28 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.

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (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 2017/18 Code. There are 5 such accounting changes, and additional disclosures will be required in the 2018/19 accounts when these accounting changes are introduced by the 2018/19 Code.

(a) Amendments to IFRS 9 Financial instruments
The Authority does not expect the reclassification changes to have a material impact upon the financial statements because the majority of the financial assets will retain the same measurement basis.

(b) Amendments to IFRS 16 – Leases
The International Accounting Standards Board (IASB) published IFRS 16 Leases in January 2016 with an effective date of 1 January 2019. The new standard requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

(**c) Amendments to IFRS 15 Revenue from Contracts with Customers**
This introduces multi-step methodology to identify contracts and performance obligations. There are enhanced disclosure requirements attached to his requirement. This is not anticipated to have a material impact in the immediate term beyond additional disclosures but the authority is waiting the final assessment from CIPFA/LASAAC.

(d) **Amendments to IAS 7 Statement of Cashflows (Disclosure Initiative)**
This will potentially require some additional analysis of Cash Flows from Financing Activities (disclosed at Note 29) in future years. If the standard had applied in 2017/18 there would be no additional disclosure because the Council does not have activities which would require additional disclosure.

(e) **Amendments to IAS 12 Income Taxes (Recognition of Deferred tax Assets for Unrealised Losses)**
This applies to deferred tax assets related to debt instruments measured at fair value. Neither of the Council's subsidiary companies in the Group Accounts has such debt instruments.

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 2017/18, 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. Newham Legacy Investments Limited, Red Door Ventures Ltd, Future Newhomes Limited, The Language Shop Limited, Public Realm Services Limited, Mint Cleaning Group Holdings Limited and i-Xact 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 39;

- **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 it's 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 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 it's merits, that only those schools which are in the direct ownership of the Authority should be disclosed within the Balance Sheet.

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 2018 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.
Reversal of Revaluation Losses Revaluation Reserve Capital Adjustment Account	a) Note 61 sets out the details of a prior period adjustment relating to the accounting treatment of non-current assets that have been subject to revaluation losses. Included in the prior period adjustment is an estimate of the historic cost depreciation differences between the carrying value and historic cost value of those assets. The total estimated difference is £143.9 million as at 1 April 2016. b) As part of the prior period adjustment the Council has made judgmental decisions on the most suitable method of allocating the historic cost depreciation differences to individual asset balances. As a result the revaluation reserve or revaluation loss on those assets as at 1 April 2016 is an estimate.	a) A 1% increase in the estimated depreciation difference could lead to a maximum £1.4 million increase in the revaluation reserve. b) Revaluation losses reverse in subsequent years following upward revaluations. The reversal is recognised in the surplus/deficit on the provision of services. To the extent the Council has over or underestimated the reserve balances as at 1 April 2016, subsequent revaluations could lead to incorrect presentation of those movements in the Comprehensive Income and Expenditure Statement; Movement in Reserves Statement and Unusable Reserves.
Self-Insurance	The Authority has recognised a year-end provision of £5.5m 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: (a) if the discount rate increases by 0.1%, this change reduces overall pension liabilities (in terms of the projected service cost element) to £51.3m; (b) if longevity increases by 1 year, this will increase liabilities (the projected service cost element) to approximately £54.2m.
Receivables	The Authority has estimated that £107.7m of the year-end value of Receivables should be impaired. This principally relates to Sundry and Parking Receivables (£57.2m), Council Tax (£22.2m), Housing Benefit overpayments (£14.1m) and Housing Rents (£11.9m). 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:

- £209.9m relating to the de-recognition of fifteen schools that have converted to Academy status during 2017/18;
- £19.5m gain on the valuation of Property, Plant and Equipment, of which all was recognised within the Comprehensive Income and Expenditure Statement

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.

6. Post Balance Sheet Events

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 22 March 2019. 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 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. It has been agreed that there are no non-adjusting events after the Balance Sheet date.

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:

2016/17 Restated				2017/18		
Adjustments for Capital Purposes	**IAS 19**	**Total Adjustments**		**Adjustments for Capital Purposes**	**IAS 19**	**Total Adjustments**
£'000	**£'000**			**£'000**	**£'000**	**£'000**
142	2	**144**	Adult Services	663	-	**663**
(19,636)	6,255	**(13,381)**	Central Services	(19,398)	(22,120)	**(41,518)**
3,487	14	**3,501**	Children's Services	51,349	10,117	**61,466**
791	5	**796**	Community and Environment	756	3,978	**4,734**
441	-	**441**	Enforcement and Safety	279	-	**279**
61,191	3	**61,194**	HRA	2,042	4,963	**7,005**
(128)	-	**(128)**	oneSource	478	-	**478**
(3,480)	-	**(3,480)**	oneSource - Non Shared	3,718	-	**3,718**
-	-	**-**	Public Health	-	-	**-**
(26)	1	**(25)**	Regeneration & Planning	1,428	856	**2,284**
-	-	**-**	Strategic Services	-	-	**-**
42,782	**6,280**	**49,062**	**Net Cost of Services**	**41,315**	**(2,206)**	**39,109**
29,608	23,076	**52,684**	Other Income and Expenditure from the Funding Analysis	188,362	(24,377)	**163,985**
72,390	**29,356**	**101,746**	**Surplus or Deficit**	**229,677**	**(26,583)**	**203,094**

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:

2016/17 Restated £'000		2017/18 £'000
	Expenditure	
409,517	Employee benefits expenses	399,645
712,896	Other services expenses	703,906
82,965	Support service recharges	52,732
82,732	Depreciation and Amortisation	57,719
(43,514)	Impairment and Revaluation	(21,599)
118,988	Interest payments	76,855
16,399	Precepts and levies	19,914
67,229	Loss on the disposal of assets	196,637
1,447,212	**Total Expenditure**	**1,485,809**
	Income	
(353,943)	Fees, charges and other service income	(320,576)
(12,000)	Interest and investment income	(13,138)
(107,178)	Income from council tax, nondomestic rates, district rate income	(114,496)
(880,572)	Government grants and contributions	(847,344)
(1,353,693)	**Total income**	**(1,295,554)**
93,519	**(Surplus) or Deficit on the Provision of Services**	**190,255**

9. Adjustments Between Accounting Basis And Funding Basis Under Regulations 2017/18

This note details the 2017/18 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	(34,389)	(23,020)				**57,409**
Revaluation (losses)/gain on Property, Plant and Equipment	7,525	11,961				**(19,486)**
Movements in the market value of Investment Properties	(2,630)	3,156				**(526)**
Amortisation of Intangible Assets	(336)					**336**
Capital grants and contributions applied	36,542					**(36,542)**
Revenue expenditure funded from capital under Statute	(22,496)	(2,265)				**24,761**
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	(231,749)	(25,069)				**256,818**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	1,229	0				**(1,229)**
Voluntary provision for the financing of capital investment	10	1,898				**(1,908)**
Capital expenditure charged against the General Fund and HRA balances						**0**
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	12,676	414			(13,090)	**0**
Application of grants to capital financing transferred to the Capital Adjustment Account					3,591	**(3,591)**
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	12,924	41,882	(54,806)			**0**
Use of the Capital Receipts Reserve to finance new capital expenditure			12,177			**(12,177)**
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(150)		150			**0**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool		(1,775)	1,775			**0**
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		23,020		(23,020)		**0**
Use of the Major Repairs Reserve to finance new capital expenditure				11,103		**(11,103)**
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	240	(479)				**239**
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(44,925)	(8,177)				**53,102**
Employer's pensions contributions and direct payments to pensioners payable in the year	30,152	3,214				**(33,366)**
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	1,791					**(1,791)**
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	5,596	137				**(5,733)**
Total Adjustments	**(227,990)**	**24,897**	**(40,704)**	**(11,917)**	**(9,499)**	**265,213**

9. Adjustments Between Accounting Basis And Funding Basis Under Regulations 2016/17 Restated

This note details the 2016/17 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	(76,410)	(45,724)				**122,134**
Revaluation (losses)/gain on Property, Plant and Equipment	24,714	12,794				**(37,508)**
Movements in the market value of Investment Properties	4,224	1,985				**(6,209)**
Amortisation of Intangible Assets	(583)	(14)				**597**
Capital grants and contributions applied	43,530	2,577				**(46,107)**
Revenue expenditure funded from capital under Statute	(12,363)	(10,811)				**23,174**
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	(91,221)	(27,598)				**118,819**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	60					**(60)**
Voluntary provision for the financing of capital investment		2,604				**(2,604)**
Capital expenditure charged against the General Fund and HRA balances						**0**
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	15,785	(2,229)			(13,556)	**0**
Application of grants to capital financing transferred to the Capital Adjustment Account					6,385	**(6,385)**
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		51,667	(51,667)			**0**
Use of the Capital Receipts Reserve to finance new capital expenditure			18,723			**(18,723)**
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(78)		78			**0**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool		(1,795)	1,795			**0**
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		22,644		(22,644)		**0**
Use of the Major Repairs Reserve to finance new capital expenditure				23,170		**(23,170)**
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	(331)	98				**233**
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(52,720)	(6,433)				**59,153**
Employer's pensions contributions and direct payments to pensioners payable in the year	38,217	4,139				**(42,356)**
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	568					**(568)**
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	869	89				**(958)**
Total Adjustments	**(105,739)**	**3,993**	**(31,071)**	**526**	**(7,171)**	**139,462**

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 2017/18.

	Balance at 31/03/2016 £'000	Transfers Out 2016/17 £'000	Transfers In 2016/17 £'000	**Balance at 31/03/2017 £'000**	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	**Balance at 31/03/2018 £'000**
General Fund Reserves							
Authority Transition Reserve	**(41,091)**	18,702	(11,805)	**(34,194)**	8,680	(11,918)	**(37,432)**
Borough-Wide Licensing Reserve	**(3,405)**	1,509	-	**(1,896)**	1,896	-	**-**
Capital Reserve	**(24,345)**	2,031	-	**(22,314)**	17,653	(6,955)	**(11,616)**
Crime and Disorder Reduction Partnership	**(56)**	56	-	**-**	-	-	**-**
Capital Financing Reserve	**(18,934)**	-	(19,163)	**(38,097)**	-	(20,907)	**(59,004)**
DSG Reserve	**(13,225)**	15,258	(10,382)	**(8,349)**	10,059	(4,567)	**(2,857)**
EBU Reserve	**(142)**	142	-	**-**	-	-	**-**
Education PFI Reserve	**(1,385)**	552	(49)	**(882)**	152	-	**(730)**
Enterprise Zone Reserve	**(810)**	-	(630)	**(1,440)**	1,922	(482)	**-**
Highways Maintenance Reserve	**(1,518)**	20	-	**(1,498)**	-	-	**(1,498)**
Housing General Fund Reserve	**(131)**	131	-	**-**	-	(10,567)	**(10,567)**
HRA Bond Reserve	**(613)**	-	(100)	**(713)**	712	-	**(1)**
Insurance Reserve	**(4,322)**	-	(443)	**(4,765)**	1,069	(3,014)	**(6,710)**
Regeneration Reserve	**(581)**	-	-	**(581)**	606	(901)	**(876)**
Schools Balances Reserve	**(35,758)**	11,930	(4,774)	**(28,602)**	20,803	(16,970)	**(24,769)**
Trading Operations Reserve	**(347)**	-	(125)	**(472)**	802	(559)	**(229)**
Treasury Reserve	**(10,392)**	1,812	(2,105)	**(10,685)**	1,642	-	**(9,043)**
Warm Homes Healthy Project Reserve	**(841)**	-	-	**(841)**	841	-	**-**
Total General Fund Reserves	**(157,896)**	**52,143**	**(49,576)**	**(155,329)**	**66,837**	**(76,840)**	**(165,332)**
Housing Revenue Account (HRA)							
Housing Earmarked Reserves	**-**	-	-	**-**	-	-	**-**
Housing Repairs Reserve	**(1,387)**	1,387	-	**-**		-	**-**
HRA Choice Homes UK Reserve	**(1,084)**	1,084	-	**-**		-	**-**
HRA PFI Reserve	**(14,093)**	14,093	-	**-**		-	**-**
Total HRA Reserves	**(16,564)**	**16,564**	**0**	**0**	**0**	**0**	**0**
Total Earmarked Reserves	**(174,460)**	**68,707**	**(49,576)**	**(155,329)**	**66,837**	**(76,840)**	**(165,332)**

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 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.

4) Crime and Disorder Reduction Partnership
This is the accumulated balance on the Crime and Disorder Reduction Partnership which is a statutory local partnership, and surplus funds are held for this purpose.

5) 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.

6) DSG Reserve
This is ring-fenced grant carried forward to match the academic year.

7) EBU Reserve
Reserve created to support the External Business Units.

8) Education PFI Reserve
PFI to support Education Service

9) Enterprise Zone Reserve
The Royal Docks has been designated as an Enterprise Zone that offers incentives such as tax concessions to encourage business investment. These amounts represent business rates collected within the area that have been set aside for reinvestment and for future use by Local Enterprise Partnerships (LEP).

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

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

12) 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).

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

10. Transfers To/From Earmarked Reserves (contd.2)

14) 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.

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

16) 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).

17) Warm Homes Healthy Project Reserve
Funding provided by the Olympic Delivery Authority to improve the thermal efficiency of private sector dwellings.

18) Housing Earmarked Reserves
This represents accrued income arising from Major Works rechargeable to leasehold properties. The monies are earmarked for future capital investment into Housing stock.

19) Housing Repairs Reserve
This is the accumulated balance on the Housing Repairs Reserve, which is part of the HRA accounts, and is held to meet future dilapidation needs.

20) HRA Bond Reserve
Reserve holding bonds from private sector leaseholders to compensate for damages and rent arrears on leased property.

21) HRA Choice Homes UK Reserve
This is the accumulated balance arising from the Choice Homes UK joint operation and funds are held solely for the operations of this venture. The choice-based lettings service focuses on advertising affordable rented housing available on a secure tenancy from a Local Authority landlord or on an assured tenancy from a Housing Association landlord.

22) HRA PFI Reserve
The HRA PFI Reserve recognises that funding received in the earlier years of the Authority's two Housing PFI schemes exceeds expenditure in the early years of each scheme but that expenditure will rise significantly during the course of the contracts.

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:

2016/17 £'000		2017/18 £'000
16,399	Levies	19,914
1,795	Payments to the Government Housing Capital Receipts Pool	1,775
67,229	Losses on the disposal of non-current assets	196,637
85,423	**Total**	**218,326**

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:

2016/17 £'000		2017/18 £'000
51,527	Interest Payable and Similar Charges	52,478
44,385	Investment Impairment	-
23,076	Pensions interest cost and expected return on pensions assets	24,377
(9,584)	Interest receivable and similar income	(12,538)
(6,209)	Income and expenditure in relation to investment properties and changes in their fair value	(7,389)
(2,416)	Other investment income and expenditure	8,950
100,779	**Total**	**65,878**

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:

2016/17 £'000		2017/18 £'000
(66,986)	Council tax income	(72,351)
(40,192)	Business Rates (Retained share)	(42,143)
(159,037)	General Government Grants	(160,514)
(59,662)	Capital grants and contributions	(49,632)
(325,877)	**Total**	**(324,640)**

13.Taxation And Non-Specific Grant Income (contd.)

Grants Credited to Taxation and Non Specific Grant Income

2016/17 £'000		2017/18 £'000
	General Government Grants:	
(70,661)	Revenue Support Grant	(56,375)
(71,179)	Business Rates Top Up Grant	(69,408)
(4,285)	Education Service Grant	(1,153)
(12,912)	New Homes Bonus	(11,664)
-	Better Care Fund	(8,898)
-	Homelessness Support Grant	(6,866)
-	Other	(6,150)
(159,037)	**Total**	**(160,514)**
	Capital Grants and Contributions:	
(1,133)	Comms and Local Gov	(1,525)
(43,536)	Dept of Education	(30,632)
(1,240)	Dept of Health	(1,550)
2,229	Leaseholders	(414)
(1,218)	School Contributions	(2,450)
(15)	Other Entities	(19)
(20)	Greater London Authority	(1,478)
(10,345)	Transport for London	(8,774)
(3,978)	Section 106	(293)
(70)	Stratford Transport Implementation Group	(855)
(336)	Other	(1,642)
(59,662)	**Total**	**(49,632)**

Grants Credited to the net cost of services include:

2016/17 £'000		2017/18 £'000
	Revenue Grants:	
(269,980)	Housing Benefit Subsidy	(260,126)
(312,900)	Dedicated Schools Grant (DSG)	(289,226)
(21,887)	Pupil Premium	(18,365)
(32,739)	Public Health Grant	(31,932)
(24,367)	Other Grants	(37,549)
(661,873)	**Total**	**(637,198)**

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

2016/17 £'000		2017/18 £'000
(566)	Community Infrastructure Levy (CIL)	-
(35,736)	Section 106	(41,279)
(1,530)	Greater London Authority	-
(10)	ODA	-
(730)	Stratford Transport Implementation Group	-
(63)	Department for Communities and Local Government	-
(370)	Department of Health	-
(102)	NHS	-
(1,395)	Other	-
(1,189)	Department of Education	-
(41,691)	**Total**	**(41,279)**

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 2017/18

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Long term Surplus £'000	Assets Under Construction £'000	Total Property, Plant & Equipment £'000
Cost or Valuation								
At 1 April 2017	1,171,247	1,340,939	58,187	316,017	24,756	144,384	70,735	**3,126,265**
Additions and enhancement	13,220	15,944	2,270	23,159	142	12,923	6,307	**73,965**
Revaluation recognised in the Revaluation Reserve	16,966	81,028	-	-	-	(22,270)	-	**75,724**
Revaluation recognised in the Surplus on the Provision of Services	597	16,278	-	-	-	(4,191)	-	**12,684**
Derecognition - Disposals	(16,193)	-	-	-	-	-	-	**(16,193)**
Derecognition - other	(2,510)	(224,647)	(36)	-	-	-	(11,748)	**(238,941)**
Other reclassifications	14,737	(5,378)	7,810	-	-	7,010	(27,716)	**(3,537)**
At 31 March 2018	**1,198,064**	**1,224,164**	**68,231**	**339,176**	**24,898**	**137,856**	**37,578**	**3,029,967**
Accumulated Depreciation and Impairment								
At 1 April 2017	-	(6,188)	(40,762)	(87,493)	-	(2)	(650)	**(135,095)**
Depreciation Charge	(15,855)	(27,398)	(4,773)	(6,143)	-	(3,240)	-	**(57,409)**
Depreciation written out to the Revaluation Reserve	15,272	16,908	-	-	-	34	-	**32,214**
Depreciation written out to the Surplus on the Provision of Services	310	6,533	-	-	-	(41)	-	**6,802**
Disposals	219	-	-	-	-	-	-	**219**
Derecognition - other	34	3,558	30	-	-	-	-	**3,622**
Other reclassifications	20	(15)	-	-	-	(439)	434	**-**
At 31 March 2018	**-**	**(6,602)**	**(45,505)**	**(93,636)**	**-**	**(3,688)**	**(216)**	**(149,647)**
Net Book Value								
At 31 March 2018	1,198,064	1,217,562	22,726	245,540	24,898	134,168	37,362	**2,880,320**
At 31 March 2017	1,171,247	1,334,751	17,425	228,524	24,756	144,382	70,085	**2,991,170**

14. Property, Plant And Equipment

Property, Plant and Equipment 2016/17 Restated

	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 2016	1,098,820	1,104,098	55,506	289,480	24,756	94,765	36,373	**2,703,798**
Additions and enhancement	34,112	24,474	3,508	26,537	-	-	23,411	**112,042**
Revaluation recognised in the Revaluation Reserve	65,740	277,771	-	-	-	67,944	-	**411,455**
Revaluation recognised in the Surplus on the Provision of Services	(36)	5,662	-	-	-	15,675	-	**21,301**
Derecognition - Disposals	(24,885)	-	-	-	-	(207)	-	**(25,092)**
Derecognition - other	(2,504)	(94,644)	(827)	-	-	(842)	-	**(98,817)**
Other reclassifications	-	23,578	-	-	-	(32,951)	10,951	**1,578**
At 31 March 2017	**1,171,247**	**1,340,939**	**58,187**	**316,017**	**24,756**	**144,384**	**70,735**	**3,126,265**
Accumulated Depreciation and Impairment								
At 1 April 2016	-	(24,129)	(34,828)	(81,350)	-	(2,329)	(205)	**(142,841)**
Depreciation Charge	(43,351)	(24,577)	(6,667)	(6,143)	-	(1,397)	-	**(82,135)**
Depreciation written out to the Revaluation Reserve	42,237	24,024	-	-	-	2,398	-	**68,659**
Depreciation written out to the Surplus on the Provision of Services	95	15,654	-	-	-	256	-	**16,005**
Disposals	983	-	-	-	-	7	-	**990**
Derecognition - other	36	3,309	733	-	-	43	-	**4,121**
Other reclassifications	-	(469)	-	-	-	1,020	(445)	**106**
At 31 March 2017	**-**	**(6,188)**	**(40,762)**	**(87,493)**	**-**	**(2)**	**(650)**	**(135,095)**
Net Book Value								
At 31 March 2017	1,171,247	1,334,751	17,425	228,524	24,756	144,382	70,085	**2,991,170**
At 31 March 2016	1,098,819	1,079,969	20,678	208,130	24,756	92,436	36,168	**2,560,957**

14. Property, Plant And Equipment (contd.)

In addition to the Authority property balance and equipement, the Group includes £17.5m of assets classified as other land and buildings held within Future Newhome ltd (Note 39)

As the start of 2017/18, the authority made a material change to its accounting estimates for the remaining useful lives of council dwellings. The average useful life has increased from 18 years to 46 years, as a result of the 2017/18 depreciation charge for the properties was £15.9m, this was £27.5m lower than the depreciation for 2016/17. This change in account estimates will be applied to future years.

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 46 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.

2016/17 Number	Category of School	2017/18 Number
62	Community	43
10	Voluntary Aided	8
2	Voluntary Controlled	2
74	**Total**	**53**

Disclosure:

Capital Commitments

At 31 March 2018, the authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2017/18 and future years budgeted to cost £14.8m. Similar commitments at 31 March 2017 were £18.6m. The major commitments are;

Commitment	Cost £'000
East Ham Town Hall refurbishment	4,129
Eleanor Smith School	6,006
Tollgate Primary	2,269
Central Park Primary	433
Brassett Point, David Lee Point	430
Memorial Avenue	363
CCTV Network	310
Keeping Newham Moving	862
Total outstanding commitments at 31 March 2018	**14,802**

There is additonal £22m capital commitments as apart of the group accounts (see note 39)

PPE analysis showing those assets held at cost and those at valuation sub divided by last revaluation date as at 31/03/2018.

	Council Dwellings £'000	OL&B £'000	VP&E £'000	Infra £'000	CA £'000	LTS £'000	AUC £'000	Total PPE £'000
Carried at historic cost		263	22,726	245,540	24,898	10,796	37,362	341,585
Values at Fair value as at								
31st March 2018	1,198,064	1,117,041				82,601		2,397,706
31st March 2017		42,700				2,717		45,417
1st April 2016		26,416				9,594		36,010
1st April 2015		15,324				28,460		43,784
1st April 2014		15,818						15,818
Total Cost or Valuation	**1,198,064**	**1,217,562**	**22,726**	**245,540**	**24,898**	**134,168**	**37,362**	**2,880,320**

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 2017	59	2,205	1,394	3,658
Additions				-
Disposals				-
Revaluations				-
At 31 March 2018	**59**	**2,205**	**1,394**	**3,658**
Balance as at 1 April 2016	59	2,205	1,394	3,658
Additions	-	-	-	-
Transfers	-	-	-	-
Revaluations	-	-	-	-
At 31 March 2017	**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 a donated asset which was added during 2013/14 and 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

Newham Heritage Service 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.

The service currently holds:

15. Heritage Assets (contd.)

Local Archaeology

Extensive collections including items illustrating some of the earliest settlement in the area, resulting from rescue archaeology carried out in the Borough include;
• Roman finds from buildings and cemeteries. Roman pottery, especially fine wares.
• Post Roman/Medieval material showing the development of West Ham and Stratford and churches including St Mary's.
• Archaeological archives from excavations undertaken in Newham from the 1970s to 1990s.

• Policy: to collect archaeological material from Newham whether obtained by organised excavation, field walking, metal detecting, casual find or purchase but only provided that sufficient resources are available for post-excavation curation and care.

Local and Social History

General

• Large collection of approximately 5,000 items largely Victorian in date with some duplication of items.

• Policy: to collect pre 1800 material if available. To severely restrict the collection of Victorian items and to concentrate on 20th century and contemporary material, especially items relating to Newham's diverse ethnic communities not yet represented in the collections. Active collecting to be concentrated on these. This to be largely achieved through focussed projects or exhibitions.

Dress and Textiles

• Local collections of clothing, accessories, domestic textiles, sewing, knitting and haberdashery accessories. Approx 2,500 pieces.
• Policy: this collection will not be expanded except with items from Newham communities not already represented or something with an outstanding link to a local resident.

Local Archives and Photographs

• Collections include local manorial documents and transcripts and indexes of local parish registers. There is also the local pictorial survey. There is a bias to the Victorian and Edwardian eras. In addition there is the slide collection, a visual archive of the museum service's work since c1970 including local building records, items in the collection, exhibitions and events.

• Policy: to actively collect 20th century and 21st century photographs and ephemera.

Oral History

• The Service has collected oral reminiscences on tape and in written form both through Eastside Community Heritage and on its own account. Eastside and the Museum of London both hold relevant collections of material.

• Policy: to actively collect more material starting with the 'Your Moving Story' project. To set up further projects to produce material to feed 'The Newham Story' website. To encourage the production of content through the direct involvement of Newham community groups and individual residents or employees, both past and present.
• To liaise closely with Eastside Community Heritage and the Museum of London to prevent any duplication of material and to ensure its widest possible dissemination.

Railway and Transportation History

• Two locomotives on loan (no 2000 owned by P Elms, no. 229 owned by W. Parker). 'Dudley' the diesel Locomotive, LNER Gresley coach and other wagons and carriages. These are not included in the carrying value of assets in the accounts.

• 4,000 photographic negatives, slides and prints.
• Station furniture and fittings, approximately 80 items.

• Posters and ephemera produced by the Great Eastern Railway (GER) and its descendants, many related to the Stratford Works.

• Archive of plans and journals owned by the GER Society in the process of being transferred to the Essex Record Office.

• Policy: to concentrate on collecting items relating to recent, local railway developments especially the Cross Channel Rail Link at Stratford and items which illustrate the broader transport history of the Borough.

Fine and Applied Art

• There are approximately 50 paintings, largely of local people or places, with single paintings by artists including Romney, Kneller and Carmichael.

• There are also approximately 400 items, mostly pen and ink drawings, by 'Outsider Artist' Madge Gill.

• There is also a major collection (99 pieces) of Bow porcelain.
• Policy: to collect works of art depicting local scenes and the work of artists and craftspeople with strong local connections, particularly those from communities not already represented. Further acquisitions of local connections, particularly those from communities not already represented. Further acquisitions of Bow porcelain or artworks by Madge Gill to be considered on a case by case basis.

Buxton Table

• The service has collected the table around which William Wilberforce MP and others, including its owner Thomas Buxton MP, discussed and drafted the Bill for the Abolition of Slavery in the British Dominions, in 1833. Known as the Buxton Table.

16. Investment Properties

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

2016/17 £'000		2017/18 £'000
7,577	Rental income due from investment property	10,801

2016/17 £000		2017/18 £000
109,742	**Balance at 1 April**	114,321
74	Additions and Enhancement Expenditure	91,446
6,209	Net gains/(losses) from fair value adjustments	2,113
	Transfers:	
(1,683)	To Property, Plant and Equipment	3,545
(21)	Disposals	(5,525)
114,321	**Balance at 31 March**	**205,900**

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

2016/17 In Borough £'000	2016/17 Out of Borough £'000		2017/18 In Borough £'000	2017/18 Out of Borough £'000
63,354	897	Retail unit	64,400	25,831
9,527		Office	8,280	43,700
10,415		Industrial unit	16,990	18,000
17,550		Land	15,843	
6,180		Warehouse / Stores	6,541	
3,781		Community Centre	3,551	
989		Car Park	956	
921		Depot	866	
540		Cinema	771	
81		Garages	87	
86		Flats	84	
113,424	**897**	**Balance at 31 March**	**118,369**	**87,531**

In addition to investment properties held by the Authority, the group balance sheet includes £56.7m (2017: £25.2m) of investment property held within Red Door Venture Ltd (note 39)

Valuations were carried out by the following: Wilks, Head and Eve LLP, Carter Jonas, Lambert Smith Hampton, Cushman & Wakefield and Savills (in 2016/17 by this was carried out by the District Valuation Office) 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. The amortisation of £0.3m charged to revenue in 2017/18 (£0.6m in 2016/17) 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 2016/17 £'000		**Purchased 2017/18 £'000**
	Balance at start of year	
4,645	Gross Carrying Amounts	4,091
(3,384)	Accumulated Amortisation	(3,427)
1,261	**Net carrying amount at start of year**	**664**
	Additions	
-	Purchases	134
(597)	Amortisation	(336)
(554)	Write out GBV of fully depreciation assets	-
554	Write out cumulative depreciation of fully depreciation assets	-
664	**Net carrying amount at end of year**	**462**
	Comprising	
4,091	Gross Carrying Amounts	4,224
(3,427)	Accumulated amortisation	(3,762)

18. Financial Instruments

The definition of a financial instrument is: 'Any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity'.

The term 'financial instrument' covers both financial assets and financial liabilities. The Authority's borrowing, service concession arrangements (PFI and finance leases), and investment transactions and some payables and receivable balances are classified as financial instruments.

Financial Liabilities

The Authority's loan portfolio at year end consisted of PWLB, market debt and temporary borrowing. Under the Code of Practice, these forms of borrowing are measured at amortised cost. This form of measurement does not change the amount of cash paid under the terms of the loan but can impact on the charge made to the Comprehensive Income and Expenditure Statement.

Other types of financial liabilities the Authority has include service concession arrangements (PFI Schemes), finance leases and trade payables (creditors). Further detail of these is disclosed in notes 23,37,41 and 42 to the Accounts.

Financial Assets

The Authority's portfolio of Treasury Managment investments consist of fixed term deposits, money market funds, fixed term deposits, call accounts, structured deposits and corporate bonds. Term deposits and call accounts are classed as 'Loans and Receiveables' and are measured at amortised cost. this form of measurement does not change the amount of cash received under the terms of the investment. Money market funds are classed as Available for Sale, however these funds are currently 'Constant Net Asset Value' funds and therefore are not exposed to the risk of change in the value of principal invested. Trade receivables are also a financial asset and these are disclosed in detail in Note 22.

Balances in Treasury Management same day call accounts at 31st March 2018 are shown under 'Cash and Cash Equivalents' in the Balance Sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash.

The Authority does not have any investments required to be measured at Fair Value through Profit and Loss.

Transaction costs
Measurement at amortised cost requires transaction costs related to financial instruments to be attached to the loan or investment and charged to the Comprehensive Income and Expenditure Statement over the life of the instrument. Where these are considered to be immaterial they can be charged in full to the Comprehensive Income and Expenditure Statement in the financial year in which they are incurred. The Authority has adopted this latter approach.

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

- Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.
- Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. They comprise property unit trusts.
- Level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

18. Financial Instruments (contd.1)

Financial Instruments - Balances

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

	Long Term		Current	
	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000
Investments				
Loans and Receivables	208,500	145,000	263,786	410,395
Available for sale financial assets	-	-	15,402	-
Unquoted equity investment at cost	-	11,508	-	-
Total Investments	**208,500**	**156,508**	**279,188**	**410,395**
Debtors				
Loans and receivables	7,906	6,133	-	-
Financial assets carried at contract amount	44,196	94,988	34,235	38,476
Total Included In Debtors	**52,102**	**101,121**	**34,235**	**38,476**
Cash & Cash equivalents	-	-	67,703	45,029
Total Cash & Cash equivalents	**-**	**-**	**67,703**	**45,029**
Total Financial Assets	**260,602**	**257,629**	**381,126**	**493,900**
Borrowings				
Financial liabilities at amortised cost	579,795	720,378	223,967	221,814
Total included in borrowings	**579,795**	**720,378**	**223,967**	**221,814**
Other Long Term Liabilities				
PFI and finance lease liabilities	117,358	114,357	5,102	4,589
Total other long term liabilities	**117,358**	**114,357**	**5,102**	**4,589**
Creditors				
Financial liabilities at amortised cost	465	275	-	-
Financial liabilities carried at contract amount	-	-	98,699	84,665
Total creditors	**465**	**275**	**98,699**	**84,665**
Total Financial Liabilities	**697,618**	**835,010**	**327,768**	**311,068**

*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 2018/19.

18. Financial Instruments (contd.2)

Financial Instruments - Gains and Losses

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

	2016/17					2017/18			
	Financial Liabilities		**Financial Assets**			**Financial Liabilities**		**Financial Assets**	
	Liabilities measured at amortised cost		**Loans and receivables**	**Total**		**Liabilities measured at amortised cost**		**Loans and receivables**	**Total**
	£'000		**£'000**	**£'000**		**£'000**		**£'000**	**£'000**
Interest expense	39,621	-	-	39,621	-	49,662	-	-	**49,662**
Total expense in Surplus on the Provision of Services	**39,621**	**-**	**-**	**39,621**	**-**	**49,662**	**-**	**-**	**49,662**
Interest income	-		(7,106)	(7,106)				(12,538)	**(12,538)**
Total income in Surplus on the Provision of Services	**-**		**(7,106)**	**(7,106)**		**-**		**(12,538)**	**(12,538)**
Surplus arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**-**		**-**	**-**		**-**		**-**	**-**
Net loss/(gain) for the year	**39,621**		**(7,106)**	**32,515**		**49,662**		**(12,538)**	**37,124**

18. Financial Instruments (contd.3)

Financial Instruments - Fair Values

The fair value of Public Works Loans Board (PWLB) loans of £327m 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 £211m would be valued at £261m. 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 £261m for the additional interest that will not now be paid. The exit price for the PWLB loan including the penalty charge would be £259m.

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

(i) estimated ranges of interest rates at 31 March 2018 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%

31st March 2017 Carrying Value £'000	31st March 2017 PR Rate Fair Value £'000	Financial Assets	Fair Value level	31st March 2018 Carrying Value £'000	31st March 2018 PR Rate Fair Value £'000
208,500	213,574	Long-Term Investments	2	145,000	150,019
1,639	1,639	Long-Term Receivables - Soft Loans (Note 22)	2	807	807
8,292	8,292	Long-Term Receivables - Finance Leases (Note 22)	2	9,521	9,521
48,438	48,438	Long-Term Receivables - Other (Note 22)	2	90,793	90,793
266,869	**271,943**	**Total Included in Long-Term Assets**		**246,121**	**251,140**
263,786	262,255	Short Term Investments	2	410,395	410,395
1,540	1,540	Short-Term Receivables - Leaseholders (Note 22)	2	2,451	2,451
34,531	34,531	Short-Term Receivables (Note 22)	2	36,025	36,025
15,402	15,402	Short Term Investments Available for Sale	2	-	-
67,703	67,703	Cash and Cash Equivalents (Note 21)	2	45,029	45,029
382,962	**381,431**	**Total included in Current Assets**		**493,900**	**493,900**
649,831	**653,374**	**Total Financial Assets**		**740,021**	**745,040**

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 2017 Carrying Value £'000	31st March 2017 PR Rate Fair Value £'000	Financial Liabilities	Fair Value level	31st March 2018 Carrying Value £'000	31st March 2018 PR Rate Fair Value £'000	31st March 2018 NL Rate Fair Value £'000
223,963	287,597	Short Term Borrowing	2	218,714	343,593	
		Short Term Borrowing PWLB		3,100	551	549
5,102	5,102	PFI and Finance Lease Liabilities (Note 23)	2	4,589	4,589	
98,699	98,699	Financial Liabilities at Contracted Amounts (Note 23)	2	84,665	84,665	
327,764	**391,398**	**Total Included in Current Liabilities**		**311,068**	**433,398**	**549**
441,796	923,600	Long-Term Borrowing	2	512,904	1,151,096	
138,002	235,286	Long-Term Borrowing PWLB	2	207,474	325,987	260,945
117,358	117,358	PFI and Finance Lease Liabilities (Note 37)	2	114,357	114,357	
465	465	Financial Liabilities at Amortised Cost (Note 37)	2	275	275	
697,621	**1,276,709**	**Total included in Long Term Liabilities**		**835,010**	**1,591,715**	**260,945**
1,025,385	**1,668,107**	**Total Financial Liabilities**		**1,146,078**	**2,025,113**	**261,494**

18. Financial Instruments (contd.4)

LOBO's

The Authority has a number of market Lender Option, Borrowers' Option (LOBO) loans within its borrowing portfolio. As at the 31 March 2018 33% of the total portfolio was LOBO, (81% in 2015/16). During 2016/17 44% of the LOBO portfolio was restructured into long term, fixed rate debt removing all options and with it the re-financing risk. 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.

The tables below disclose the fair values of the Authorities' LOBO's:

Summary Portfolio Valuation

	31st March 2018	
	Nominal/Principal	**Fair Value**
Financial Liabilities	**£'000**	**£'000**
LOBO loan - Fixed rate	125,000	252,567
LOBO loan - Inverse	150,000	339,780
Zero-to-Par loan	40,000	93,635
Total	**315,000**	**685,982**

Summary Portfolio Valuation

	31st March 2017	
Financial Liabilities	**Nominal/Principal**	**Fair Value**
	£'000	**£'000**
LOBO loan - Fixed rate	125,000	201,014
LOBO loan - Inverse	150,000	348,692
Zero-to-Par loan	40,000	80,832
Total	**315,000**	**630,538**

Further details on the nature of the Authority's LOBO's are disclosed in Note 47.

19. Inventories

2016/17 Stocks	2016/17 Work in Progress	2016/17 Total		2017/18 Stocks	2017/18 Work in Progress	2017/18 Total
£'000	£'000	£'000		£'000	£'000	£'000
1,062	**(148)**	**914**	**Balance b/f**	**1,692**	**(148)**	**1,544**
630	-	**630**	Purchases	479	148	**627**
-	-	**-**	Expensed in year	-	-	-
1,692	**(148)**	**1,544**	**Balance c/f**	**2,171**	**-**	**2,171**

20. Construction Contracts

The Authority has no significant construction contracts to disclose at year-end.

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:

2016/17		2017/18
£'000		£'000
89	Petty Cash	69
37,309	Cash at Bank (Schools)	44,960
30,305	Cash Equivalents	0
67,703	**Cash and Cash Equivalents**	**45,029**
(29,858)	Cash and Cash Equivalents overdrawn	(47,637)
37,845	**Total Cash and Cash Equivalents**	**(2,608)**

The cash and cash equivalents held by the group is not materially different to the cash held by the Authority

22. Receivables

2016/17 Single Entity Gross £'000	2016/17 Single Entity Impairment Allowance £'000	2016/17 Single Entity Net £'000	2016/17 Group Accounts Total £'000	Short Term Receivables	2017/18 Single Entity Gross £'000	2017/18 Single Entity Impairment Allowance £'000	2017/18 Single Entity Net £'000	2017/18 Group Accounts Total £'000
22,088	-	22,088	22,278	Central Government Bodies	26,435	-	26,435	26,435
10,246	-	10,246	10,246	Other Local Authorities	3,674	-	3,674	3,674
29,488	(22,909)	6,579	6,579	Council Tax Payers	27,496	(22,198)	5,298	5,298
1,358	(1,342)	16	16	Business Rate Payers	1,885	(713)	1,172	1,172
11,139	(9,435)	1,704	1,704	Housing Rents	14,816	(11,868)	2,948	2,948
45,275	(10,744)	34,531	35,009	Sundry Receivables	43,278	(7,253)	36,025	35,983
22,529	(14,680)	7,849	7,849	Housing Benefit Overpayments	22,927	(14,086)	8,841	8,841
10,304	-	10,304	18,078	Prepayments	36,265	-	36,265	59,876
70,000	(68,839)	1,161	1,161	Parking	53,245	(49,982)	3,263	3,263
2,941	(1,401)	1,540	1,540	Leaseholders	4,099	(1,648)	2,451	2,451
17,714	-	17,714	17,714	Amount due from Pension Fund	2,831	-	2,831	2,831
243,082	**(129,350)**	**113,732**	**122,174**		**236,951**	**(107,748)**	**129,203**	**152,772**

Included within group prepayments is £18.3m (£8m: 2017) held in Red Door ventures ltd and £6m (£Nil: 2017) held in Future Homes ltd

2016/17 Gross £'000	2016/17 Impairment Allowance £'000	2016/17 Net £'000	2016/17 Group Total £'000	Long Term Receivables	2017/18 Gross £'000	2017/18 Impairment Allowance £'000	2017/18 Net £'000	2017/18 Group Total £'000
185	-	185	185	Mortgages	-	-	-	-
1,639	-	1,639	1,639	Soft Loans (Note 18)	807	-	807	807
8,292	-	8,292	8,292	Finance Leases (lessor)	9,521	-	9,521	9,521
6,267	-	6,267	6,267	Leaseholder Loans	5,326	-	5,326	5,326
65,440	(44,385)	21,055	-	Amounts due from subsidiary undertakings	82,517	-	82,517	-
14,664	-	14,664	14,461	Other long term receivables	2,950	-	2,950	3,814
96,487	**(44,385)**	**52,102**	**30,844**		**101,121**	**-**	**101,121**	**19,468**

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
2016/17			2017/18	
£'000	£'000		£'000	£'000
(5,562)	(5,562)	Council Tax Payables	(6,143)	(6,143)
(4,025)	(4,025)	NNDR	(2,365)	(2,365)
(12)	(12)	Housing Rents	-	-
(67,705)	(69,303)	Sundry Payables	(63,509)	(70,494)
(8,899)	(8,899)	Receipts in advance	(11,970)	(12,020)
(5,102)	(5,102)	Finance Lease and PFI Liabilities	(4,589)	(4,589)
(8)	(8)	Other Balances	(14)	(14)
(14,996)	(14,996)	Employee Benefits	(9,266)	(9,266)
(454)	(454)	Revenue Grants Received in advance	(495)	(495)
(15,707)	(15,707)	Central Government Bodies	(22,866)	(23,275)
(6,649)	(6,649)	Other Local Authorities	(9,172)	(9,172)
(890)	(890)	Pension Fund	(890)	(890)
(130,009)	**(131,607)**	**Total**	**(131,279)**	**(138,723)**

24. Provisions

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

Long term Provision

2017/18	**Insurance £'000**	**MMI £'000**	**Other £'000**	**Total £'000**
Balance at 1 April 2017	(5,757)	(1,138)	(3,425)	**(10,320)**
Additional provisions made in 2017/18	(4,439)	(698)	(2,998)	**(8,135)**
Amounts used in 2017/18	4,741	930	958	**6,629**
Balance at 31 March 2018	**(5,455)**	**(906)**	**(5,465)**	**(11,826)**

2016/17	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2016	(8,091)	(361)	(6,930)	**(15,382)**
Additional provisions made in 2016/17		(777)		**(777)**
Amounts used in 2016/17	2,334		3,505	**5,839**
Balance at 31 March 2017	**(5,757)**	**(1,138)**	**(3,425)**	**(10,320)**

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 2018 was £906k.

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 2018, which will be due for payment in future years.

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.

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 (30%) of the provision for appeals within the Balance Sheet. At 31st March 2018, this was £5.7m.

Short term Provision

	£'000
Balance at 1 April 2017	-
Additional provisions made in 2017/18	(3,192)
Amounts used in 2017/18	-
Balance at 31 March 2018	**(3,192)**

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.

2016/17 £'000		2017/18 £'000
(17,293)	General Fund	(12,351)
(55,784)	Housing Revenue Account	(64,042)
(83,059)	Capital Receipts Reserve	(123,763)
(58,718)	Major Repairs Reserve	(70,635)
(71,293)	Capital Grants Unapplied	(80,792)
(155,329)	Earmarked Reserves	(165,332)
(441,476)	**Total Usable Reserves**	**(516,915)**

The Group usable reserves is 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.

2016/17 £'000		2017/18 £'000
(51,987)	**Balance as at 1 April**	**(83,059)**
	Sale of Assets:	
(33,506)	Sale of Council Houses	(41,882)
(18,161)	Sale of other Land and Buildings	(12,924)
(51,667)	**Total Receipts**	**(54,806)**
	Use of Receipts:	
1,795	Payments to Housing Capital Pool	1,775
78	Disposal Costs financed from receipts	150
18,722	Capital Receipts used for financing	12,177
20,595		**14,102**
(83,059)	**Balance as at 31 March**	**(123,763)**

26. Unusable Reserves

ch 2017 Restated £'000		31 March 2018 £'000
(831,865)	Revaluation Reserve	(833,291)
(1,432,052)	Capital Adjustment Account	(1,284,481)
8,466	Financial Instruments Adjustment Account	8,609
(8,292)	Deferred Capital Receipts and Credits Reserve	(9,521)
941,245	Pensions Reserve	899,569
172	Collection Fund Adjustment Account	(1,137)
14,996	Accumulated Absences Account	9,266
(1,307,330)	**Total Unusable Reserves**	**(1,210,986)**

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.

2016/17 Restated £'000		2017/18 £'000
(378,591)	**Balance at 1 April**	**(831,865)**
(480,142)	Upward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	(107,938)
7,357	Difference between fair value depreciation and historical cost depreciation	15,365
19,511	Accumulated gains on assets sold or scrapped	91,147
(831,865)	**Balance at 31 March**	**(833,291)**

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.

2016/17 £'000		2017/18 £'000
15,953	**Balance at 1 April**	**14,996**
(15,953)	Settlement or cancellation of accrual made at the end of the preceding year	(14,996)
14,996	Amounts accrued at the end of the current year	9,266
14,996	**Balance at 31 March**	**9,266**

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:

	2016/17			2017/18
£'000	£'000		£'000	£'000
	8,135	**Balance at 1 April**		**8,466**
322		Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	445	
9		Effective interest rate (EIR) adjustment on LOBO borrowing	(302)	
	331	**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**		**143**
	8,466	**Balance at 31 March**		**8,609**

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.

2016/17 £'000		2017/18 £'000
657,039	**Balance at 1 April**	**941,245**
267,409	Actuarial (gains)/losses on pensions assets and liabilities	(61,412)
59,153	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	53,102
(42,356)	Employer's pensions contributions and direct payments to pensioners payable in the year	(33,366)
941,245	**Balance at 31 March**	**899,569**

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.

2016/17 £'000		2017/18 £'000
740	**Balance at 1 April**	**172**
(568)	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	(1,309)
172	**Balance at 31 March**	**(1,137)**

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 (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

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

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

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

	2016/17 Restated £'000			2017/18 £'000
	(1,529,045)	**Balance at 1 April**		**(1,432,052)**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
122,134		Charges for depreciation and impairment of non-current assets	57,501	
(37,508)		Revaluation gains on Property, Plant and Equipment	(19,486)	
597		Amortisation of intangible assets	336	
23,174		Revenue expenditure funded from capital under statute	24,761	
118,819		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	251,293	
	227,216			**314,405**
	(26,868)	Adjusting amounts written out of the Revaluation Reserve		(106,512)
	200,348	**Net written out amount of the cost of non-current assets consumed in the year**		**207,893**
		Capital financing applied in the year:		
(18,722)		Use of the Capital Receipts Reserve to finance new capital expenditure	(12,177)	
(23,171)		Use of the Major Repairs Reserve to finance new capital expenditure	(11,103)	
(46,106)		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(36,542)	
(6,385)		Application of grants to capital financing from the Capital Grants Unapplied Account	(3,591)	
(2,762)		Provision for the financing of capital investment charged against the General Fund and HRA balances	(1,908)	
-		Capital expenditure charged against the General Fund and HRA balances	-	
	(97,146)			**(65,321)**
	(6,209)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		4,999
	(1,432,052)	**Balance at 31 March**		**(1,284,481)**

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

Single Entity 2016/17 Restated £'000	Group Accounts 2016/17 Restated £'000	Description	Single Entity 2017/18 £'000	Group Accounts 2017/18 £'000
122,134	122,134	Depreciation	57,411	57,411
(37,508)	(37,508)	Increase in Revaluation charged to the Comprehensive Income and Expenditure Statement	(19,486)	(19,117)
597	597	Amortisation	336	377
65,155	20,770	Movement in Impairment Allowance	(19,740)	(19,740)
(78,700)	(45,809)	Movement in Receivables	(1,356)	(8,336)
32,070	14,177	Movement in Payables	4,845	12,870
(629)	(629)	Movement in Inventories	(627)	(627)
16,797	16,797	Pension Liability	19,736	19,736
118,819	118,819	Carrying Amount of Non-Current Assets sold	256,817	256,817
5,062	5,422	Movement in Provisions	4,698	4,698
(6,209)	(8,878)	Movement in the value of Investment Properties	(526)	(2,406)
233	233	Financial Instruments Adjustments	239	239
41	169	Other Non-Cash Adjustments	(204)	1,324
237,862	**206,294**	**Total Adjustments for Non-Cash Transactions**	**302,143**	**303,246**
(58,246)	(58,246)	Investing and Financing Activities Adjustments to Net Surplus on the Provision of Services	(104,438)	(104,438)
179,616	**148,048**	**Net Cash Flows from Operating Activities**	**197,705**	**198,808**

The cashflow from operating activities include the following amounts:

Single Entity 2016/17 £'000	Group Accounts 2016/17 £'000	Description	Single Entity 2017/18 £'000	Group Accounts 2017/18 £'000
(9,584)	(9,175)	Interest received	(12,538)	(14,435)
51,527	57,814	Interest Paid	52,478	57,494
41,943	**48,639**	**Net Interest**	**39,940**	**43,059**

28. Cash Flow Statement - Investing Activities

Single Entity 2016/17 £'000	Group Accounts 2016/17 £'000	Description	Single Entity 2017/18 £'000	Group Accounts 2017/18 £'000
(112,116)	(121,863)	Purchase of Property, Plant and Equipment and Intangible Assets	(165,546)	(225,774)
(46,419)	(50,260)	Purchase of Short-Term Investments and Long-Term Investments	(124,151)	(57,468)
12,000	11,542	Other Payments for Investing Activities	(550)	(550)
51,667	51,667	Proceeds from the sale of Property, Plant and Equipment and Non-Current Assets	54,806	54,806
-	-	Other receipts from investing	50,047	50,047
(94,868)	**(108,914)**	**Net Cash Flows from Investing Activities**	**(185,394)**	**(178,939)**

29. Cash Flow Statement - Financing Activities

Single Entity 2016/17 £'000	Group Accounts 2016/17 £'000		Single Entity 2017/18 £'000	Group Accounts 2017/18 £'000
72,850	76,290	Cash Repayment of Short-Term Borrowings and Long-Term Borrowings	138,430	138,430
(5,476)	(5,476)	Cash Payments to reduce Finance Lease and PFI Liabilities	(5,102)	(5,102)
(51,528)	(45,633)	Other payments for financing activities	4,163	6,217
15,846	**25,181**	**Net Cash Flows from Financing Activities**	**137,491**	**139,545**

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:

2016/17				2017/18		
Expenditure £'000	Income £'000	(Surplus) / Deficit £'000		Expenditure £'000	Income £'000	(Surplus) / Deficit £'000
3,575	(4,923)	(1,348)	Newham Catering & Cleaning Services	14,479	(14,751)	(272)
499	(443)	56	Building Control	328	(408)	(80)
1,143	(1,092)	51	Markets	1,078	(1,128)	(50)
283	(566)	(283)	Repairs & Maintenance Service (RMS)	9,388	(640)	8,748
5,500	**(7,024)**	**(1,524)**	**Total**	**25,273**	**(16,927)**	**8,346**

Newham Catering and Cleaning Services (NCCS) provide catering management, cleaning, waste and pest control services primarily to schools within Newham.

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.

RMS provides building repairs and maintenance services primarily for the Authority's housing stock.

31. Agency Services

Under section 101(I) of the Local Government Act 1972 (LGA 1972), a local authority may arrange for any other local authority to act as its agent and provide services. The Council carries out work on an Agency basis for which it is reimbursed.

	2016/17 £'000	2017/18 £'000
On behalf of the East London Waste Authority	26	26

32. 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.

For 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.

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

	2016/17 £'000	2017/18 £'000
Funding provided to the pooled budget:		
London Borough of Newham	(70,001)	(80,514)
NHS Newham Clinical Commissioning Group (NCCG)	(51,328)	(51,129)
Total funding	**(121,329)**	**(131,643)**
Expenditure met from the pooled budget:		
London Borough of Newham	70,001	80,514
NHS Newham Clinical Commissioning Group (NCCG)	51,328	51,129
Total expenditure	**121,329**	**131,643**
Net deficit/(surplus) arising on the pooled budget during the year	**-**	**-**

Below is a summary of the funding agreed with the NCCG, Newham and governed by the LAs Health & Well Being Board and agreed by LBN Mayor and Members.

Scheme Name	**2017/18 Total BCF**
Care Coordination	1,005
Rapid Response/SPA	1,000
Self Care Management	250
RAID and support	949
Existing Social Care	7,970
Continuing Care	5,861
NHS Funded Nursing Care	1,320
DFG/Capital	2,349
Equipment Services	3,021
Advocacy	323
Protection of Adult Social Care	4,238
Extension to Protection of Social Care	2,333
Care Act	1,000
Social Prescription/PPE	360
Supported Discharge	120
Rehab/Virtual Ward	1,700
Care Management	7,500
Care Packages/Placements	49,783
Community services	28,900
Public Health Commissioning (ASC)	6,687
Market Sustainability and Growth (ASC)	3,328
Out of Hospital / Admission Avoidance	1,646
Total	**131,643**

33. Members' Allowances

The total of members' allowances and expenses paid in 2017/18 (excluding National Insurance Contributions) was £1,307k compared to £1,239k in 2016/17. 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.

34. 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.

2016/17 Non Teaching Employees	2016/17 Teaching Employees	2016/17 Total Employees	Earnings Band	2017/18 Non Teaching Employees	2017/18 Teaching Employees	2017/18 Total Employees
89	281	370	50 - 54,999	106	218	324
77	185	262	55 - 59,999	53	135	188
34	79	113	60 - 64,999	68	62	130
44	32	76	65 - 69,999	39	48	87
14	24	38	70 - 74,999	26	20	46
9	21	30	75 - 79,999	14	12	26
15	13	28	80 - 84,999	20	13	33
7	8	15	85 - 89,999	9	7	16
7	6	13	90 - 94,999	6	6	12
6	11	17	95 - 99,999	6	4	10
1	6	7	100 - 104,999	9	4	13
1	5	6	105 - 109,999	3	4	7
3	5	8	110 - 114,999	2	4	6
0	1	1	115 - 119,999	-	1	1
3	1	4	120 - 124,999	1	1	2
1	0	1	125 - 129,999	1	1	2
1	1	2	130 - 134,999	-	-	-
-	-	-	135 - 139,999	-	-	-
-	-	-	140 - 144,999	-	1	1
1	1	2	145 - 149,999	2	1	3
-	1	1	150 – 154,999	1	-	1
-	1	1	155 – 159,999	1	1	2
0	-	-	160 – 164,999	-	-	-
-	-	-	165 – 169,999	-	-	-
-	-	-	170 – 174,999	2	-	2
1	-	1	175 – 179,999	-	-	-
-	-	-	180 – 184,999	-	-	-
-	-	-	185 – 189,999	-	-	-
-	-	-	190 – 194,999	-	-	-
1	-	1	195 – 199,999	-	-	-
315	**682**	**997**	**Total £50,000 and over**	**369**	**543**	**912**

The reduction in the number of teaching staff reflects the change to Academy status for a number of schools.

34. 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:

2017/18

Name and position	Salary Fees and Allowances	Expenses	Compensation for loss of employment	Council's contribution to Pension Fund	Total Remuneration
	£	£	£	£	£
Mr K Bromley-Derry - Chief Executive Officer	171,292	-	-	36,943	208,234
Ms G Siggins - Executive Director of Strategic	152,301	-	-	31,222	183,523
Ms D Hindson - Executive Director of Financial	156,473	-	-	32,077	188,550
Mr N Bracken - Chief Operating Officer	149,672	-	-	30,683	180,354
Mr A Clements - Interim Assistant Chief Executive (External Partnerships) (Note 4)	100,067	-	-	20,514	120,580
Mr S Letchford - Interim Director of Environment and Community	90,422	-	-	18,536	108,958
Mr. M Hooper - Interim Director of Enforcement	100,632	-	-	20,889	121,521
Mr D Trainer - Director of Customer and Strategic Services (Note 3)	112,790	-	75,350	23,122	211,262
Ms J Sherwood - Interim Director of Regeneration and Planning	101,352	-	-	20,777	122,129
Ms M Peachey - Director of Public Health	123,790	-	-	25,377	149,167
Mrs J Burke - Director of Operations Children's Social Care & Safeguarding (Note 1)	117,369	-	74,400	19,654	211,423
Mrs J Moon - Director of Commissioning Education and Skills	104,196	-	-	21,360	125,556
Mrs J West - Managing Director for One Source	147,913	-	-		147,913
Mr J Thomas - Director for Commissioning (Childrens and Safeguarding) (Note 2)	92,499	-	41,395	10,476	144,371
Mrs P Javeri - Director of Technology and Innovation	104,128			21,321	125,449
Mrs D Armsby - Head of Planning and Regeneration (Note 5)	61,036	-	-	11,623	72,659
Mr D Fenwick - Director of Legal Services	126,322	-	-	25,325	151,647
Total	**2,012,254**	**-**	**191,145**	**369,898**	**2,573,297**

Note 1 - Left 09/03/18
Note 2 - Left 18/08/17
Note 3 - Left 16/03/18
Note 4 - Left 23/03/18
Note 5 - Left 01/10/17

In addition, within the group accounts the renumeration for the highest paid director in Red Door Ventures Limited is £181k

2016/17

Name and position	Salary Fees and Allowances	Expenses	Compensation for loss of employment	Council's contribution to Pension Fund	Total Remuneration
	£	£	£	£	£
Mr K Bromley-Derry - Chief Executive	196,950	-	-	49,828	246,778
Mrs J West - Managing Director for One Source	146,449	-	-		146,449
Ms D Hindson - Director of Finance & Sustainability	132,518	-	-	33,527	166,045
Ms G Siggins - Director of Adult Social Care	122,312		-	30,945	153,257
Mr James Thomas - Director for Commissioning (Childrens and Safeguarding)	128,712	-	-	32,564	161,276
Mr G Connell - Director ICT Services (Note 1)	59,057	-	-	11,271	70,328
Mrs P Javeri - Director ICT Services (Note 2)	42,037	-	-	10,636	52,673
Mr N Bracken - Chief operating officer	176,220	-	-	44,584	220,804
Mr Douglas Trainer - Assistant Chief Executive	111,760	-	-	28,275	140,035
Mr Anthony Clements - Interim Assistant Chief Executive (External Partnerships)	111,556	-	-	28,224	139,780
Mrs Deirdra Armsby - Head of Planning and Regeneration	111,674	-	-	28,254	139,928
Mr Daniel Fenwick - Director of Legal Services	122,941	-	-	31,104	154,045
Mr. Matthew Hooper - Director of Commissioning (Enforcement and Safety)	82,221	-	-	21,896	104,117
Ms Meradin Peachey - Director of Public Health	122,674	-	-	31,037	153,711
Total	**1,667,081**	**-**	**-**	**382,145**	**2,049,226**

Note 1 - Left 30/08/2016
Note 2 - Started 01/09/2016

34. 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.

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)**	
	2016/17	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**
£0 – £20,000	24	93	32	11	56	104	459	1,086
£20,001 – £40,000	3	15	16	3	19	18	528	454
£40,001 – £60,000	2	1	3	4	5	5	248	232
£60,001 – £80,000	1	-	1	1	2	1	157	74
£80,001 – £100,000	4	-	-	-	4	-	360	-
£100,001 – £150,000	2	-	-	-	2	-	108	-
£150,001 – £250,000	1	-	-	-	1	-	360	-
Total	**37**	**109**	**52**	**19**	**89**	**128**	**2,220**	**1,846**

35. External Audit Costs

The table below details the amounts due to the Authority's external auditors in respect of the following services.

	2016/17 £'000	**2017/18 £'000**
Fees payable to Auditors with regard to the external audit of the Authority	218	218
Additonal fees to Auditors with regards to the external audit of the Authority	173	-
Additonal fees to Auditors with regards to public objections to the accounts	120	-
Additional fees payable to Auditors with regard to the previous year's external audit of the Authority	50	59
Fees payable to Auditors with regard to the external audit of the pension fund	21	21
Fees payable to Auditors with regard to the certification of grant claims and returns	17	35
	599	**333**

There will be additional audit fees in relation to the 2017/18 external audit which are not currently disclosed on the above table

In relation to the group accounts, an additonal £68k (£22k - 2017) was paid in relation to the external audit of subsidiary accounts and £6k (£2k -2017) for other audit related services.

36. Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Education Funding Agency - the Dedicated School Grant (DSG). DSG is a ring-fenced grant and can only be applied to meet expenditure included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an Authority-wide basis, and for the Individual Schools Budget, which is divided into a budget share for each school. The new funding formula sets out the new arrangements for LA's to allocate the Schools block element of the DSG to schools. Any carry forward of DSG must be allocated against the schools block for redistribution. Over and under spends on the two elements are required to be accounted for separately.

2017/18	Central Expenditure £'000	ISB £'000	Total £'000
Final DSG for 2017/18 before academy Recoupment			401,521
Academy figure recouped for 2017/18	-	-	(111,203)
Total DSG after academy recoupment for 2017/18	-	-	**290,318**
Plus: Brought forward from 2016/17			5,962
Less: Carry-forward to 2018/19 agreed in Advance			
Agreed initial budgeted distribution in 2017/18	45,453	250,827	**296,280**
In-year adjustments	(1,219)	-	(1,219)
Final budget distribution for 2017/18	**44,234**	**250,827**	**295,061**
Less: Actual central expenditure	(42,160)	-	(42,160)
Less: Actual ISB deployed to schools	-	(250,827)	(250,827)
Plus Local authority contribution for 2017/18	-	-	-
Carry-forward to 2018/19	**2,074**	**-**	**2,074**

2016/17	Central Expenditure £'000	ISB £'000	Total £'000
Final DSG for 2016/17 before academy Recoupment	-	-	386,990
Academy figure recouped for 2016/17	-	-	(74,090)
Total DSG after academy recoupment for 2016/17	-	-	**312,900**
Plus: Brought forward from 2015/16	-	-	12,293
Less: Carry-forward to 2017/18 agreed in Advance	-	-	-
Agreed initial budgeted distribution in 2016/17	39,680	285,513	**325,193**
In-year adjustments	1,102	-	**1,102**
Final budget distribution for 2016/17	**40,782**	**285,513**	**326,295**
Less: Actual central expenditure	(34,820)	-	**(34,820)**
Less: Actual ISB deployed to schools	-	(285,513)	**(285,513)**
Plus Local authority contribution for 2016/17	-	-	-
Carry-forward to 2017/18	**5,962**	**-**	**5,962**

37. Other Long Term Liabilities

The group other long term liabilities is not materially different to the authorities other long term liabilities. The authorities 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.

	2016/17 £'000	2017/18 £'000
Finance Leases (Note 41)	774	2,345
HAA Mortgages	465	275
PFI Liability (Note 42)	116,584	112,012
Pensions Liability (Note 45)	941,245	899,569
Section 106	13,147	15,049
CIL	-	211
Total	**1,072,215**	**1,029,461**

38. Related Party Transactions

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

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 Council oversees the administration of the Pension Fund. The Pension Fund can borrow from the Council. At 31st March 2018, the Pension Fund owed the Council £2.8m and the Council owes Pension Fund £890k. The Pension Fund accounts are located at Page 117 onwards.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' Allowances paid in 2017/18 is shown in Note 33. 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 2017/18 £'000	Amounts owed at 31/03/18 £'000	Income received during 2017/18 £'000	Income due at 31/03/18 £'000	Member
ActiveNewham	1,948	-	9,883	356	Ken Clarke Forhad Hussain
East London Waste Authority	18,803	-	2,033	-	Ken Clark
E20 Stadium LLP	1,220	-	173	-	Lester Hudson (Note 1)
Local Government Association	69	-			Sir Robin Wales
Local Space	21,535	-	143	60	Andrew Baikie Tahmina Rehman Richard Crawford
London Councils	1,581	-	605	-	Forhad Hussain Ken Clark Lester Hudson Sir Robin Wales

Note 1 - Resigned 08/06/17

38. Related Party Transactions (contd.1)

Organisation	Payments made during 2017/18 £'000	Amounts owed at 31/03/18 £'000	Income received during 2017/18 £'000	Income due at 31/03/18 £'000	Member
London Legacy Development Corporation (LLDC)	244	1	1,540	-	Sir Robin Wales Ken Clark Forhad Hussain
Newham College of Further Education	1,568	-	82	6	Quintin Peppiatt
Red Door Ventures Limited	15,099	-	1,185 -	1	David Christie
Royal Docks Learning and Activity Centre	11	-	3	1	Patrick Murphy Ken Clark
Stratford School Academy	864	-	2	-	Idris Ibrahim
Stratford Original Bid	349	-	51	-	Masihullah Patel
Theatre Royal Stratford East	299	-	-	-	Ken Clark
Brick Lane Music Hall Charity	-	-	17	-	Patrick Murphy

Officers

Organisation	Payments made during 2017/18 £'000	Amounts owed at 31/03/18 £'000	Income received during 2017/18 £'000	Income due at 31/03/18 £'000	Officer
Local Space	21,535	-	143	60	Douglas Trainer
Newham Transformation Partnership Limited	7,983	-	-	-	Dave Baldock
Newham Learning Partnership (Project Co) Limited	10,274	-	73	-	Dave Baldock
Newham Legacy Investments Limited	2,647	-	36	- - -	Zoe Power (Note 2) David Morris Andrew Ireland
Newham Partnership Working Limited	500	2	8,608	653	James Thomas (Note 3) Jane Moon
Newham Foundation	2,251	-	1,739	170	Deborah Hindson
The Language Shop	1,091	-	286	-	Zoe Power

Note 2 - Resigned 18/07/17
Note 3 - Resigned 07/08/17

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.

39. Councils 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

· **Newham Legacy Investments Limited** - A subsidiary company wholly-owned by the Authority. Share capital constituted 1 Ordinary share of £1. This entity was formed to act as a holding company for the Authority's investment in E20 Stadium LLP, a partnership (with London Legacy Development Corporation) that assumed long-term responsibility for operating the former Olympic Stadium site. Newham Legacy Investments Limited has been consolidated as a group company within the Authority's Group Accounts as this subsidiary represents a material investment in relation to the Authority's overall assets and liabilities profile. The Authority would be entitled to the assets of this limited company in the event of it being wound-up, once all debts and liability obligations had been met. This company ceased trading and was placed in Members Voluntary Liquidation on 27 February 2018.

The company's 2017/18 financial results disclosed a loss of £2.4m (2016/17: loss of £2.5m), and net assets of £nil (£44.4m of net liabilities as at 31 March 2017).

There were 4 board members in the year to 27 February 2018, with three connected to the Council and deemed to be related parties: named Zoe Power (resigned 18 April 2017); David Morris (appointed 5 April 2017); and Andrew Ireland (appointed 24 April 2017).

Full details of Members and transactions with the Authority are disclosed in Note 38.

NLI's directors who have held office in the year ended 27 February 2018 are as follows:

- Katharine Deas - Resigned 4 December 2017
- Zoe Power - Resigned 18 April 2017
- Andrew Ireland - Appointed 24 April 2017
- David Morris - Appointed 5 April 2017

A copy of NLI's financial statements can be obtained by writing to:

Chief Executive
c/o Deirdre Walsh
1000 Dockside Road
Beckton
London
E16 2QU

· **Red Door Ventures Limited** - 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 11,507,332 Ordinary shares of £1 each as at 31 March 2018 (4,082,802 £1 Ordinary shares as at 31 March 2017). In 2017/18, the company made a loss (reflecting trading with RDV Design and Build Limited, a subsidiary undertaking) of £2.2m (2016/17: profit of £1.3m). Net assets were £17.2m (net assets of £11.2m as at 31 March 2017). This entity is controlled by the Authority and is deemed to be material for the purposes of group consolidation.

There are currently 8 Board members. David Christie is connected to the Authority and is deemed to be a related party.
The renumeration for the highest paid director is £181k (2016/17: £112k)
Full details of Members and transactions with the Authority are disclosed in Note 38.
RDV's Directors that have held office between 1 April 2017 and 31 March 2018 are as follows:

- Kent Taylor;
- Lesley-Anne Alexander;
- David Christie;
- Chris Wood;
- John Swinney;
- Sarah Gaventa;
- Patrick Shaw - Appointed 6 April 2017; and
- Joe Montgomery

A copy of RDV's financial statements can be obtained by writing to:
Red Door Ventures
319 Stratford Business Centre
11 Burford Road
Stratford
London
E15 2ST

· **BetterTogether 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. Payments made during 2017/18 totalled £1.16m and £nil was owed as at 31st March 2018.

There are 4 Board members, Sarah Havard, James Smith, Gisela Iveson and Anne Kasibante.

39. Councils Association with External Bodies (contd.1)

· **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 4 Board members in place, and all are connected to the Authority as related parties. These Officers are Aprile Harman, Samuel Lingard, Jaimin Patel and Zoe Power.

TLS's Directors that have held office during the year ended 31 March 2018 are as follows:

- AD Harman
- Samuel Lingard
- Jaimin Patel
- Zoe Power

A copy of TLS's financial statements can be obtained by writing to:

Chief Executive
c/o Deirdre Walsh
1000 Dockside Road
Beckton
London
E16 2QU

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. Future Newhomes Limited has been consolidated as a group company in the Authority's Group Accounts as this subsidiary represents a material investment in relation to the Authority's overall assets and liabilities profile. The Authority would be entitled to the assets of this limited company in the event of it being wound-up, once all debts and liability obligations had been met. The company commenced trading on 22 December 2016.

The company's 2017/18 financial results disclosed a loss of £1.0m, and net liabilities of £1.0m and has £22m of future capital commitments. There were 4 board members in the year to 31 March 2018, with 2 connected to the Council and deemed to be related parties: namely Sandy Hamberger (appointed 26 April 2017); and David Morris (appointed 18 April 2017). No payments made during 2017/18, and £NIL was owed from this company as at 31 March 2018.

. FN's Directors that have held office between 1 April 2017 and 31 March 2018 are as follows:

- Roberto Bruni - Appointed 6 April 2017 – resigned 2 October 2017;
- Ian Dick - Appointed 19 October 2016 – resigned 24 April 2017;
- Sandy Hamberger - Appointed 26 April 2017; and
- David Morris - Appointed 18 April 2017

A copy of FN's financial statements can be obtained by writing to:

Chief Executive
c/o Deirdre Walsh
1000 Dockside Road
Beckton
London
E16 2QU

39. Councils Association with External Bodies (contd.2)

Public Realm Services Limited- A subsidiary company wholly-owned by the Authority, established as a street cleaning services provider. PRS Limited has been consolidated as a group company in the Authority's Group Accounts as this subsidiary represents a material investment in relation to the Authority's overall assets and liabilities profile. The Authority would be entitled to the assets of this limited company in the event of it being wound-up, once all debts and liability obligations had been met.

The company's 2017/18 financial results disclosed a profit of £0.4m (£0.3m in 2016/17), and net assets of £0.9m (£0.3m in 2016/17). There were 5 board members in the year to 31 March 2018, with 4 connected to the Council and deemed to be related parties: named Colin Ansell (appointed 22 May 2017); Joanne Beaseley (appointed 16 January 2018); John Wild; and Stephen Reimer (resigned 22 May 2017). Payments made during 2017/18 totalled £4.9m, and £0.8m was owed from this company as at 31 March 2018.

PRS's Directors that have held office during the year ended 31 March 2018 are as follows:

- Colin Ansell - Appointed 22 May 2017
- Joanne Beaseley - Appointed 16 January 2018
- John Wild
- Douglas Wilkinson - Resigned 11 March 2018
- Stephen Reimer - Resigned 22 May 2017

A copy of PRS's financial statements can be obtained by writing to:
Chief Executive
Administration Reception Central Depot
Folkestone Road
London
E6 6BX

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 3 board members in place.

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.

iXACT Limited - A subsidiary company wholly-owned by the Authority, established as a cleaning services provider. i-Xact Limited has been consolidated as a group company in the Authority's Group Accounts as this subsidiary represents a material investment in relation to the Authority's overall assets and liabilities profile. The Authority would be entitled to the assets of this limited company in the event of it being wound-up, once all debts and liability obligations had been met.
The company's 2017/18 financial results disclosed a profit of £0.02m, and net assets of £0.02m. There were 3 board members in the year to 31 March 2018, with 1 connected to the Council and deemed to be a related party: namely Nurun Nehar. Payments made during 2017/18 totalled £3.4m, and £1.5m was owed from this company as at 31 March 2018.

i-Xact's Directors that have held office during the year ended 31 March 2018 are as follows:

- Graeme Waugh
- Anoop Goyal
- Nurun Nehar

A copy of i-Xact's financial statements can be obtained by writing to:
Chief Executive
Central Depot
Folkestone Road
London
East Ham
E6 6BX

Mint Cleaning Limited - A subsidiary company wholly-owned by the Authority, established as a cleaning services provider. Mint Limited has been consolidated as a group company in the Authority's Group Accounts as this subsidiary represents a material investment in relation to the Authority's overall assets and liabilities profile. The Authority would be entitled to the assets of this limited company in the event of it being wound-up, once all debts and liability obligations had been met.
The company's 2017/18 financial results disclosed a profit of £0.1m, and net assets of £0.1m. There were 3 board members in the year to 31 March 2018, all connected to the Council and deemed to be related parties: named Sandy Hamberger (appointed 8 June 2017); Dean Pamenter (appointed 8 June 2017); and Brian Veale (appointed 8 June 2017). Payments made during 2017/18 totalled £3.0m, and £1.5m was owed from this company as at 31 March 2018.

Mint's Directors that have held office during the year ended 31 March 2018 are as follows:

- Sandy Hamberger - Appointed 8 June 2017
- Dean Pamenter - Appointed 8 June 2017
- Brian Veale - Appointed 8 June 2017

A copy of Mint's financial statements can be obtained by writing to:
Chief Executive
Central Depot
Folkestone Road
London
East Ham
E6 6BX

39. Councils Association with External Bodies (contd.3)

Investments

· **ActiveNewham** - 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 38.

· **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.

Full details of Members and transactions with the Authority are disclosed in Note 38.

· **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.

Full details of Members and transactions with the Authority are disclosed in Note 38.

39. Councils Association with External Bodies (contd.4)

· **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.

Full details of Members and transactions with the Authority are disclosed in Note 38.

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.

The Authority received £0.5m from this arrangement during 2017/18. Payments totalled £0.4m, with a surplus of £0.1m therefore generated.

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 2017-18 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

Net Expenditure	**2016/17 £'000**	**2017/18 £'000**
Exchequer and Transactional Services	8,780	6,979
Finance	9,250	9,804
Business Services	790	2,293
Legal and Governance	3,781	3,437
ICT	8,448	7,895
Asset Management	3,467	2,959
Strategic and Operational HR	3,170	2,811
Total Net Expenditure	**37,686**	**36,178**
Cost Sharing:		
London Borough of Newham	18,626	17,103
London Borough of Havering	16,273	16,211
London Borough of Bexley	2,787	2,864
Total	**37,686**	**36,178**

As at 31 March 2018, the Authority was owed £1.494m from the London Borough of Havering. There is no balance due or outstanding with 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 Hudson, Hussain and Wilson, the Havering Joint Committee Council Members are Councillors Ower, Wallace and White (D) and the Bexley Joint Committee Member is Councillor Massey.

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**
Managing Director	London Borough of Newham	April 2017 - March 2018
Director of Asset Management	London Borough of Havering	April 2017 - March 2018
Director of Exchequer and Transactional	London Borough of Havering	April 2017 - March 2018
Director of Legal and Governance	London Borough of Newham	April 2017 - March 2018
Director of Human Resources	London Borough of Havering	April 2017 - March 2018
Director of Business Development	London Borough of Havering	April 2017 - March 2018
Director of Finance	London Borough of Newham	April 2017 - March 2018
Director of ICT	London Borough of Newham	April 2017 - March 2018

40. 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 2017 £'000		31 March 2018 £'000
808,036	**Opening CFR**	**868,441**
	Capital investment	
112,042	Property, Plant and Equipment	73,965
74	Investment Properties	91,446
-	Intangible Assets	134
23,174	Revenue Expenditure Funded from Capital under Statute	24,761
22,261	Loans to Organisations	241
157,551		**190,547**
	Sources of finance	
(18,722)	Capital receipts	(12,177)
(52,491)	Government grants and other contributions	(40,133)
(23,171)	Major Repairs Allowance	(11,103)
	Sums set aside from revenue:	
(2,762)	MRP/loans fund principal including PFI / finance lease	(1,908)
(97,146)		**(65,321)**
868,441	**Closing CFR**	**993,667**

41. 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	**Restated 2016/17 £'000**	**2017/18 £'000**
Finance Lease Receivable		
Non - Current	8,056	9,251
Interest	23,133	28,623
Total	**31,189**	**37,874**

The 2016/17 interest figure above was restated to £23,133k due to an error in a calculation (previously £134,295k). This correction has no impact on the main statements or any other disclosures and is contained only to this note.

Gross Investment in Lease	**Restated 2016/17 £'000**	**2017/18 £'000**
Not later than one year	293	407
Later than one year and not later than five years	1,174	1,627
Later than five years	29,721	35,840
Total	**31,189**	**37,874**

Minimum Lease Payments	**Restated 2016/17 £'000**	**2017/18 £'000**
Not later than one year	-	-
Later than one year and not later than five years	-	-
Later than five years	8,057	9,217
Total	**8,057**	**9,217**

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 2017/18 £993k 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:

	2016/17 £'000	**2017/18 £'000**
Within 1 year	7,886	13,239
Within 2 – 5 years	31,544	51,028
Over 5 years	23,658	60,320
Minimum Lease payments	**63,088**	**124,588**

The values quoted above are estimates in respect of five investment properties purchased in year and does not include other land and building leased by the authority, the actual income received is aggregated into the total rental income due from investment properties stated in Note 16.

41. 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:

	2016/17 £'000	2017/18 £'000
Other Land and Buildings		
Stratford Workshop	963	3,659
Industrial Site	1,695	1,587
Total	**2,658**	**5,246**

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

	2016/17 £'000	2017/18 £'000
Finance Lease liabilities (net present MLP)		
Current	11	17
Non - Current (Note 37)	774	2,345
Finance Costs Payable in future years	1,797	3,584
	2,582	**5,946**

Minimum Lease payments

	2016/17 £'000	2017/18 £'000
Within 1 year	71	126
Within 2 – 5 years	284	504
Over 5 years	2,227	5,316
Minimum Lease payments	**2,582**	**5,946**

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 2017/18 £245k contingent rents were payable.

Operating Leases

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

	2016/17 £'000	2017/18 £'000
Within 1 year	2,713	1,249
Within 2 – 5 years	3,000	2,381
Over 5 years	23,712	17,663
Minimum Lease payments	**29,425**	**21,292**

In the year 2017/18 the council paid £2.7m (2016/17, £24.8m) in respect of Operating leases

42. Private Finance Initiatives And Similar Contracts

As at 31st March 2018, 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:

2016/17 Council Dwellings £'000	2016/17 Other Land and Buildings £'000	2016/17 Total £'000		2017/18 Council Dwellings £'000	2017/18 Other Land and Buildings £'000	2017/18 Total £'000
81,749	108,856	**190,605**	Net book value at 1 April	86,443	119,945	**206,388**
-	562	**562**	Additions	1,390	1,156	**2,546**
(4,971)	(3,098)	**(8,069)**	Depreciation and impairment	(1,801)	(4,467)	**(6,268)**
11,202	18,789	**29,991**	Revaluation	991	(43,625)	**(42,634)**
(1,537)	(5,164)	**(6,701)**	Disposals	(912)	-	**(912)**
86,443	**119,945**	**206,388**	**Net book value at 31 March**	**86,111**	**73,009**	**159,120**

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

2016/17 Council Dwellings £'000	2016/17 Other Land and Buildings £'000	2016/17 Total £'000		2017/18 Council Dwellings £'000	2017/18 Other Land and Buildings £'000	2017/18 Total £'000
(42,041)	(85,171)	**(127,212)**	Value at 1 April	(39,437)	(82,239)	**(121,676)**
2,604	2,932	**5,536**	Repayments made in year	1,897	3,195	**5,092**
(39,437)	**(82,239)**	**(121,676)**	**Value at 31 March**	**(37,540)**	**(79,044)**	**(116,584)**

42. 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.

2017/18	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 2018/19	3,342	6,823	3,634	1,230	3,463	7,592	4,572	10,286	11,226
Payments within 2-5 yrs	16,534	24,100	14,425	10,050	11,980	26,867	26,584	36,080	41,292
Payments within 6-10 yrs	30,308	20,456	18,141	16,149	8,871	35,604	46,457	29,327	53,745
Payments within 11-15yrs	18,193	8,360	12,021	7,421	1,650	17,171	25,614	10,010	29,192
Payments within 16-20 yrs	10,667	1,442	3,716	2,690	222	5,730	13,357	1,664	9,446
Payments within 21-25 yrs	-	-	-	-	-	-	-	-	-
Total future payments (excluding any future indexation)	**79,044**	**61,181**	**51,937**	**37,540**	**26,186**	**92,964**	**116,584**	**87,367**	**144,901**

2016/17	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 2017/18	3,193	7,104	3,652	1,898	3,638	6,773	5,091	10,742	10,425
Payments within 2-5 yrs	15,046	25,445	14,631	8,605	12,841	27,546	23,651	38,286	42,177
Payments within 6-10 yrs	27,158	22,899	18,849	14,349	10,359	36,021	41,507	33,258	54,870
Payments within 11-15yrs	22,075	10,252	13,252	10,884	2,586	20,841	32,959	12,838	34,093
Payments within 16-20 yrs	14,766	2,586	5,206	3,702	400	8,557	18,468	2,986	13,763
Payments within 21-25 yrs	-	-	-	-	-	-	-	-	-
Total future payments (excluding any future indexation)	**82,238**	**68,286**	**55,590**	**39,438**	**29,824**	**99,738**	**121,676**	**98,110**	**155,328**

43. Termination Benefits

Termination benefits paid to staff whose employment was terminated in 2017/18 totalled £1.846m (£2.220m in 2016/17).
Further details can be found in Note 34 (Officers' Remuneration).

44. 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 2017/18, the Authority paid £13.2m (£16.9m in 2016/17) to Teachers' Pensions (the government agency responsible for administering teachers pensions throughout England and Wales) in respect of teachers' pension costs, which represent 16.5% of teachers' pensionable pay (16.5% from 1st September 2015, previously 14.1%). 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 2017/18, the Authority paid £529k (£52k in 2016/17) to the Department of Health Pension scheme in respect of pension costs which represent 14% (14% in 2016/17) of pensionable pay.

45. 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 next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. 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.

45. Defined Benefit Pension Schemes (contd.1)

	2016/17			2017/18		
	Funded £'000	Unfunded £'000	**Total £'000**	Funded £'000	Unfunded £'000	**Total £'000**
Comprehensive Income and Expenditure Statement						
Cost of Services:						
Service cost	35,088	-	**35,088**	27,759	-	**27,759**
Administration Expenses	989	-	**989**	966	-	**966**
Financing and Investment Income and Expenditure						
Net interest expense	22,477	599	**23,076**	23,925	452	**24,377**
Total Post Employment Benefit Charged to the Surplus on the Provision of Services	**58,554**	**599**	**59,153**	**52,650**	**452**	**53,102**
Remeasurement in Other Comprehensive Income and Expenditure						
Return on Fund assets in excess of interest	(171,410)	-	**(171,410)**	39,973	-	**39,973**
Change in financial assumptions	436,247	2,907	**439,154**	(100,391)	(994)	**(101,385)**
Experience (gain)/loss on defined benefit obligation	196	(535)	**(339)**	-	-	**-**
Total Remeasurements in Other Comprehensive Income and Expenditure	**265,033**	**2,372**	**267,405**	**(60,418)**	**(994)**	**(61,412)**

	2016/17			2017/18		
	Funded £,000s	Unfunded £,000s	**Total £,000s**	Funded £,000s	Unfunded £,000s	**Total £,000s**
Movement in Reserves Statement						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits	(58,554)	(599)	**(59,153)**	(52,650)	(452)	**(53,102)**
Actual amount charged against General Fund and HRA Balances for pensions in the year						
Employers' contributions payable to scheme	40,496	-	**40,496**	31,589	-	**31,589**
Retirement benefits payable to pensioners	-	1,860	**1,860**	-	1,777	**1,777**
Net adjustment between accounting basis and funding basis under regulations	**(18,058)**	**1,261**	**(16,797)**	**(21,061)**	**1,325**	**(19,736)**

Pensions Assets and Liabilities Recognised in the Balance Sheet

	2016/17			2017/18		
	Funded £,000s	Unfunded £,000s	**Total £,000s**	Funded £,000s	Unfunded £,000s	**Total £,000s**
Present value of the defined benefit obligation	2,157,210	25,995	**2,183,205**	2,068,109	23,676	**2,091,785**
Fair value of plan assets	(1,241,960)	-	**(1,241,960)**	(1,192,216)	-	**(1,192,216)**
Net Liability in balance sheet	**915,250**	**25,995**	**941,245**	**875,893**	**23,676**	**899,569**

45. Defined Benefit Pension Schemes (contd.2)

	2016/17			2017/18		
	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	**(1,028,791)**	**-**	**(1,028,791)**	**(1,241,960)**	**-**	**(1,241,960)**
Interest on assets	(37,981)	-	**(37,981)**	(32,935)	-	**(32,935)**
Return on assets less interest	(171,410)	-	**(171,410)**	39,973	-	**39,973**
Other actuarial gains	(7,709)	-	**(7,709)**	-	-	**-**
Administration expenses	989	-	**989**	966	-	**966**
Contributions by employer	(40,496)	-	**(40,496)**	(31,589)	-	**(31,589)**
Contributions by scheme participants	(10,327)	-	**(10,327)**	(9,606)	-	**(9,606)**
Estimated benefits paid	50,317	-	**50,317**	54,550	-	**54,550**
Settlement prices paid	3,448	-	**3,448**	28,385	-	**28,385**
Closing fair value of assets	**(1,241,960)**	**-**	**(1,241,960)**	**(1,192,216)**	**-**	**(1,192,216)**

	2016/17 Funded £'000	2016/17 Unfunded £'000	2016/17 Total £'000	2017/18 Funded £'000	2017/18 Unfunded £'000	2017/18 Total £'000
Reconciliation of the Movements in the defined benefit obligation						
Opening defined benefit obligation	**1,660,950**	**24,880**	**1,685,830**	**2,157,210**	**25,995**	**2,183,205**
Current service cost	40,466	-	**40,466**	56,437	-	**56,437**
Interest cost	60,458	599	**61,057**	56,860	452	**57,312**
Change in financial assumptions	429,215	2,912	**432,127**	(100,391)	(994)	**(101,385)**
Experience loss/(gain)	14,937	(536)	**14,401**	-	-	**-**
Liabilities settled	(10,038)	-	**(10,038)**	(59,767)	-	**(59,767)**
Estimated benefits paid	(50,317)	-	**(50,317)**	(54,550)	-	**(54,550)**
Past service costs & curtailments	1,212	-	**1,212**	2,704	-	**2,704**
Contributions by scheme participants	10,327	-	**10,327**	9,606	-	**9,606**
Unfunded pension payments	-	(1,860)	**(1,860)**	-	(1,777)	**(1,777)**
Closing defined benefit obligation	**2,157,210**	**25,995**	**2,183,205**	**2,068,109**	**23,676**	**2,091,785**

45. Defined Benefit Pension Schemes (contd.3)

Assets

The return on the Fund (on a bid value basis) for the year to 31 March 2018 is estimated to be -1%.

The estimated asset allocation is as follows:

Employer asset share - bid value	31 March 2017		31 March 2018	
	£'000	%	£'000	%
Equities	830,013	67%	773,638	65%
Gilts	58,002	5%	96,243	8%
Other Bonds	102,004	8%	119,313	10%
Property	88,570	7%	109,146	9%
Cash	163,371	13%	65,920	6%
Other	-	0%	27,956	2%
Total	**1,241,960**	**100%**	**1,192,216**	**100%**

The following table provides a more detailed analysis of the Employer's assets as at 31 March 2018:

	Quoted/Unquoted	31 March 2018
Corporate Bonds		
UK	Quoted	0.0%
Overseas	Quoted	10.0%
Equities		
UK	Quoted	20.7%
Overseas	Quoted	37.5%
Property		
All	Unquoted	9.2%
Fixed Interest Government Securities		
Overseas	Quoted	8.1%
Others		
Hedge Fund	Unquoted	3.5%
Private Equity	Unquoted	3.2%
Private Debt	Unquoted	2.2%
Infrastructure	Unquoted	0.0%
Commodities	Unquoted	0.1%
Cash/Temporary Investments	Unquoted	2.0%
Cash/Temporary Investments	Quoted	3.3%
		99.8%
Net Current Assets		
Debtors	Quoted	0.4%
Creditors	Quoted	-0.2%
		0.2%
Total		**100.0%**

45. 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 2018.

The significant assumptions used by the actuary are:

	2016/17		2017/18	
	Funded	Unfunded	Funded	Unfunded
Life expectancy from age 65 years				
Retiring today				
Males	22.5	22.5	22.6	22.6
Females	25.0	25.0	25.2	25.2
Retiring in 20 years				
Males	24.7	n/a	24.8	n/a
Females	27.4	n/a	27.5	n/a
Financial Assumptions				
RPI increases (%p.a.)	3.6%	3.1%	3.3%	3.3%
CPI increases (%p.a.)	2.7%	2.2%	2.3%	2.4%
Salary increases (%p.a.)	4.2%	0.0%	3.8%	0.0%
Pension increases (%p.a.)	2.4%	2.2%	2.3%	2.4%
Discount rate (%p.a.)	2.7%	1.8%	2.6%	2.4%

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 1.0% p.a. below RPI i.e. 2.3% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is a slightly higher deduction than at the last accounting date where we assumed that CPI was 0.9% lower than RPI.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

45. 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	2,029,555	2,068,109	2,107,434
Projected service cost	51,262	52,515	53,800
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligations	2,071,671	2,068,109	2,064,569
Projected service cost	52,515	52,515	52,515
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligations	2,103,930	2,068,109	2,032,964
Projected service cost	53,802	52,515	51,258
Adjustment to mortality age rating assumption	+ 1 Year	None	- 1 Year
Present value of total obligations	2,145,770	2,068,109	1,993,347
Projected service cost	54,190	52,515	50,892

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 next actuarial valuation should be carried out with an effective date of 31 March 2019 and the contributions payable by the participating employers will be reviewed as part of that valuation.

46. 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

47. 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; it does not use financial instruments for trading or speculative purposes.

The main risks covered are:

Credit Risk: the possibility that one party counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause one party to incur a financial loss.

Liquidity Risk: The possibility that a party will be unable to raise funds to meet the commitments associated with Financial Instruments

Market Risk: The Authority is only exposed to one of the possible market risks, which is interest rate risk. This is the possibility that the value of interest paid or received in respect of an instrument will fluctuate because of changes in 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 describede 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 27th February 2017 and the mid-year Treasury Strategy was approved by Council on the 19th January 2018, and is available on the Council website. The key issues within the Strategy were:
• The Authorised Limit for 2017/18 was set at £1,827m (*£1,827m 2016/17). This is the maximum limit of external borrowing or other long term liabilities
• The Operational Boundary was expected to be £1,725m (*£1,725m 2016/17). 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 £800m and £700m (£800m and £700m 2016/17)

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.

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.

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

Liquidity Risk

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the Treasury and Investment Strategy Reports), as well as through cash flow management procedures required by the CIPFA Code of Practice. This seeks to ensure that cash is available when it is needed.

The Authority has a number of market Lender Option, Borrowers' Option (LOBO) loans within it's borrowing portfolio. As at the 31st March 2018 33% of the total portfolio was made up of LOBO debt.

Newham has 17 LOBO loans - they are by type and nominal value:

	31 March 18
	£000
Vanilla LOBO (6)	95,000
Stepped LOBO (3)	30,000
Zero to Par LOBO (2)	40,000
Inverse Floating LOBO (6)	150,000
Total	**315,000**

Vanilla LOBO
These are fixed rate loans, the interest rate the borrower pays cannot be changed by the lender, the lender does athough 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.

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

Zero to Par (ZTP) 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.

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.

The nature of LOBO agreements is that after an intial 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 acutal 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.

Further details on the nature of the Authority's LOBO's are disclosed in Note 18.

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

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. The Authority is also required to provide a balanced budget under the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. 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 2017		31 March 2018	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Public Works Loans Board	138,002	235,286	213,804	326,538
Market debt	665,759	1,211,197	728,388	1,494,689
Total	**803,761**	**1,446,483**	**942,192**	**1,821,227**

Maturity analysis of financial liabilities

	31 March 2017		31 March 2018	
	£'000	Fair Value £'000	£'000	Fair Value £'000
Less than 1 year	216,584	287,597	241,814	344,144
Between 1 and 2 years	10,550	16,833	52,041	78,350
Between 2 and 5 years	176,502	385,841	183,064	385,620
Between 5 and 10 years	18,375	29,482	4,854	5,101
More than 10 years	378,454	726,730	460,240	1,008,012
Total	**800,465**	**1,446,483**	**942,013**	**1,821,227**

Market Risk

Interest Rate Risk: The Authority is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risk by setting an upper limit of £800m 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 2018 84% of the debt portfolio was held in fixed rate instruments, 16% in variable 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:

	2016/17 £'000	2017/18 £'000
Decrease in interest payable on variable rate borrowings	(1,500)	(1,500)
Increase in interest receivable on variable rate investments	(5,391)	(5,091)
Impact on Comprehensive Income and Expenditure Statement	**(6,891)**	**(6,591)**

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).

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.

2016/17 Restated £'000		2017/18 £'000
	Income:	
(84,529)	Rent from Dwellings (gross)	(82,549)
(4,636)	Rent from Other Properties (gross)	(3,905)
(13,212)	Tenant contributions to Services and Facilities	(9,734)
(7,953)	Leaseholder contributions to Services and Facilities	(5,566)
(7,315)	Government subsidy towards the financing of PFI Schemes	(7,315)
(117,645)	**Total income**	**(109,069)**
	Expenditure:	
15,515	Repairs and Maintenance	18,736
44,113	Supervision and Management	40,434
2,235	Rent, rates, taxes and other charges	2,234
45,731	Depreciation and amortisation of non-current assets	23,001
(12,794)	Revaluation of non-current assets	(11,961)
10,830	Revenue expenditure funded from capital under statute	2,265
320	Debt Management Costs	99
473	Increase in bad debt provision	990
106,423	**Total expenditure**	**75,798**
(11,222)	**Net income of HRA services as included in whole Authority Comprehensive Income and Expenditure Statement**	**(33,271)**
730	HRA services share of Corporate and Democratic Core	353
(10,492)	**Net income of HRA services**	**(32,918)**
	HRA share of the operating income and expenditure included in the whole Authority Comprehensive Income and Expenditure Statement:	
(22,275)	Gain on sale of HRA non-current assets	(15,038)
16,994	Interest payable and similar charges	16,294
(1,985)	Movement on the fair value of Investment Properties	(3,156)
(283)	(Surplus)/Deficit on Trading Activities	515
(893)	HRA Interest and investment income	(872)
2,297	Net Interest on the net defined benefit liability	2,434
(348)	HRA share of capital grants and contributions receivable	(414)
(6,493)	**Total**	**(237)**
(16,985)	**(Surplus) for year on HRA services**	**(33,155)**

Statement of Movement on the Housing Revenue Account

2016/17 £'000		2017/18 £'000
(16,985)	(Surplus) on the HRA Income and Expenditure Statement	(33,155)
3,993	Adjustments between accounting basis and funding basis under regulations	24,897
(12,992)	**Net increase before transfers to or from reserves**	**(8,258)**
(26,228)	Balance on the HRA as at the end of the previous reporting period	(55,784)
1,622	Transfers to/(from) Reserves	-
(18,186)	Transfers to/(from) Earmarked Reserves	-
(55,784)	**Balance on the HRA as at the end of the current reporting period**	**(64,042)**

48. Notes to the Movement on the Housing Revenue Account Statement

2016/17 Restated £'000		2017/18 £'000
(331)	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	(479)
22,275	Gain on sale of HRA non-current assets	15,038
(2,294)	HRA share of contributions to or from the Pensions Reserve	(4,963)
(39,193)	Transfers from capital adjustment account	(10,168)
22,664	Transfer from the Major Repairs Reserve	23,020
872	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	2,449
3,993	**Net additional amount required by statute to be debited or credited to the HRA balance for the year**	**24,897**

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.

49. Numbers and Types of Dwellings in the Housing Stock

2016/17 Number	Type of dwelling	2017/18 Number
3,277	Low rise flats	3,245
5,056	Medium rise flats	5,031
3,318	High rise flats	3,313
4,755	Houses	4,630
1	Shared Ownership	-
16,407	**Total**	**16,219**

50. Balance Sheet Valuation of HRA Assets

31 March 2017 £'000		31 March 2018 £'000
	Operational assets	
1,171,246	Dwellings	1,198,058
119,755	Other land and building	121,664
	Non-Operational assets	
99,377	Surplus assets not held for sale	115,243
31,838	Investment properties	35,009
26,988	Assets Under Construction	360
1,449,204		**1,470,334**

51. Vacant Possession

As at 31st March 2018, the vacant possession value of dwellings within the HRA was £4.804 million (£4.642 million as at 31st March 2017). 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.

52. 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.

2016/17 £'000		2017/18 £'000
(59,244)	**Balance at 1 April**	**(58,712)**
(43,351)	Depreciation: Stock	(15,855)
(2,374)	Non-stock	(7,165)
23,086	Difference between Notional MRA and Depreciation credited to the MRR as per 5 year transition	-
23,171	Major Repairs Reserve applied	11,103
(58,712)	**Balance at 31 March**	**(70,629)**

53. Capital Expenditure and Financing

2016/17 £'000		2017/18 £'000
	Expenditure	
35,050	Council Dwellings, Land and other Property	20,020
	Financing	
(23,171)	Major Repairs Reserve	(11,103)
(3,802)	RTB Receipts	(1,351)
-	Loans Fund	(10)
(8,077)	Capital Grants and Contributions	(7,556)
(35,050)		**(20,020)**

54. Capital Receipts

2016/17 £'000		2017/18 £'000
31,865	Sales of Council Dwellings	20,667
18,008	Sales of Land and Other Property	21,215
49,873		**41,882**

55. Depreciation and Amortisation

2016/17 £'000		2017/18 £'000
43,351	Dwellings	15,855
1,049	Other land and buildings	3,989
8	Vehicles plant and equipment	-
1,314	Surplus assets not held for sale	3,157
45,722	**Total**	**23,001**

At the start of 2017/18, the authority made a material change to its accounting estimates for the remaining useful lives of council dwellings. The average useful life has increased from 18 to 46 years, as a result the 2017/18 depreciation charge for the properties was £15.9m, this was £27.5m lower than depreciation for 2016/17. This change in accounting estimates will be applied to future years.

56. 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 2017/18, there was no impairment losses recognised in the accounts (none in 2016/17).

57. 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 2017/18, HRA revenue expenditure funded from capital under statute totalled £2.264m (£10.83m in 2016/17).

58. Rent Arrears

The total gross rent arrears at 31 March 2018 was £8.270m increase of £2.088m (34%) from the balance of £6.182m at 31 March 2017. The Authority has made provision for possible uncollectable debts of £6.325m (£5.392m at 31 March 2017). 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 2017/18

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.

2016/17					2017/18			
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				
(90,457)			**(90,457)**	Income from Council Tax	(95,078)			**(95,078)**
	(127,192)		**(127,192)**	Income from Business Rates		(152,145)		**(152,145)**
	626		**626**	Transitional Relief - Business Rates		(4,952)		**(4,952)**
		(3,896)	**(3,896)**	Income from Business Rate Supp.			(4,679)	**(4,679)**
				Contributions towards previous years' Collection Fund deficit:				
	(5,079)		**(5,079)**	Central Government		(4,282)		**(4,282)**
	(3,048)		**(3,048)**	London Borough of Newham		(2,569)		**(2,569)**
	(2,031)		**(2,031)**	Greater London Authority		(1,713)		**(1,713)**
(90,457)	**(136,724)**	**(3,896)**	**(231,077)**	**TOTAL INCOME**	**(95,078)**	**(165,661)**	**(4,679)**	**(265,418)**
				Expenditure				
				Precepts				
	66,060		**66,060**	Central Government		48,560		**48,560**
66,097	39,780		**105,877**	London Borough of Newham	68,555	44,215		**112,770**
18,913	26,520		**45,433**	Greater London Authority	19,323	54,519		**73,842**
				Business Rate Supplement				
		3,886	**3,886**	Payment to Greater London Authority			4,670	**4,670**
		10	**10**	Cost of collection			9	**9**
				Charges to Collection Fund				
3,154			**3,154**	Write-offs of uncollectable amounts	2,652			**2,652**
1,146	944		**2,090**	Increase/(decrease) in bad debt provision	(917)	544		**(373)**
	(5,505)		**(5,505)**	Increase in provision for appeals		14,511		**14,511**
	374		**374**	Cost of collection		381		**381**
				Other transfers				
	154		**154**	Enterprise Zone		577		**577**
				Apportionment of previous year's estimated surplus				
			-	Central Government				**-**
3,151			**3,151**	London Borough of Newham	2,951			**2,951**
983			**983**	Greater London Authority	845			**845**
93,444	**128,328**	**3,896**	**225,667**	**TOTAL EXPENDITURE**	**93,409**	**163,307**	**4,679**	**261,395**
2,987	**(8,396)**	**0**	**(5,410)**	**(Surplus)/Deficit arising during the year**	**(1,669)**	**(2,354)**	**0**	**(4,023)**
(3,832)	12,758	0	**8,926**	(Surplus)/Deficit b/f at 1 April	(845)	4,362	0	**3,517**
(845)	**4,362**	**0**	**3,516**	**(Surplus)/Deficit c/f at 31 March**	**(2,514)**	**2,008**	**0**	**(506)**

Notes to the Collection Fund

59. 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 95.91%.

2016/17			**Council Tax band**			**2017/18**		
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
					£			
3,053	2,036	827	A	6/9	up to 40,000	3,113	2,076	830
21,563	16,771	965	B	7/9	40,001 - 52,000	22,352	17,385	968
38,749	34,444	1,103	C	8/9	52,001- 68,000	40,091	35,636	1,106
15,905	15,905	1,241	D	1	68,001 - 88,000	16,828	16,828	1,245
2,771	3,387	1,516	E	11/9	88,001 - 120,000	3,047	3,725	1,521
628	907	1,792	F	13/9	120,001 - 160,000	668	966	1,798
104	174	2,068	G	15/9	160,001 - 320,000	139	232	2,074
15	31	2,481	H	2	320,001 and over	14	29	2,489
82,788						**86,252**		
	73,655			**Council Tax base**			**76,877**	

60. 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 46.6p (48.4p in 2016/17); and
(ii) the standard multiplier was 47.9p (49.7p in 2016/17).
The total amount, less reliefs and other reductions, is shared between the Department of Communities and Local Government, who receive 33%, and the London Borough of Newham and Greater London Authority, who retain 30% and 37% respectively.

The total business rateable value for Newham at 31 March 2018 was £378,154,465 (2016/17 £318,642,848).

61. Prior Period Adjustment

The Code of Practice on Local Authority Accounting requires that the Council measures specific asset classes at current value, and account for changes in this value through the Comprehensive Income and Expenditure Statement. Entries would be recognised either within the 'Net Cost of Services' or 'Other Comprehensive Income and Expenditure' lines of the CIES. These are subsequently credited to the Capital Adjustment Account through the Movement in Reserves Statement, or credited directly to the Revaluation Reserve respectively to negate the impact on usable reserves.

The Council's asset register incorrectly held components of an asset, for which some components had accumulated a revaluation gain whilst others showed a valuation loss. Further, where previous valuation losses are reversed, the amounts must be adjusted for what the assumed depreciation would have been as if there had been no loss previously. The Council had previously written back the full amounts of the losses. These errors affected the amounts recognised in either the 'Net Cost of Services' or 'Other Comprehensive Income and Expenditure' lines of the CIES.

The adjustment below shows the adjustment to the opening balance of the previous reporting period.

Note 26 - Unusable Reserves	2016/17 £'000	Adjustment £'000	2016/17 Restated £'000
Revaluation Reserve Balance at 1 April	(496,109)	117,518	(378,591)
Capital Adjustment Account Balance at 1 April	(1,411,527)	(117,518)	(1,529,045)

The adjustment below shows the adjustment to the financial statements and affected notes for the previous reporting period.

	2016/17 £'000	Adjustment £'000	2016/17 Restated £'000
Expenditure Funding Analysis			
Central Services - Net Expenditure in the CI&ES	(4,163)	210	(3,953)
HRA - Net Expenditure in the CI&ES	(59,756)	49,264	(10,492)
Children's Services - Net Expenditure in the CI&ES	140,732	(36,616)	104,116
Community and Environment - Net Expenditure in the CI&ES	39,413	905	40,318
Comprehensive Income and Expenditure Statement			
Central Services - Net Expenditure	(4,163)	210	(3,953)
HRA - Net Expenditure	(59,756)	49,264	(10,492)
Children's Services - Net Expenditure	140,732	(36,616)	104,116
Community and Environment - Net Expenditure	39,413	905	40,318
(Surplus)/Deficit on Revaluation of PPE and Heritage Assets	(466,380)	(13,763)	(480,143)
Group Comprehensive Income and Expenditure Statement			
Central Services - Net Expenditure	(4,163)	210	(3,953)
HRA - Net Expenditure	(59,756)	49,264	(10,492)
Children's Services - Net Expenditure	140,732	(36,616)	104,116
Community and Environment - Net Expenditure	39,413	905	40,318
(Surplus)/Deficit on Revaluation of PPE and Heritage Assets	(466,380)	(13,763)	(480,143)
Consolidated Movement in Reserves Statement			
(Surplus) or Deficit on Provision of Services - GF	146,004	35,501	181,505
(Surplus) or Deficit on Provision of Services - HRA	(66,248)	(49,264)	(115,512)
Other Comprehensive Income and Expenditure	(198,968)	13,763	(185,205)
Adjustments between accounting basis and funding basis under regulations - GF	(141,240)	(35,501)	(176,741)
Adjustments between accounting basis and funding basis under regulations - HRA	53,257	49,264	102,521
Cash Flow Statement			
Single Entity - Net Surplus/(Deficit) on the Provision of Services	79,756	13,763	93,519
Single Entity - Adjustments to Net Surplus on the Provision of Services for Non-Cash Transactions	(224,099)	(13,763)	(237,862)
Group Accounts - Net Surplus/(Deficit) on the Provision of Services	42,451	13,763	56,214
Group Accounts - Adjustments to Net Surplus on the Provision of Services for Non-Cash Transactions	(192,531)	(13,763)	(206,294)
Note 7 - Note to the Expenditure Funding Analysis			
Adjustments for Capital Purposes - Central Services	(19,846)	210	(19,636)
Adjustments for Capital Purposes - HRA	11,927	49,264	61,191
Adjustments for Capital Purposes - Children's Services	40,103	(36,616)	3,487
Adjustments for Capital Purposes - Community and Environment	(114)	905	791
Note 8 - Expenditure and Income Analysed by Nature			
Impairment and Revaluation	(57,277)	13,763	(43,514)
Note 9 - Adjustments Between Accounting Basis And Funding Basis Under Regulations 2016/17			
Revaluation (losses)/gain on Property, Plant and Equipment - GF	(10,787)	35,501	24,714
Revaluation (losses)/gain on Property, Plant and Equipment - HRA	62,058	(49,264)	12,794

61. Prior Period Adjustment (contd.1)

Note 14 - PPE 2016/17			
Revaluation recognised in the Revaluation Reserve - Dwellings	59,115	48,862	107,977
Revaluation recognised in the Revaluation Reserve - Other Land and Buildings	339,114	(37,319)	301,795
Revaluation recognised in the Revaluation Reserve - Long Term Surplus	68,123	2,219	70,342
Revaluation recognised in the Surplus on the Provision of Services - Dwellings	48,921	(48,862)	59
Revaluation recognised in the Surplus on the Provision of Services - Other Land and Buildings	(16,003)	37,319	21,316
Revaluation recognised in the Surplus on the Provision of Services - Long Term Surplus	18,150	(2,219)	15,931
Note 26 - Unusable Reserves			
Revaluation Reserve:			
Upward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	(466,379)	(13,763)	(480,142)
Difference between fair value depreciation and historical cost depreciation	24,616	(17,259)	7,357
Accumulated gains on assets sold or scrapped	22,351	(2,840)	19,511
Capital Adjustment Account:			0
Revaluation gains on Property, Plant and Equipment	(51,271)	13,763	(37,508)
Difference between fair value depreciation and historical cost depreciation	(24,616)	17,259	(7,357)
Accumulated gains on assets sold or scrapped	(46,967)	2,840	(44,127)
Note 27 - Cash flow - Adjustments for non-cash transactions			
Single Entity - Increase in Revaluation charged to the Comprehensive Income and Expenditure Statement	51,271	(13,763)	37,508
Group Accounts - Increase in Revaluation charged to the Comprehensive Income and Expenditure Statement	51,271	(13,763)	37,508
Housing Revenue Account - Income and Expenditure Statement			
Revaluation of non-current assets	(62,058)	49,264	(12,794)
Note 48 - Notes to the Movement on the Housing Revenue Account Statement			
Transfers from capital adjustment account	10,071	(49,264)	(39,193)

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

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Asset Statement and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the London Borough of Newham Statement of Accounts 2017/18, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the Responsibilities for the Statement of Accounts set out on page 14, the Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the members of London Borough of Newham, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Newham's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Suter (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Southampton

27 March 2019

The maintenance and integrity of the London Borough of Newham web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

2017/18 PENSION FUND ACCOUNTS

2016/17 £000		Notes	2017/18 £000
	Dealings with members, employers and others directly involved in the Fund:		
57,055	Contributions	7	50,467
3,346	Transfers in from other pension funds	8	4,000
60,401			**54,467**
(49,176)	Benefits	9	(52,768)
(7,633)	Payments to and on account of leavers	10	(8,267)
(56,809)			**(61,035)**
3,592	**Net additions from dealing with members**		**(6,568)**
(4,413)	Management expenses	11	(5,309)
	Returns on investments		
16,597	Investment income	12	18,614
(238)	Taxes on income	13	(398)
194,307	Profit and losses on disposal of investments and changes in the market value of investments	14a	6,611
210,666	**Net return on investments**		**24,827**
209,845	**Net increase in the assets available for benefits during the year**		**12,950**
1,105,491	**Opening net assets of the fund**		**1,315,336**
1,315,336	**Closing net assets of the fund**		**1,328,286**

Net Asset Statement

2016/17 £000		Notes	2017/18 £000
1,163,630	Investment assets	14a	1,251,915
164,043	Cash deposits	14a	74,768
1,327,673	**Total invested assets**		**1,326,683**
6,576	Current assets	21	5,499
(18,913)	Current liabilities	22	(3,896)
(12,337)	**Net current assets**		**1,603**
1,315,336	**Net assets of the fund available to fund benefits at 31 March**		**1,328,286**

NOTES TO THE PENSION FUND`

Note 1: Description of Fund

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

The following description of the fund is a summary only, for more detail reference should be made to the Fund's Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme ('LGPS') Regulations.

a) **General**

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 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, police officers and firefighters are not members as they are included within other national pension schemes.

The Fund is overseen by the Investment and Accounts Committee (the Committee), a committee of the London Borough of Newham and supported by the Local Pension Board ('the Board').

b) **Governance**

The Authority has delegated management of the Fund to the Committee who decide on the investment policy most suitable to meet the liabilities of the Fund and have ultimate responsibility of the investment policy. The Committee is made up of eight Members, each of whom has equal voting rights and three co-opted members, who do not have voting rights.

The Committee reports to the Full Council and has full delegated authority to make investment decisions. The Committee considers views from the Director of Financial Sustainability and seeks advice, where necessary, from the Fund's appointed investment advisors, fund managers and the actuary.

In line with the provision of the Public Service Pension Act 2013 the Authority has set up a Local Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets quarterly and has its own Terms of Reference. Board members are independent of the Committee. Two members of the Board are active members of the LGPS pension scheme.

c) **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.

During 2017/18 12 new employers' joined the Fund.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies

include voluntary, charitable and similar bodies or private contractors undertaking a local Authority function following outsourcing to the private sector.

There are 57 employer organisations (see Note 19) within the Fund including the Local Authority itself, as detailed below.

Membership	31 March 2017	31 March 2018
Number of employers' with active members	40	45
Number of employees' in scheme		
London Borough of Newham	6,878	7,073
Other employers	1,149	2,214
Total	**8,027**	**9,287**
Number of pensioners		
London Borough of Newham	6,826	7,018
Other employers'	302	331
Total	**7,128**	**7,349**
Deferred pensioners		
London Borough of Newham	9,429	9,380
Other employers'	932	1,038
Total	**10,361**	**10,418**

d) **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 2018. 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 2016. Currently, employer contribution rates range from 12% to 25.5% of full pensionable pay. The 2016 valuation has been completed; new employer contribution rates came into effect on 1 April 2017.

e) **Benefits**

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

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

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 under the scheme 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.

f) **Investment Principles**

The LGPS (Management and Investment of Funds) Regulations 2016 requires administering authorities to prepare and review from time to time a written statement recording the investment policy of the Fund. The Investment Strategy Statement is available on the Fund's website at the link below. The Statement shows the Authority's compliance with the Myners principles of investment management.

http://www.yourpension.org.uk/handr/Newham-Publications/Newham-Fund-Members.aspx
The Committee has delegated management of the Fund's investments to external investment managers (see Note 14b) appointed in accordance with the above Regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

Note 2: Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* (the code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take account of the actuarial present value of promised retirement benefits.

Note 3: Summary of Significant Accounting Policies

Fund account – revenue recognition

a) Contribution income

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

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

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with The LGPS Regulations 2013 (see Notes 8 and 10).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

c) Investment income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price.

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 (NAS) as an investment 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 NAS as an investment asset.

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the Authority is the administering Authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of Pension Fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016)*. These are detailed as:

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged 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 oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance is charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The costs of obtaining investment advice from external advisors are included in oversight and governance costs.

Investment management expenses

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

Where an investment manager's fee note has not been received by the NAS 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 2017/18 £1,056,644 of fees is based on such estimates (2016/17: £1,206,932).

Net assets statement

g) Financial assets

Financial assets are included in the NAS on a best available pricing 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 16). 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.

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

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

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

j) Cash and cash equivalents

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

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund's 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 20).

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. The Fund has appointed Clerical Medical as its AVC provider. AVCs are paid to the AVC provider by employers' and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.
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 23).

n) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Authority to charge administrations costs to the Fund. A proportion of the relevant Authority costs have been charged to the Fund on the basis of actual time spent on Pension Fund business.

Note 4: Critical Judgements in applying accounting policies

Pension fund liability

The Fund's liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies.

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 amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the NAS at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: • a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £43m • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £4.2m, and • a one year increase in assumed life expectancy would increase the liability by approximately £85m.
Private equity	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 65.4m. There is a risk that this investment may be under or overstated in the accounts.

Diversified Alternative Fund	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 £35.3m. 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 +/- £3m.

Note 6: Events after the Reporting Date

There have been no events occurring after the reporting date that would have a material impact upon the Fund Accounts.

Note 7: Contributions Receivable

2016/17	**By Category**	**2017/18**
£000		**£000**
11,901	Employees' contributions	12,301
11,901	**Employees' contributions**	**12,301**
24,730	Normal contributions	26,448
18,959	Deficit recovery contributions	10,030
1,465	Augmentation contributions	1,688
45,154	**Total Employers' contributions**	**38,166**
57,055	**Total**	**50,467**

2016/17	**By Authority**	**2017/18**
£000		**£000**
50,700	Administering Authority	40,948
1,863	Admitted Body	2,910
4,492	Scheduled Body	6,609
57,055	**Total**	**50,467**

Note 8: Transfers in from other Pension Funds

2016/17		**2017/18**
£000		**£000**
3,346	Individual transfers	4,000
3,346	**Total**	**4,000**

Note 9: Benefits Payable

2016/17	By category	2017/18
£000		**£000**
(40,256)	Pensions	(41,949)
(7,447)	Commutation and lump sum retirement benefits	(9,547)
(1,473)	Lump sum death benefits	(1,272)
(49,176)	**Total**	**(52,768)**

2016/17	By authority	2017/18
£000		**£000**
(46,771)	Administering Authority	(50,588)
(465)	Admitted bodies	(512)
(1,940)	Scheduled bodies	(1,668)
(49,176)	**Total**	**(52,768)**

Note 10: Payments to and on account of leavers

2016/17		2017/18
£000		**£000**
(293)	Refunds to members leaving service	(256)
(7,340)	Individual transfers	(8,011)
(7,633)	**Total**	**(8,267)**

Note 11: Management Expenses

2016/17		2017/18
£000		**£000**
(392)	Administrative costs	(993)
(3,403)	Investment management expenses	(3,754)
(618)	Oversight and governance costs	(562)
(4,413)	**Total**	**(5,309)**

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sale of investments (see Note 14a).

Note 11a: 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 edition).*

2016/17 £000		2017/18 £000
(3,284)	Management Expenses	(3,586)
(119)	Custody fees	(168)
(3,403)	**Total**	**(3,754)**

Note 12: Investment Income

2016/17 £000		2017/18 £000
-	Overseas fixed interest unit trust	1,340
4,032	Index linked	30
8,571	Equity dividends	8,953
3,022	Pooled property investments	3,347
-	Pooled fixed income	3,354
(45)	Private equity	40
-	Private debt	677
-	Diversified alternatives	361
1,017	Interest on cash deposits	512
16,597	**Total**	**18,614**

Note 13: Taxes on Income

2016/17 £000		2017/18 £000
(238)	Withholding tax	(398)
(238)	**Total**	**(398)**

Note 14a: Reconciliation of Movements in Investments and Derivatives

	Market value as at 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market value as at 31 March 2018
	£000	**£000**	**£000**	**£000**	**£000**
Equities	451,978	156,285	(132,841)	1,076	476,498
Fixed Interest Securities	62,287	127,107	(128,985)	(14,863)	45,546
Pooled Investments	453,129	377,583	(415,855)	9,273	424,130
Pooled property Investments	95,113	61,190	(27,770)	2,664	131,197
Private equity/debt	37,283	40,277	(15,302)	3,146	65,404
Diversified alternatives	58,489	26,661	(19,579)	(2,688)	62,883
London collective investment vehicle	150	-	-	-	150
	1,158,429	789,103	(740,332)	(1,392)	**1,205,808**
Forward currency contracts	1,959	2,775	(7,692)	6,949	3,991
	1,160,388	**791,878**	**(748,024)**	**5,557**	**1,209,799**
Other Investment balances:					
Cash deposits	164,043			1,290	74,768
Investment income due	2,202			-	2,589
Amount receivable for sales of investments	1,034			286	40,536
Amounts payable for purchases of investments	-			205	(720)
Spot FX Contracts	6			(727)	(289)
	1,327,673			**6,611**	**1,326,683**

	Market value as at 31 March 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market value as at 31 March 2017
	£000	**£000**	**£000**	**£000**	**£000**
Equities	349,447	81,850	(79,747)	100,428	451,978
Fixed Interest Securities	-	127,812	(61,055)	(4,470)	62,287
Pooled Investments	321,393	543,294	(479,449)	67,891	453,129
Pooled property Investments	86,926	8,911	(3,409)	2,685	95,113
Overseas private equity/infrastructure	70,512	4,874	(43,139)	5,036	37,283
Overseas diversified alternatives	47,181	22,947	(22,467)	10,828	58,489
London collective investment vehicle	150	-	-	-	150
	875,609	789,688	(689,266)	182,398	**1,158,429**
Forward currency contracts	423	14,334	(6,063)	(6,735)	1,959
	876,032	**804,022**	**(695,329)**	**175,663**	**1,160,388**
Other Investment balances:					
Cash deposits	216,697			19,873	164,043
Investment income due	2,195				2,202
Amount receivable for sales of investments	-			(2)	1,034
Spot FX Contracts	-			(1,191)	6
	1,094,924			**194,307**	**1,327,673**

Note 14b: Analysis of Investments

Market Value as at 31 March 2017 £000	Analysis of Investments	Market Value as at 31 March 2018 £000
	Equities	
70,369	UK quoted	66,192
381,608	Overseas quoted	410,306
451,977		**476,498**
	Fixed interest securities	
-	Overseas public sector quoted	45,546
-		**45,546**
	Pooled funds - additional analysis	
119,021	UK Equity unit trusts	161,251
109,540	Overseas fixed interest unit trusts	106,413
224,568	Overseas equity unit trusts	135,037
-	Overseas managed alternatives	21,429
453,129		**424,130**
	Pooled property investments	
78,800	UK pooled property investments	83,459
16,313	Overseas pooled property investments	47,738
95,113		**131,197**
	Private equity/debt	
37,283	Overseas private equity	35,308
-	Private debt	30,096
37,283		**65,404**
	Diversified alternatives	
58,489	Diversified alternatives	62,883
215,889		**62,883**
	London collective investment vehicle	
150	London collective investment vehicle	150
150		**150**
	Cash	
89,265	UK Cash and Bank Deposits	67,452
74,779	Overseas Cash and Bank Deposits	7,316
164,044		**74,768**
	Other investment assets	
1,959	Forward currency contracts	4,144
6	Spot FX Contracts	-
2,202	Investment income due	2,589
1,034	Amount receivable for sales	40,536
5,201		**47,269**

	Investment liabilities	
-	Derivative liabilities	(153)
-	Spot FX	(289)
-	Amounts payable for purchases	(720)
-		**(1,162)**
1,327,673	**Total investment assets**	**1,326,683**

Investments analysed by fund manager

Market value as at 31 March 2017 £000	%	Fund manager	%	Market value as at 31 March 2018 £000
175,399	13.2	Aberdeen Standard	14.9	198,008
16	-	Baring	-	22
-	-	Bluebay	0.3	4,612
-	-	Brightwood	0.5	6,312
-	-	Brockton	0.4	5,219
99,927	7.5	CBRE	9.6	126,992
66,229	5.0	HarbourVest	3.3	43,441
39,000	2.9	In-house temporary cash deposits	-	-
343,589	25.9	Legal and General (LGIM)	22.3	296,292
150	-	London Collective Investment Vehicle	-	150
473,906	35.7	Longview	36.4	483,443
-	-	Man FRM	1.6	21,429
62,989	4.7	Morgan Stanley	4.9	65,146
66,468	5.1	Northern Trust cash deposits	1.7	20,884
-	-	Permira	1.5	19,733
-	-	River & Mercantile	2.6	35,000
1,327,673	**100**	**Total**	**100**	**1,326,683**

Individual investments exceeding 5% of net assets

Fund manager	Asset name	MV at 31 March 2018 £000	Percentage of fund %
Aberdeen Standard	World Opportunistic Bond	106,413	8

Note 14c: Property Holdings

The Fund's investment in property portfolio comprises investments in pooled property funds and no directly owned properties.

Note 14d: Stock Lending

The Fund does not carry out stock lending directly, the Fund is an investor of a pooled fund with the passive equity manager, Legal and General Investment Management (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 2018, the value of quoted equities on loan was £135m. These equities continue to be recognised in the Fund's financial statements.

Note 15: 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.

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	121,211	USD	(164,758)	3,806	(6)
Up to one month	USD	100,416	GBP	(71,383)	320	(145)
One to six months	GBP	50,163	USD	(70,580)	18	-
One to six months	GBP	1,880	EUR	(2,141)	-	(2)
Open forward currency contracts at 31 March 2018					**4,144**	**(153)**
Net forward currency contracts at 31 March 2018						**3,991**
Prior year comparative						
Open forward currency contracts at 31 March 2017					**1,959**	**-**
Net forward currency contracts at 31 March 2017						**1,959**

Note 16: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

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	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments-overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer are published	NAV-based pricing set on a forward pricing basis	Not required
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	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)*	EBITDA multiple Revenue multiple Discount for lack of marketability 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 2018.

Description of asset	Assessed valuation range (+/-)	Value as 31 March 2018 £000	Value on increase £000	Value on decrease £000
Pooled investments-hedge funds	5%	17,318	18,184	16,452
Private equity	10%	35,307	38,838	31,776
Property funds	10%	101,192	111,311	91,073
Private debt*	0.2%	30,096	30,156	30,036
Total		**183,913**	**198,489**	**169,337**

*Private debt is combined totals of the following managers; Bluebay, Brightwood & Permira

Note 16a: Fair Value Hierarchy

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

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

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.

	Quoted market price	Using observable inputs	With significant observable inputs	
Values at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	507,130	521,478	183,913	1,212,521
Loans and receivables	74,742	40,582	-	115,324
Financial liabilities at fair value through profit and loss	-	(1,162)	-	(1,162)
Net financial assets	**581,872**	**560,898**	**183,913**	**1,326,683**

The Pensions Research Accountants Group (PRAG) published a practical guidance for investment disclosures in response to FRS102 amendments in respect of the fair value hierarchy disclosures alignment with IFRS. The paper states that pooled fund holdings should not just be analysed in terms of their underlying investments but should also be dependent on the nature and the investor's ability to exit the holding. Taking this into account the following movements have been made.

	Quoted market price	Using observable inputs	With significant observable inputs	
Values at 31 March 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	883,409	410,853	54,754	1,329,016
Loans and receivables	124,834	1,034	-	125,868
Financial liabilities at fair value through profit and loss	-	(127,211)	-	(127,211)
Net financial assets	**988,243**	**284,676**	**54,754**	**1,327,673**

Note 16b: Fair Value Hierarchy

	Market Value as at 31/03/2017 £000	Transfers in/out of level 3 £000	Purchases £000	Sales £000	Unrealised gains (losses) £000	Realised gains (losses) £000	Market Value as at 31/03/2018 £000
Pooled investments-hedge funds	17,472	-	6,700	(6,391)	(2,246)	1,783	17,318
Private equity	37,283	-	5,475	(10,989)	(2,830)	6,368	35,307
Property funds	88,442	-	39,763	(27,770)	(9,276)	10,033	101,192
Private debt	-	-	34,801	(4,313)	(392)	-	30,096
Total	**143,197**	-	**86,739**	**(49,463)**	**(14,744)**	**18,184**	**183,913**

(a) transferred from level 3 to level 2 due to an improvement in observable market data arising from an increase in market activity for the instruments

(b) transferred from level 2 to level 3 due to a reduction in observable market data arising from a lack of market activity

(c) transferred from level 2 to level 3 due to reappraisal of property valuation techniques

(d) 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 17: 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 NAS heading.

Market value as at 31 March 2017				Market value as at 31 March 2018		
Fair value through profit and loss £000	**Loans and receivables £000**	**Financial liabilities at amortised cost £000**		**Fair value through profit and loss £000**	**Loans and receivables £000**	**Financial liabilities at amortised cost £000**
			Financial assets			
62,287	-	-	Fixed Interest Securities	45,546	-	-
451,978	-	-	Equities	476,498	-	-
453,129	-	-	Pooled investments	424,130	-	-
95,113	-	-	Pooled property Investments	131,197	-	-
37,283	-	-	Private equity	65,404	-	-
58,489	-	-	Diversified	62,883	-	-
150	-	-	London Collective Investment Vehicle	150	-	-
1,959	-	-	Overseas derivative contracts	4,144	-	-
6	-	-	Spot currency contracts		-	-
-	171,574	-	Cash		74,768	-
2,202	-	-	Other investment balances	2,589	-	-
1,034	-	-	Amounts receivable for sales		-	-
-	1,116	-	Current Assets	40,536	5,499	-
1,163,630	**172,690**	**-**	**Total Financial Assets**	**1,253,077**	**80,267**	**-**
			Financial liabilities			
-	-	-	Derivative contracts	(153)	-	-
-	-	-	Creditors		-	(720)
-	-	(20,984)	Current liabilities	(289)	-	(3,896)
-	**-**	**(20,984)**	**Total Financial liabilities**	**(442)**	**-**	**(4,616)**
1,163,630	**172,690**	**(20,984)**	**Total**	**1,252,635**	**80,267**	**(4,616)**

Note 17a: Net Gains and Losses on Financial Instruments

31 March 2017 £000		31 March 2018 £000
175,663	Fair value through profit and loss	5,557
18,644	Loans and receivables	1,054
194,307	**Total**	**6,611**

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

Note 18: Nature and Extent of Risks arising from Financial Instruments

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Committee. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions 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 general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions and benchmark analysis.

Price risk

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 represent a risk of loss of capital. The maximum risk resulting from financial instruments (with the exception of derivatives where the risk is currency related) is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by 10%.

Asset type	Market value as at 31 March 2018	Value on 10% price increase	Value on 10% price decrease
Cash and cash equivalents	74,768	82,245	67,291
Investment portfolio assets:			
UK equities	66,192	72,811	59,573
Overseas equities	410,306	451,337	369,275
Overseas fixed income unit trusts	106,413	117,054	95,772
Public sector quoted	45,546	50,101	40,991
UK equity unit trust	161,251	177,376	145,126
Overseas equity unit trusts	135,037	148,541	121,533
UK pooled property investments	83,459	91,805	75,113
Overseas pooled property investments	47,738	52,512	42,964
Private debt	30,096	33,106	27,086
Managed Alternatives	21,429	23,572	19,286
London Collective Investment Vehicle	150	165	135
Overseas private equity	35,308	38,839	31,777
Overseas diversified alternatives	62,883	69,171	56,595
Net derivative assets	4,144	4,558	3,730
Investment income due	2,589	2,846	2,328
Amounts receivable for sales	40,536	44,591	36,483
Investment liabilities	(1,162)	(1,277)	(1,045)
Total investment assets	**1,326,683**	**1,459,353**	**1,194,013**

Asset type	Market value as at 31 March 2017	Value on 10% price increase	Value on 10% price decrease
Cash and cash equivalents	164,043	180,447	147,639
Investment portfolio assets:			
UK equities	70,369	77,406	63,332
Overseas equities	381,608	419,769	343,448
Overseas fixed income unit trusts	109,540	120,494	98,586
Index linked securities	62,287	68,516	56,058
UK equity unit trust	119,021	130,923	107,119
Overseas equity unit trusts	224,568	247,024	202,111
Pooled property investments	95,113	104,624	85,602
London Collective Investment Vehicle	150	165	135
Overseas private equity	37,283	41,012	33,555
Overseas diversified alternatives	58,489	64,338	52,640
Net derivative assets	1,959	2,155	1,763
Spot currency contracts	7	8	6
Investment income due	2,202	2,422	1,982
Amounts receivable for sales	1,034	1,137	930
Total investment assets	**1,327,673**	**1,460,440**	**1,194,907**

Interest rate risk

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

The Fund’s interest rate risk is routinely monitored by the Authority and its investment advisors in accordance with the Fund’s risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

Asset type	Market value as at 31 March 2018	Value on 1% price increase	Value on 1% price decrease
Cash and Cash equivalents	74,768	75,516	74,020
Fixed interest unit trusts	106,413	107,478	105,349
Total	**181,181**	**182,994**	**179,369**

Asset type	Market value as at 31 March 2017	Value on 1% price increase	Value on 1% price decrease
Cash and Cash equivalents	164,043	165,683	162,403
Fixed interest unit trusts	109,540	110,635	108,445
Index linked securities	62,287	62,910	61,664
Total	**335,870**	**339,228**	**332,512**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of derivatives (see Note 15). The Committee recognises that a 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.

Overseas equities, fixed interest securities and futures, cash in foreign currencies, forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of these assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

Asset type	Market value as at 31 March 2018	Value on 10% price increase	Value on 10% price decrease
Overseas quoted securities	410,306	451,337	369,275
Overseas fixed income unit trusts	106,413	117,054	95,772
Public sector quoted	45,546	50,101	40,991
Overseas unit trusts	135,037	148,541	121,533
Overseas private equity	161,251	177,376	145,126
Diversified alternatives	62,883	69,171	56,595
Total	**921,436**	**1,013,580**	**829,292**

Asset type	Market value as at 31 March 2017	Value on 10% price increase	Value on 10% price decrease
Overseas quoted securities	381,608	419,769	343,448
Overseas fixed income unit trusts	109,540	120,494	98,586
Index linked securities	62,287	68,516	56,058
Overseas unit trusts	224,568	247,024	202,111
Overseas pooled property	-	-	-
Overseas private equity	119,021	130,923	107,119
Diversified alternatives	58,489	64,338	52,640
Total	**955,513**	**1,051,064**	**859,963**

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.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors the state of its admitted bodies.

Summary	Rating	Asset value as at 31 March 2017	Asset value as at 31 March 2018
Money market funds			
Northern Trust Global Investments (NTGI) Cash Fund	AAA	112,120	46,701
Federated Prime Rate	AAA	614	1,124
Standard Life	AAA	3,740	10
Bank deposit accounts			
*Cash (externally held)		4,062	-
Bank current accounts			
*Northern Trust (NT) custody cash accounts		3,722	28,067
Total		**124,258**	**75,902**

*Cash account does not receive credit ratings, figures are provided to reconcile the investment cash.

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Authority therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates and the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Authority has immediate access to its Pension Fund cash holdings.

The Fund also has access to a £0.5m 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 2018 the balance on this facility stood at £0 (31 March 2017: £0). As these borrowings are of a limited short-term nature, the Fund's exposure to credit risk is considered negligible.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2018 are due within one year.

b) **Refinancing risk**

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

Note 19: Funding Arrangements

In line with regulation 57(1) (d) of 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 2016. The next valuation will take place as at 31 March 2019.

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 the administering Authority considers 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. Solvency is achieved when the Funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

At the 2016 actuarial valuation, the Fund was assessed as 85% funded (73% at the March 2013 valuation). This corresponded to a deficit of £201m (2013 valuation: £298m) at that time.

Individual employers' rates will vary depending on the demographic and actuarial factors particular to each employer.

The contribution rates for each employer are as follows.

Name of Body	Scheduled or Admitted	Contribution Rates %	Employee Contribution 2016/17 £000s	Employee Contribution 2017/18 £000s	Employer Contribution 2016/17 £000s	Employer Contribution 2017/18 £000s
Active Newham	Admitted	17.6	18	13	46	115
Agate Momentum Trust	Scheduled	18.6	-	8	-	27
Better Together	Admitted	12.0	6	9	10	17
Birkin Services	Admitted	17.7	2	-	10	2
Bobby Moore Academy	Scheduled	12.0	-	6	-	11
Boleyn Trust	Scheduled	23.8	13	141	41	471
Brampton Manor Primary School	Scheduled	23.5	65	73	220	253
Britannia Education Trust	Scheduled	22.1	-	17	-	55
Burnt Mill Academy Trust	Scheduled	24.1	-	42	-	140
Carpenters TMO	Admitted	15.0	-	6	28	1
Chobham Academy	Scheduled	12.0	63	58	120	113
Churchill	Admitted	25.3	2	1	11	9
Community Links*	Admitted	13.7	4	-	8	-
Community Schools Trust	Scheduled	19.3	15	50	48	145
Change Grow Live	Admitted	14.7	4	5	9	9
Education Links Free School	Scheduled	13.5	-	7	-	15
Early Start	Admitted	14.5	-	15	-	32
East London Arts and Music School*	Scheduled	12.0	5	-	10	1
East London Science School	Scheduled	15.9	14	28	22	59
EKO Trust	Scheduled	15.1	32	120	98	275
Enabled Living	Admitted	18.5	-	40	-	132
FM Conway*	Admitted	-	-	-	-	(204)
iXact	Admitted	20.2	-	86	-	305
Langdon Academy	Scheduled	23.5	104	112	387	417
London Borough of Newham	Administering Authority	20.5	10,413	9,829	40,744	31,117
Leading Learning Trust	Scheduled	17.2	65	78	201	221
Learning in Harmony MAT	Scheduled	19.8	160	193	524	631
London Academy of Excellence	Scheduled	12.0	17	19	34	36
London Design and Engineering	Scheduled	12.0	6	21	11	37
London Network for Pest Solution	Admitted	14.7	2	19	5	45
Lunchtime Company*	Admitted	15.8	-	-	50	(50)
Mint	Admitted	20.4	-	91	-	327

Name of Body	Scheduled or Admitted	Contribution Rates %	Employee Contribution 2016/17 £000s	Employee Contribution 2017/18 £000s	Employer Contribution 2016/17 £000s	Employer Contribution 2017/18 £000s
Mitie	Admitted	20.2	6	6	15	17
Newham College of Further Education	Scheduled	16.7	326	375	812	911
Newham Collegiate	Scheduled	18.4	-	5	-	14
NewVic	Scheduled	14.2	153	161	284	349
New Vision MAT	Scheduled	20.1	-	20	-	72
Newham Partnership Working	Admitted	20.2	198	181	742	530
Oasis Academy	Scheduled	12.0	6	11	12	21
Olive Dining	Admitted	22.4	9	6	39	37
Our Lady of Grace MAT	Scheduled	25.5	53	59	220	248
Pabulum	Admitted	22.9	4	2	14	8
Public Realm	Admitted	17.1	34	118	92	380
RM Education	Admitted	12.0	5	5	16	38
School 21	Scheduled	12.0	57	72	106	137
Stratford Academy	Scheduled	15.6	37	44	150	111
Tapscott Leading Trust	Scheduled	19.7	-	63	-	216
The Good Support Company	Admitted	19.3	-	81	-	305
Wilson Jones	Admitted	14.5	3	3	15	8
Total			**11,901**	**12,301**	**45,154**	**38,166**

* these employers had no active members in 2017/18.

The following employers have no active members, nor have they made any contributions to the Fund in either 2016/17 or 2017/18 but do have deferred, pensioner, dependant or frozen members;

- David Webster Ltd
- East London Waste Authority
- Greenwich Leisure Ltd
- Independent Housing Ombudsman
- Magistrates Court
- Newco Enterprises
- Stratford Renaissance Partnership
- Thames Gateway London Partnership

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 2016 Actuarial Valuation

Investment Return (Discount rate)	5.4%	Based on 20-year bond returns extrapolated to reflect the duration of the Fund's liabilities
Inflation	3.0%	Assumed to be CPI
Salary increases	3.9%	1.5% pa over CPI
Pension increases	2.4%	In line with CPI - assumed be 0.9% less than RPI

Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was as follows.

Mortality assumption at age 65	Male	Female
Current pensioners	22.4 years	24.9 years
Future pensioners (assumed current age 45)	24.6 years	27.2 years

Historic mortality assumptions

Life expectancy for the year ended 31 March 2016 is based on Series Pensioners Amounts (S1PA) actuarial tables. The allowances for future life expectancy are as follows.

Prospective pensioners	Current pensioners
Year of birth, medium cohort and 1.5% per annum minimum improvement from 2015	Year of birth, medium cohort and 1.5% per annum minimum improvement from 2015

Commutation assumptions

It is assumed that members at retirement will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension.

Note 20: 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 19). The actuary has also used valued ill health and death benefits in line with IAS 19.

2016/17 £m		2017/18 £m
(2,274.7)	Present value of promised retirement benefits	(2,298.3)
1,333.7	Fair value of scheme assets (bid value)	1,327.4
941.0	**Net Liability**	**970.9**

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 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used	2016/17	2017/18
	%	%
Inflations/pension increase rate assumption	2.7	2.3
Salary increase rate	4.2	3.8
Discount rate	2.8	2.55

Note 21: Current Assets

2016/17		2017/18
£000		£000
153	Contributions due – employees	223
433	Contributions due – employers	645
1,420	Sundry debtors	3,032
4,570	Cash and cash equivalents	1,599
6,576	**Total Current Assets**	**5,499**

The contributions due all related to March 2018 (which became payable on 20 April 2018).

Analysis of debtors

2016/17		2017/18
£000		£000
890	Local authorities	890
1,116	Public corporations and trading funds	3,010
2,006	**Total Debtors**	**3,900**

Note 22: Current Liabilities

2016/17		2017/18
£000		£000
(18,913)	Sundry creditors	(3,896)
(18,913)	**Total Current Liabilities**	**(3,896)**

Analysis of creditors

2016/17		2017/18
£000		£000
(17,716)	Local Authorities	(2,831)
(1,197)	Public corporations and trading funds	(1,065)
(18,913)	**Total Creditors**	**(3,896)**

Note 23: Additional Voluntary Contributions

Market Value at 31 March 2017		Market Value at 31 March 2018
£000		£000
754	Clerical Medical	665
228	Equitable Life	208
982	**Total**	**873**

AVC contributions of £0.052m were paid directly to Clerical Medical during the year (£0.062m 2016/17). There have been no further contributions to Equitable Life in 2017/18 or 2016/17.

Note 24: Agency Services

The Fund pays discretionary awards to the former teachers of the London Borough of Newham. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below:

2016/17		2017/18
£000		£000
324	Payments on behalf of London Borough of Newham	318
324	**Total**	**318**

Note 25: Related Parties

The Fund is administered by the London Borough of Newham. Consequently there is a strong relationship between the Authority and the Fund.

The following key management personnel are members of the Fund; Director of Financial Sustainability, Director of Exchequer and Transactional Services and Head of Pensions & Treasury for OneSource.

During the reporting period, the Authority incurred costs of £0.92m (2016/17: £0.72m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses (see Note 11). As at 31 March 2018 the Council owed the Pension Fund £0.89m and the Pension Fund owed the Council £2.83m. (2016/17: £17.7m).

Governance

The Transitional Provisions, Savings and Amendment Regulations 2014 removes access to the LGPS from 1 April 2014 for councillors and elected mayors in England and for the Mayor of London and members of the London Assembly.

Councillors, elected mayors, the Mayor of London and members of the London Assembly who were members of the LGPS on 31 March 2014 will retain access to the LGPS up to the end of their current term of office only (or to age 75 if earlier). They will retain the benefits accrued until the end of their term of office, which for Newham councillors was 22 May 2014.
There are four deferred members of the LGPS of the Committee; Councillor Forhad Hussain, Councillor Andrew Baikie, Councillor John Gray and Councillor Lester Hudson. No additional remuneration beyond their salary is paid to members of the Committee.
Each member of the Committee is required to declare their interests at each meeting. Support is provided to the Committee by the Board.

Note 26: Contingent Assets

The following admitted bodies have a guarantee in place with the Authority to guard against the possibility of being unable to meet their pension obligations. This guarantee will only be drawn upon in the event of an employer 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

New admitted bodies may be required to put an insurance bond in place if stipulated in the actuary's report. Admissions to the Pension Fund are considered by the Committee.

Note 27: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2018 totalled £142m (31 March 2017: £73m). There are no contingent liabilities to report.

2017/18 PENSION FUND ACCOUNTS

2016/17 £000		Notes	2017/18 £000
	Dealings with members, employers and others directly involved in the Fund:		
57,055	Contributions	7	50,467
3,346	Transfers in from other pension funds	8	4,000
60,401			**54,467**
(49,176)	Benefits	9	(52,768)
(7,633)	Payments to and on account of leavers	10	(8,267)
(56,809)			**(61,035)**
3,592	**Net deductions from dealing with members**		**(6,568)**
(4,413)	Management expenses	11	(5,309)
	Returns on investments		
16,597	Investment income	12	18,614
(238)	Taxes on income	13	(398)
194,307	Profit and losses on disposal of investments and changes in the market value of investments	14a	6,611
210,666	**Net return on investments**		**24,827**
209,845	**Net increase in the assets available for benefits during the year**		**12,950**
1,105,491	**Opening net assets of the fund**		**1,315,336**
1,315,336	**Closing net assets of the fund**		**1,328,286**

Net Asset Statement

2016/17 £000		Notes	2017/18 £000
1,163,630	Investment assets	14a	1,251,915
164,043	Cash deposits	14a	74,768
1,327,673	**Total invested assets**		**1,326,683**
6,576	Current assets	21	5,499
(18,913)	Current liabilities	22	(3,896)
(12,337)	**Net current assets**		**1,603**
1,315,336	**Net assets of the fund available to fund benefits at 31 March**		**1,328,286**

NOTES TO THE PENSION FUND

Note 1: Description of Fund

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

The following description of the fund is a summary only, for more detail reference should be made to the Fund's Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme ('LGPS') Regulations.

a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 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, police officers and firefighters are not members as they are included within other national pension schemes.

The Fund is overseen by the Investment and Accounts Committee (the Committee), a committee of the London Borough of Newham and supported by the Local Pension Board ('the Board').

b) Governance

The Authority has delegated management of the Fund to the Committee who decide on the investment policy most suitable to meet the liabilities of the Fund and have ultimate responsibility of the investment policy. The Committee is made up of eight Members, each of whom has equal voting rights and three co-opted members, who do not have voting rights.

The Committee reports to the Full Council and has full delegated authority to make investment decisions. The Committee considers views from the Chief Finance Officer and seeks advice, where necessary, from the Fund's appointed investment advisors, fund managers and the actuary.

In line with the provision of the Public Service Pension Act 2013 the Authority has set up a Local Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets quarterly and has its own Terms of Reference. Board members are independent of the Committee. Two members of the Board are active members of the LGPS pension scheme.

c) 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.

During 2017/18 12 new employers joined the Fund.
Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

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

There are 57 employer organisations (see Note 19) within the Fund including the Local Authority itself, as detailed below.

Membership	31 March 2017	31 March 2018
Number of employers with active members	40	46
Number of employees in scheme		
London Borough of Newham	6,878	7,073
Other employers	1,149	2,214
Total	**8,027**	**9,287**
Number of pensioners		
London Borough of Newham	6,826	7,018
Other employers	302	331
Total	**7,128**	**7,349**
Deferred pensioners		
London Borough of Newham	9,429	9,380
Other employers	932	1,038
Total	**10,361**	**10,418**
	25,516	**27,054**

d) 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 2018. 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 2016. Currently, employer contribution rates range from 12% to 25.5% of full pensionable pay. The 2016 valuation has been completed; new employer contribution rates came into effect on 1 April 2017.

e) Benefits

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

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

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 under the scheme 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.

f) Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2016 requires administering authorities to prepare and review from time to time a written statement recording the investment policy of the Fund. The Investment Strategy Statement is available on the Fund's website at the link below. The Statement shows the Authority's compliance with the Myners principles of investment management.

http://www.yourpension.org.uk/handr/Newham-Publications/Newham-Fund-Members.aspx
The Committee has delegated management of the Fund's investments to external investment managers (see Note 14b) appointed in accordance with the above Regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

Note 2: Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* (the code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

A new standard has been introduced but not yet adopted IFRS9 *Financial Instruments* (related to the classification and measurement of financial assets after initial recognition) as amended in the 2018/19 code. The code requires implementation of disclosure from 1 April 2018, changes are not considered to have a material effect on accounts for 2017/18.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take account of the actuarial present value of promised retirement benefits.

Note 3: Summary of Significant Accounting Policies

Fund account – revenue recognition

a) Contribution income

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

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

Employers augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with The LGPS Regulations 2013 (see Notes 8 and 10).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

c) Investment income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price.

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 (NAS) as an investment 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 NAS as an investment asset.

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the Authority is the administering Authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of Pension Fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016)*. These are detailed as:

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged 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 oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance is charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The costs of obtaining investment advice from external advisors are included in oversight and governance costs.

Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change.

Where an investment manager's fee note has not been received by the NAS 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 2017/18 £1,056,644 of fees is based on such estimates (2016/17: £1,206,932).

Net assets statement

g) Financial assets

Financial assets are included in the NAS on a best available pricing 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 16). 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.

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

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

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

j) Cash and cash equivalents

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

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund’s 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 20).

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. The Fund has appointed Clerical Medical as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.
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 23).

n) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Authority to charge administrations costs to the Fund. A proportion of the relevant Authority costs have been charged to the Fund on the basis of actual time spent on Pension Fund business.

Note 4: Critical Judgements in applying accounting policies

Pension fund liability

The Fund’s liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies.

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 amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the NAS at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: • a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £43m • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £4.2m, and • a one year increase in assumed life expectancy would increase the liability by approximately £85m.
Private equity	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 65.4m. There is a risk that this investment may be under or overstated in the accounts.
Diversified Alternative Fund	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 £35.3m. 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 +/- £3m.

Note 6: Events after the Reporting Date

There have been no events occurring after the reporting date that would have a material impact upon the Fund Accounts.

Note 7: Contributions Receivable

2016/17	By Category	2017/18
£000		£000
11,901	Employees contributions	12,301
11,901	**Employees contributions**	**12,301**
24,730	Normal contributions	26,448
18,959	Deficit recovery contributions	10,030
1,465	Augmentation contributions	1,688
45,154	**Total Employers contributions**	**38,166**
57,055	**Total**	**50,467**

2016/17	By Authority	2017/18
£000		£000
51,156	Administering Authority	40,948
1,407	Admitted Body	2,910
4,492	Scheduled Body	6,609
57,055	**Total**	**50,467**

Note 8: Transfers in from other Pension Funds

2016/17		2017/18
£000		£000
3,346	Individual transfers	4,000
3,346	**Total**	**4,000**

Note 9: Benefits Payable

2016/17	By category	2017/18
£000		£000
(40,256)	Pensions	(41,949)
(7,447)	Commutation and lump sum retirement benefits	(9,547)
(1,473)	Lump sum death benefits	(1,272)
(49,176)	**Total**	**(52,768)**

2016/17	By authority	2017/18
£000		£000
(46,771)	Administering Authority	(50,588)
(465)	Admitted bodies	(512)
(1,940)	Scheduled bodies	(1,668)
(49,176)	**Total**	**(52,768)**

Note 10: Payments to and on account of leavers

2016/17 £000		2017/18 £000
(293)	Refunds to members leaving service	(256)
(7,340)	Individual transfers	(8,011)
(7,633)	**Total**	**(8,267)**

Note 11: Management Expenses

2016/17 £000		2017/18 £000
(392)	Administrative costs	(993)
(3,403)	Investment management expenses	(3,754)
(618)	Oversight and governance costs	(562)
(4,413)	**Total**	**(5,309)**

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sale of investments (see Note 14a).

Note 11a: 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 edition).*

2016/17 £000		2017/18 £000
(3,284)	Management Expenses	(3,586)
(119)	Custody fees	(168)
(3,403)	**Total**	**(3,754)**

Note 12: Investment Income

2016/17 £000		2017/18 £000
4,032	Overseas fixed interest unit trust	1,340
-	Index linked	30
8,571	Equity dividends	8,953
3,022	Pooled property investments	3,347
-	Pooled fixed income*	3,354
-	Private equity	40
-	Private debt	677
(45)	Diversified alternatives	361
1,017	Interest on cash deposits	512
16,597	**Total**	**18,614**

*Pooled fixed income has largely increased in 17/18 as prior year it was included within equity dividends.

Note 13: Taxes on Income

2016/17 £000		2017/18 £000
(238)	Withholding tax	(398)
(238)	**Total**	**(398)**

Note 14a: Reconciliation of Movements in Investments and Derivatives

	Market value as at 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market value as at 31 March 2018
	£000	£000	£000	£000	£000
Equities	451,979	156,285	(132,841)	1,076	476,499
Fixed Interest Securities	62,287	127,107	(128,985)	(14,863)	45,546
Pooled Investments	453,128	377,583	(415,855)	9,273	424,129
Pooled property Investments	95,113	61,190	(27,770)	2,664	131,197
Private equity/debt	37,283	40,277	(15,302)	3,146	65,404
Diversified alternatives	58,489	26,661	(19,579)	(2,688)	62,883
London collective investment vehicle	150	-	-	-	150
	1,158,429	789,103	(740,332)	(1,392)	**1,205,808**
Forward currency contracts	1,959	2,775	(7,692)	6,949	3,991
	1,160,388	**791,878**	**(748,024)**	**5,557**	**1,209,799**
Other Investment balances:					
Cash deposits	164,043			1,290	74,768
Investment income due	2,202			-	2,589
Amount receivable for sales of investments	1,034			286	40,536
Amounts payable for purchases of investments	-			205	(720)
Spot FX Contracts	6			(727)	(289)
	1,327,673			**6,611**	**1,326,683**

	Market value as at 31 March 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market value as at 31 March 2017
	£000	£000	£000	£000	£000
Equities	349,447	81,850	(79,747)	100,428	451,978
Fixed Interest Securities	-	127,812	(61,055)	(4,470)	62,287
Pooled Investments	321,393	543,294	(479,449)	67,891	453,129
Pooled property Investments	86,926	8,911	(3,409)	2,685	95,113
Overseas private equity/infrastructure	70,512	4,874	(43,139)	5,036	37,283
Overseas diversified alternatives	47,181	22,947	(22,467)	10,828	58,489
London collective investment vehicle	150	-	-	-	150
	875,609	789,688	(689,266)	182,398	**1,158,429**
Forward currency contracts	423	14,334	(6,063)	(6,735)	1,959
	876,032	**804,022**	**(695,329)**	**175,663**	**1,160,388**
Other Investment balances:					
Cash deposits	216,697			19,873	164,043
Investment income due	2,195				2,202
Amount receivable for sales of investments	-			(2)	1,034
Spot FX Contracts	-			(1,191)	6
	1,094,924			**194,307**	**1,327,673**

Note 14b: Analysis of Investments

Market Value as at 31 March 2017 £000	Analysis of Investments	Market Value as at 31 March 2018 £000
	Equities	
70,369	UK quoted	66,192
381,608	Overseas quoted	410,306
451,977		**476,498**
	Fixed interest securities	
62,287	Overseas public sector quoted	45,546
62,287		**45,546**
	Pooled funds - additional analysis	
119,021	UK Equity unit trusts	161,251
109,540	Overseas fixed interest unit trusts	106,413
224,568	Overseas equity unit trusts	135,037
-	Overseas managed alternatives	21,429
453,129		**424,130**
	Pooled property investments	
78,800	UK pooled property investments	83,459
16,313	Overseas pooled property investments	47,738
95,113		**131,197**
	Private equity/debt	
37,283	Overseas private equity	35,308
-	Private debt	30,096
37,283		**65,404**
	Diversified alternatives	
58,489	Diversified alternatives	62,883
58,489		**62,883**
	London collective investment vehicle	
150	London collective investment vehicle	150
150		**150**
	Cash and cash equivalents	
89,265	UK Cash and Bank Deposits	67,452
74,779	Overseas Cash and Bank Deposits	7,316
164,044		**74,768**
	Other investment assets	
1,959	Forward currency contracts	4,144
6	Spot FX Contracts	-
2,202	Investment income due	2,589
1,034	Amount receivable for sales	40,536

Market Value as at 31 March 2017 £000	Analysis of Investments	Market Value as at 31 March 2018 £000
5,201		**47,269**
	Investment liabilities	
-	Derivative liabilities	(153)
-	Spot currency contracts	(289)
-	Amounts payable for purchases	(720)
-		**(1,162)**
1,327,673	**Total investment assets**	**1,326,683**

NB: the presentation of Note 14b has been updated in 2017/18 to better reflect the asset classes, and enable direct comparison to the custodian reporting – this does not affect the amounts within the accounts.

Investments analysed by fund manager

Market value as at 31 March 2017 £000	%	Fund manager	%	Market value as at 31 March 2018 £000
175,399	13.2	Aberdeen Standard	14.9	198,008
16	-	Baring	-	22
-	-	Bluebay	0.3	4,612
-	-	Brightwood	0.5	6,312
-	-	Brockton	0.4	5,219
99,927	7.5	CBRE	9.6	126,992
66,229	5.0	HarbourVest	3.3	43,441
39,000	2.9	In-house temporary cash deposits	-	-
343,589	25.9	Legal and General (LGIM)	22.3	296,292
150	-	London Collective Investment Vehicle	-	150
473,906	35.7	Longview	36.4	483,443
-	-	Man FRM	1.6	21,429
62,989	4.7	Morgan Stanley	4.9	65,146
66,468	5.1	Northern Trust cash deposits	1.7	20,884
-	-	Permira	1.5	19,733
-	-	River & Mercantile	2.6	35,000
1,327,673	**100**	**Total**	**100**	**1,326,683**

Individual investments exceeding 5% of net assets

Fund manager	Asset name	MV at 31 March 2018 £000	Percentage of fund %
Aberdeen Standard	World Opportunistic Bond	106,413	8

Note 14c: Property Holdings

The Fund's investment in property portfolio comprises investments in pooled property funds and no directly owned properties.

Note 14d: Stock Lending

The Fund does not carry out stock lending directly, the Fund is an investor of a pooled fund with the passive equity manager, Legal and General Investment Management (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 2018, the value of quoted equities on loan was £135m. These equities continue to be recognised in the Fund's financial statements.

Note 15: 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.

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	121,211	USD	(164,758)	3,806	(6)
Up to one month	USD	100,416	GBP	(71,383)	320	(145)
One to six months	GBP	50,163	USD	(70,580)	18	-
One to six months	GBP	1,880	EUR	(2,141)	-	(2)
Open forward currency contracts at 31 March 2018					**4,144**	**(153)**
Net forward currency contracts at 31 March 2018						**3,991**
Prior year comparative						
Open forward currency contracts at 31 March 2017					**1,959**	**-**
Net forward currency contracts at 31 March 2017						**1,959**

Note 16: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

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	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	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-overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer are published	NAV-based pricing set on a forward pricing basis	Not required
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	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)*	EBITDA multiple Revenue multiple Discount for lack of marketability 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 2018.

Description of asset	Assessed valuation range (+/)	Value as 31 March 2018	Value on increase	Value on decrease
		£000	£000	£000
Pooled investments-hedge funds	5%	17,318	18,184	16,452
Private equity	10%	35,307	38,838	31,776
Property funds	10%	101,192	111,311	91,073
Private debt*	0.2%	30,096	30,156	30,036
Total		**183,913**	**198,489**	**169,337**

*Private debt is combined totals of the following managers; Bluebay, Brightwood & Permira

Note 16a: Fair Value Hierarchy

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

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

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.

	Quoted market price	Using observable inputs	With significant observable inputs	
Values at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	507,130	521,478	183,913	1,212,521
Loans and receivables	74,742	40,582	-	115,324
Financial liabilities at fair value through profit and loss	-	(1,162)	-	(1,162)
Net financial assets	**581,872**	**560,898**	**183,913**	**1,326,683**

	Quoted market price	Using observable inputs	With significant observable inputs	
Values at 31 March 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	519,821	754,441	54,754	1,329,016
Loans and receivables	124,834	1,034	-	125,868
Financial liabilities at fair value through profit and loss	-	(127,211)	-	(127,211)
Net financial assets	**644,655**	**628,264**	**54,754**	**1,327,673**

Note 16b: Fair Value Hierarchy

	Market Value as at 31/03/2017 £000	Transfers in/out of level 3 £000	Purchases £000	Sales £000	Unrealised gains (losses) £000	Realised gains (losses) £000	Market Value as at 31/03/2018 £000
Pooled investments-hedge funds	17,472	-	6,700	(6,391)	(2,246)	1,783	17,318
Private equity	37,283	-	5,475	(10,989)	(2,830)	6,368	35,307
Property funds	88,442	-	39,763	(27,770)	(9,276)	10,033	101,192
Private debt	-	-	34,801	(4,313)	(392)	-	30,096
Total	**143,197**	-	**86,739**	**(49,463)**	**(14,744)**	**18,184**	**183,913**

(a) 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 17: 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 NAS heading.

Market value as at 31 March 2017				Market value as at 31 March 2018		
Fair value through profit and loss £000	**Loans and receivables £000**	**Financial liabilities at amortised cost £000**		**Fair value through profit and loss £000**	**Loans and receivables £000**	**Financial liabilities at amortised cost £000**
			Financial assets			
451,978	-	-	Equities	476,498	-	-
62,287	-	-	Fixed Interest Securities	45,546	-	-
453,129	-	-	Pooled funds	424,130	-	-
95,113	-	-	Pooled property Investments	131,197	-	-
37,283	-	-	Private equity/debt	65,404	-	-
58,489	-	-	Diversified alternatives	62,883	-	-
150	-	-	London Collective Investment Vehicle	150	-	-
-	171,574	-	Cash and cash equivalents		74,768	-
1,959	-	-	Forward currency contracts	4,144	-	-
6	-	-	Spot currency contracts		-	-
2,202	-	-	Investment income due	2,589	-	-
1,034	-	-	Amounts receivable for sales	40,536	-	-
-	1,116	-	Current Assets		5,034	-
1,163,630	**172,690**	**-**	**Total Financial Assets**	**1,253,077**	**79,802**	**-**
			Financial liabilities			
-	-	-	Derivative liabilities	(153)	-	-
-	-	-	Amounts payable for purchases		-	(720)
-	-	(20,984)	Spot currency contracts	(289)	(3,896)	
-	**-**	**(20,984)**	**Total Financial liabilities**	**(442)**	**(3,896)**	**(720)**
1,163,630	**172,690**	**(20,984)**	**Total**	**1,252,635**	**75,906**	**(720)**

Note 17a: Net Gains and Losses on Financial Instruments

31 March 2017 £000		31 March 2018 £000
175,663	Fair value through profit and loss	5,557
18,644	Loans and receivables	1,054
194,307	**Total**	**6,611**

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

Note 18: Nature and Extent of Risks arising from Financial Instruments

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Committee. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions 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 general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions and benchmark analysis.

Price risk

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 represent a risk of loss of capital. The maximum risk resulting from financial instruments (with the exception of derivatives where the risk is currency related) is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by 10%.

Asset type	Market value as at 31 March 2018 £000	Value on 10% price increase £000	Value on 10% price decrease £000
Cash and cash equivalents	74,768	82,245	67,291
Investment portfolio assets:			
UK quoted equities	66,192	72,811	59,573
Overseas quoted equities	410,306	451,337	369,275
Overseas public sector quoted	45,546	50,101	40,991
UK equity unit trust	161,251	177,376	145,126
Overseas fixed interest unit trusts	106,413	117,054	95,772
Overseas equity unit trusts	135,037	148,541	121,533
Overseas managed alternatives	21,429	23,572	19,286
UK pooled property investments	83,459	91,805	75,113
Overseas pooled property investments	47,738	52,512	42,964
Overseas private equity	35,308	38,839	31,777
Private debt	30,096	33,106	27,086
Overseas diversified alternatives	62,883	69,171	56,595
London Collective Investment Vehicle	150	165	135
Forward currency contracts	4,144	4,558	3,730
Investment income due	2,589	2,846	2,328
Amounts receivable for sales	40,536	44,591	36,483
Investment liabilities	(1,162)	(1,277)	(1,045)
Total investment assets	**1,326,683**	**1,459,353**	**1,194,013**

Asset type	Market value as at 31 March 2017 £000	Value on 10% price increase £000	Value on 10% price decrease £000
Cash and cash equivalents	164,043	180,447	147,639
Investment portfolio assets:			
UK quoted equities	70,369	77,406	63,332
Overseas quoted equities	381,608	419,769	343,448
Overseas public sector quoted	62,287	68,516	56,058
Overseas fixed income unit trusts	109,540	120,494	98,586
UK equity unit trust	119,021	130,923	107,119
Overseas equity unit trusts	224,568	247,024	202,111
UK pooled property investments	78,800	86,680	70,920
Overseas pooled property investments	16,313	17,944	14,682
Overseas private equity	37,283	41,012	33,555
London Collective Investment Vehicle	150	165	135
Overseas diversified alternatives	58,489	64,338	52,640
Forward currency contracts	1,959	2,155	1,763
Spot FX contracts	7	8	6
Investment income due	2,202	2,422	1,982
Amounts receivable for sales	1,034	1,137	930
Total investment assets	**1,327,673**	**1,460,440**	**1,194,906**

Interest rate risk

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

The Fund's interest rate risk is routinely monitored by the Authority and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

Asset type	Market value as at 31 March 2018 £000	Value on 1% price increase £000	Value on 1% price decrease £000
Cash and Cash equivalents	74,768	75,516	74,020
Fixed interest securities	106,413	107,478	105,349
Cash balances	1,599	1,615	1,583
Total	**182,780**	**184,609**	**180,952**

Asset type	Market value as at 31 March 2017 £000	Value on 1% price increase £000	Value on 1% price decrease £000
Cash and Cash equivalents	164,043	165,683	162,403
Fixed interest securities	62,287	62,910	61,664
Cash balances	4,570	4,616	4,538
Total	**230,900**	**233,209**	**228,605**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of derivatives (see Note 15). The Committee recognises that a 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.

Overseas equities, fixed interest securities and futures, cash in foreign currencies, forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of these assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

Asset type	Market value as at 31 March 2018 £000	Value on 10% price increase £000	Value on 10% price decrease £000
Overseas quoted equities	410,306	451,337	369,275
Overseas public sector quoted	45,546	50,101	40,991
Overseas fixed interest unit trusts	106,413	117,054	95,772
Overseas equity unit trusts	135,037	148,541	121,533
Overseas managed alternatives	21,429	23,571	19,286
Overseas pooled property investments	47,738	52,512	42,964
Overseas private debt	30,096	33,106	27,087
Total	**796,565**	**876,222**	**716,908**

Asset type	Market value as at 31 March 2017 £000	Value on 10% price increase £000	Value on 10% price decrease £000
Overseas quoted equities	381,609	419,770	343,449
Overseas public sector quoted	62,287	68,516	56,058
Overseas fixed interest unit trusts	109,541	120,495	98,586
Overseas equity unit trusts	224,568	247,023	202,110
Overseas pooled property investments	16,313	17,944	14,682
Total	**794,318**	**873,748**	**714,885**

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.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors the state of its admitted bodies.

Summary	Rating	Asset value as at 31 March 2017 £000	Asset value as at 31 March 2018 £000
Held with Custodian			
Northern Trust Global Investments (NTGI) Cash Fund	AAA	112,120	46,701
Northern Trust custody cash accounts	AAA	3,722	28,067
Money market funds			
Federated Prime Rate	AAA	614	1,124
Standard Life	AAA	3,740	10
Bank deposit accounts			
Cash (externally held)		4,062	-
Bank current accounts			
Lloyds	AAA	-	465
Total		**124,258**	**76,367**

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Authority therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates and the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Authority has immediate access to its Pension Fund cash holdings.

The Fund also has access to a £0.5m 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 2018 the balance on this facility stood at £0 (31 March 2017: £0). As these borrowings are of a limited short-term nature, the Fund's exposure to credit risk is considered negligible.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2018 are due within one year.

b) Refinancing risk

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

Note 19: Funding Arrangements

In line with regulation 57(1) (d) of 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 2016. The next valuation will take place as at 31 March 2019.

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 the administering Authority considers 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. Solvency is achieved when the Funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

At the 2016 actuarial valuation, the Fund was assessed as 85% funded (73% at the March 2013 valuation). This corresponded to a deficit of £201m (2013 valuation: £298m) at that time.

Individual employers rates will vary depending on the demographic and actuarial factors particular to each employer.

The contribution rates for each employer are as follows.

	Name of Body	Scheduled or Admitted	Contribution Rates %	Employee Contribution 2016/17 £000s	Employee Contribution 2017/18 £000s	Employer Contribution 2016/17 £000s	Employer Contribution 2017/18 £000s
1.	Active Newham	Admitted	17.6	18	13	46	115
2.	Agate Momentum Trust	Scheduled	18.6	-	8	-	27
3.	Better Together	Admitted	12.0	6	9	10	17
4.	Birkin Services	Admitted	17.7	2	-	10	2
5.	Bobby Moore Academy	Scheduled	12.0	-	6	-	11
6.	Boleyn Trust	Scheduled	23.8	13	141	41	471
7.	Brampton Manor Primary School	Scheduled	23.5	65	73	220	253
8.	Britannia Education Trust	Scheduled	22.1	-	17	-	55
9.	Burnt Mill Academy Trust	Scheduled	24.1	-	42	-	140
10.	Carpenters TMO	Admitted	15.0	-	6	28	1
11.	Change Grow Live	Admitted	14.7	4	5	9	9
12.	Chobham Academy	Scheduled	12.0	63	58	120	113
13.	Churchill	Admitted	25.3	2	1	11	9
14.	Community Schools Trust	Scheduled	19.3	15	50	48	145
15.	Education Links Free School	Scheduled	13.5	-	7	-	15
16.	Early Start	Admitted	14.5	-	15	-	32
17.	East London Arts and Music School*	Scheduled	12.0	5	-	10	1
18.	East London Science School	Scheduled	15.9	14	28	22	59
19.	EKO Trust	Scheduled	15.1	32	120	98	275
20.	Enabled Living	Admitted	18.5	-	40	-	132
21.	FM Conway*	Admitted	-	-	-	-	(204)
22.	iXact	Admitted	20.2	-	86	-	305
23.	Langdon Academy	Scheduled	23.5	104	112	387	417
24.	London Borough of Newham	Administering Authority	20.5	10,413	9,829	40,744	31,119
25.	Leading Learning Trust	Scheduled	17.2	65	78	201	221
26.	Learning in Harmony MAT	Scheduled	19.8	160	193	524	631
27.	London Academy of Excellence	Scheduled	12.0	17	19	34	36
28.	London Design and Engineering	Scheduled	12.0	6	21	11	37
29.	London Network for Pest Solution	Admitted	14.7	2	19	5	45
30.	Lunchtime Company*	Admitted	15.8	-	-	50	(50)
31.	Mint	Admitted	20.4	-	91	-	327
32.	Mitie	Admitted	20.2	6	6	15	17

Name of Body	Scheduled or Admitted	Contribution Rates %	Employee Contribution 2016/17 £000s	Employee Contribution 2017/18 £000s	Employer Contribution 2016/17 £000s	Employer Contribution 2017/18 £000s
33. Newham College of Further Education	Scheduled	16.7	326	375	812	912
34. Newham Collegiate	Scheduled	18.4	-	5	-	14
35. NewVic	Scheduled	14.2	153	161	284	349
36. New Vision MAT	Scheduled	20.1	-	20	-	72
37. Newham Partnership Working	Admitted	20.2	198	181	742	530
38. Oasis Academy	Scheduled	12.0	6	11	12	21
39. Olive Dining	Admitted	22.4	9	6	39	37
40. Our Lady of Grace MAT	Scheduled	25.5	53	59	220	248
41. Pabulum	Admitted	22.9	4	2	14	8
42. Public Realm	Admitted	17.1	34	118	92	380
43. RM Education	Admitted	12.0	5	5	16	38
44. School 21	Scheduled	12.0	57	72	106	137
45. Stratford Academy	Scheduled	15.6	37	44	150	111
46. Tapscott Leading Trust	Scheduled	19.7	-	63	-	216
47. The Good Support Company	Admitted	19.3	-	81	-	305
48. Wilson Jones	Admitted	14.5	3	3	15	8
Total			**11,901**	**12,301**	**45,154**	**38,166**

* these employers had no active members in 2017/18.
NB: The table does not add down due to rounding.

The following employers have no active members, nor have they made any contributions to the Fund in either 2016/17 or 2017/18 but do have deferred, pensioner, dependant or frozen members;

- David Webster Ltd
- East London Waste Authority
- Greenwich Leisure Ltd
- Independent Housing Ombudsman
- Magistrates Court
- Newco Enterprises
- Stratford Renaissance Partnership
- Thames Gateway London Partnership

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 2016 Actuarial Valuation

Investment Return (Discount rate)	5.4%	Based on 20-year bond returns extrapolated to reflec the duration of the Fund's liabilities
Inflation	3.0%	Assumed to be CPI
Salary increases	3.9%	1.5% pa over CPI
Pension increases	2.4%	In line with CPI - assumed be 0.9% less than RPI

Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was as follows.

Mortality assumption at age 65	**Male**	**Female**
Current pensioners	22.4 years	24.9 years
Future pensioners (assumed current age 45)	24.6 years	27.2 years

Historic mortality assumptions

Life expectancy for the year ended 31 March 2016 is based on Series Pensioners Amounts (S1PA) actuarial tables. The allowances for future life expectancy are as follows.

Prospective pensioners	**Current pensioners**
Year of birth, medium cohort and 1.5% per annum minimum improvement from 2015	Year of birth, medium cohort and 1.5% per annum minimum improvement from 2015

Commutation assumptions

It is assumed that members at retirement will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension.

Note 20: 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 19). The actuary has also used valued ill health and death benefits in line with IAS 19.

2016/17		**2017/18**
£m		**£m**
(2,274.7)	Present value of promised retirement benefits	(2,298.3)
1,333.7	Fair value of scheme assets (bid value)	1,327.4
941.0	**Net Liability**	**970.9**

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 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used	**2016/17**	**2017/18**
	%	**%**
Inflations/pension increase rate assumption	2.7	2.3
Salary increase rate	4.2	3.8
Discount rate	2.8	2.55

Note 21: Current Assets

2016/17		**2017/18**
£000		**£000**
153	Contributions due – employees	223
433	Contributions due – employers	645
1,420	Sundry debtors	3,032
4,570	Cash and cash equivalents	1,599
6,576	**Total Current Assets**	**5,499**

The contributions due all related to March 2018 (which became payable on 20 April 2018).

Analysis of debtors

2016/17		**2017/18**
£000		**£000**
890	Local authorities	890
1,116	Public corporations and trading funds	3,010
2,006	**Total Debtors**	**3,900**

Note 22: Current Liabilities

2016/17		**2017/18**
£000		**£000**
(18,913)	Sundry creditors	(3,896)
(18,913)	**Total Current Liabilities**	**(3,896)**

Analysis of creditors

2016/17		**2017/18**
£000		**£000**
(17,716)	Local Authorities	(2,831)
(1,197)	Public corporations and trading funds	(1,065)
(18,913)	**Total Creditors**	**(3,896)**

Note 23: Additional Voluntary Contributions

Market Value at 31 March 2017		**Market Value at 31 March 2018**
£000		**£000**
754	Clerical Medical	665
228	Equitable Life	208
982	**Total**	**873**

AVC contributions of £0.052m were paid directly to Clerical Medical during the year (£0.062m 2016/17). There have been no further contributions to Equitable Life in 2017/18 or

2016/17.

Note 24: Agency Services

The Fund pays discretionary awards to the former teachers of the London Borough of Newham. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below:

2016/17 £000		2017/18 £000
324	Payments on behalf of London Borough of Newham	318
324	**Total**	**318**

Note 25: Related Parties

The Fund is administered by the London Borough of Newham. Consequently there is a strong relationship between the Authority and the Fund.

The following key management personnel are members of the Fund; Chief Finance Officer, Director of Exchequer and Transactional Services and Head of Pensions & Treasury for OneSource.

During the reporting period, the Authority incurred costs of £0.92m (2016/17: £0.72m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses (see Note 11). As at 31 March 2018 the Council owed the Pension Fund £0.89m and the Pension Fund owed the Council £2.83m. (2016/17: £17.7m).

Governance

The Transitional Provisions, Savings and Amendment Regulations 2014 removes access to the LGPS from 1 April 2014 for councillors and elected mayors in England and for the Mayor of London and members of the London Assembly.

Councillors, elected mayors, the Mayor of London and members of the London Assembly who were members of the LGPS on 31 March 2014 will retain access to the LGPS up to the end of their current term of office only (or to age 75 if earlier). They will retain the benefits accrued until the end of their term of office, which for Newham councillors was 22 May 2014.

There are four deferred members of the LGPS of the Committee; Councillor Forhad Hussain, Councillor Andrew Baikie, Councillor John Gray and Councillor Lester Hudson. No additional remuneration beyond their salary is paid to members of the Committee.

Each member of the Committee is required to declare their interests at each meeting. Support is provided to the Committee by the Board.

Note 26: Contingent Assets

The following admitted bodies have a guarantee in place with the Authority to guard against the possibility of being unable to meet their pension obligations. This guarantee will only be drawn upon in the event of an employer 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

New admitted bodies may be required to put an insurance bond in place if stipulated in the actuary's report. Admissions to the Pension Fund are considered by the Committee.

Note 27: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments for Private debt, Property, Private equity and Diversified alternatives at 31 March 2018 totalled £142m (31 March 2017: £73m). There are no contingent liabilities to report.

Annual Governance Statement (AGS) 2017-18

Scope of Responsibility

Newham is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for. Newham also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Newham is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions including arrangements for the management of risk.

Newham's Local Code of Corporate Governance is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* A copy of the Code is on our website as Appendix 3 to the Council's Constitution, with the Council's Financial Regulations set out in Part 8 of the Constitution. These documents can also be obtained from the Council's Monitoring Officer.

This AGS statement complies with the Code and also meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of a statement of internal control.

Organisational Structure and Approach

The following reflects the roles and responsibilities with regards to the Council's overall commissioning process at the beginning of the calendar year 2017:

- The Mayor and Members are accountable for strategic and major policy decisions and hold officers to account for delivery against agreed outcomes.

- The Chief Executive is responsible for ensuring the Council's overall governance and that the organisational structure is fit for purpose to deliver the Council's intended outcomes.

- During 2017-2018, the Council's Executive Director for Commissioning and Chief Operating Officer are responsible for determining the best commissioning method (such as to providing directly, contract out the service, setting up an external enterprise/company, advocating, regulating etc.) and the Councils commissioning structures to achieve our Resilience Aspirations. Since June 2018, the Chief Operating Officer position has been vacant, pending a wider structural review of the senior management team.

- The Managing Director (MD) of *oneSource* is responsible for the delivery of oneSource services and reports to the oneSource Joint Committee and the Newham Chief Executive. OneSource enables commission activity through effective financial management of resources and provide a wide variety of strategic and support services (such as IT, HR, procurement, legal, property, etc.).

The Council's Commissioning Approach

During 2017-2018, the Council's overall approach to commissioning could be identified through four key stages:

- **Understanding** - Clear political and member-led direction, based on resident needs and expectations, to identify and agree the outcomes being sought. These are clearly identified in the *Resilience* policy and performance framework. (The Resilience

Policy is being reviewed by the new administration, with regards to their priorities and aspirations.

- **Planning** – a systematic approach to commissioning activities and initiatives to achieve the desired outcomes for residents in the most efficient and effective way. Throughout 2017/18 the Council has continued refining commissioning intentions though consultation with the Mayor, Members and relevant directors. This has led to the intended outcomes for the Council's various services to be reviewed, discussed, agreed or reconfirmed. The agreed commissioning intentions inform a subsequent delivery options for future services including considering new models for Council services, based on co-operative principles, such as externalising the services into mutual organisations, local authority traded companies or shared services. Since May 2018, the new administration has been talking to Directors and the Chief Executive about how the current commissioning intentions fit with the new priorities and aspirations of the administration.

- **Doing** - the commissioning process drives actual programme and procurement activity and shapes the types of services delivered to residents in order to achieve the outcomes being sought.

- **Reviewing** – commissioned activity is monitored and evaluated for its impact on the intended outcomes. The reviewing stage informs decisions around shaping or decommissioning commissioned activities and feeds back into the *Understand*, *Planning* and *Doing* elements of the commissioning cycle. Since May 2018, following the election of the new Mayor, the commissioning approach, change programme and Council Services to Small Businesses programmes are under review to see how these align with the new administrations priorities.

The Council's Change Programmes: Council Services to Small Businesses (CSSB) and Newham 2020

During 2017-2018, the Council Services to Small Businesses (CSSB) Programme worked with services to identify where the service could be better delivered by converting them to independent businesses or community enterprises.

Since May 2018, the 2020 and CSSB programmes have been under review for fitness of purpose with regards to the new administration's priorities and aspirations for the Borough and the operation f the Council.

A decision to create a small business was taken following an options appraisal of the service (business unit), which identified potential benefits to becoming a small business. The decision is taken by senior officers in consultation with Mayor and Members. Subsequently, a business lead was appointed to develop a business plan and seek approval of it.

On the company becoming live, a board of directors was established, with a requirement for the board to meet on a monthly basis. All material decisions are made by the board of directors. The company's articles of incorporation include governance requirements addressing rules and procedures for decision making and shareholders reserved matters.

The Board of Directors and the management team of the company provide leadership with a business plan being approved on completion of externalisation. This is updated at least annually and is subject to approval by the shareholders. The Board is responsible for driving the strategic direction of the business. As part of externalisation, the company is required to meet S151 requirements, the Business Transfer Agreement and Working Loan Agreements require financial reporting to strategic finance and shareholders.

In order to achieve this and also meet its budget challenges, during 2017/18, the Council had a dedicated change programme called 'Newham 2020', which, followng the change in administration, is being reviewed. .

Corporate Performance Management

The Council's Performance Management Framework (PMF) sets out and measures the direction of travel towards achieving our aspirations and the performance of the Council's range of commissioned services and activities. Throughout 2017/18, the PMF has systematically identified areas for management action through:

- Performance being considered across a range of performance measures by all levels of the organisation.
- The Council's Commissioning Directors considering PMF measures and further operational-based indicators on a monthly basis at their relevant management team meeting.
- The Chief Executive and Strategic Leadership Team considering performance highlights report each month. For 2018-2019, this has continued, although the SLT has now been retitled the "Corporate Management Team" CMT).

The Council uses external benchmarking to compare the services with other Councils, providers and operators. This is used as a tool to assess the cost effectiveness and value for money of services commissioned by the Council; including the implementation of relevant activities to continuously drive improvement.

During 2017/18 the Strategic Commissioning and Intelligence Service was subjected to a restructure that has resulted in bringing together Policy, Performance and Scrutiny to provide a more robust. Going forward the service will:

- Ensure effective functional links with key service areas; including Lead Members, commissioning directors, Data Hub and Data Warehouse
- Review all existing measures to ensure that there are outcome focused, and reflective of local and national priorities
- Undertake an audit of the Single Data List to central and prepare (in some cases) or oversee the submission of statutory data returns to central government by the required timescale.

Shared services: oneSource

oneSource is London's largest shared service arrangement, it is a virtual entity governed by a joint committee model. oneSource was launched in April 2014, bringing together 22 support services, including Human Resources, ICT, Legal Services, Finance, Asset and Property Management from the London Borough of Havering and Newham. The London Borough of Bexley joined oneSource on 1 April 2016 delegating its financial services to the joint committee.

Staff remain employees of their respective Councils and work on behalf of a range of customers including a number of the Newham externalised small businesses.

The Managing Director and oneSource directors are responsible for the operational delivery of oneSource services. oneSource performance is overseen by a Joint Committee of councillors and has agreed service level agreements with a range of commissioning departments. There is a monthly client meeting between the Executive Director of Financial Sustainability and the Managing Director of oneSource. Newham's Executive Director of Financial Sustainability chairs regular customer meetings, discussing performance delivery, customer satisfaction and savings and provides a forum for issue resolution.

Decision Making and Governance

The Council has a directly elected Mayor and Cabinet model of executive decision making. All executive functions are delegated under the Local Government Act 2000 to the Mayor, who may delegate those powers to the Cabinet, individual Cabinet members and officers. Full Council retains those powers reserved to it by the 2000 Act and may delegate those powers to committees or officers.

Both executive and non-executive functions may be delegated to the oneSource joint committee and onwards to officers.

Executive Decision Making: Mayor and Cabinet

The Mayor is directly elected every four years and is the Council's political leader as well as executive decision maker. The Mayor appoints a Cabinet of between two and nine members. Mayoral advisors are appointed to specific areas but they are not members of the executive and have no decision making powers. Since May 2018, the role of Mayoral Advisor has ceased.

In 2017-2018, the Mayor delegated executive powers through his Mayor's Scheme of Delegation. The Mayor made decisions reserved to him as Mayor at Mayoral Proceedings and made decisions at Cabinet in consultation with Cabinet members.

Cabinet meetings were chaired by the Mayor and preceded Mayoral Proceedings.

Since May 2018, the new Mayor has reviewed her Scheme of Delegation, with Mayoral Proceedings ceasing and Cabinet becoming a collective decision making body. The new Scheme of Delegation for the Mayor and officers is here and was considered at Mayoral Proceedings on 15th October 2018 and Council on the 29th October 2018 https://mgov.newham.gov.uk/ieListDocuments.aspx?CId=295&MId=12173.

Non-Executive Decision Making: Full Council and Committees

Full Council is the meeting of all 60 Councillors (plus the Mayor). Full Council has the powers reserved to it by the Local Government Act 2000 regime, called non-executive powers.

These powers comprise:

- Agreement of the budget and Council Tax annually;
- Agreement of major policies reserved to it;
- Regulatory functions such as licensing and planning largely where they relate to individual applications and consents;
- Governance matters such as the Constitution, elections, the Code of Conduct and members allowances;
- Staffing and pensions matters and the appointment of the Chief Executive.

Except for the policy framework and the budget, most powers are delegated to member committees or officers. The delegations to Committees are included in the Constitution and the delegations to Officers are included in the Officers' Schemes of Delegation.

Full Council meets six times a year and is chaired by the Chair of Council, not the elected Mayor.

Committees

Full Council delegates most of its operational functions to committees of members and officers. Committees are largely in the regulatory, conduct or governance areas, including licensing and planning where they determine individual applications applying the Council's policies.

The Council has advisory committees for functions such as ethical conduct and audit to allow the membership of non-councillors as co-opted members.

Committees are largely established under s.101 of the Local Government Act 1972 and must comply with rules of procedure in the Constitution.

Overview and Scrutiny

The Council must have one or more Overview and Scrutiny committees. Scrutiny's role is to contribute to policy review and development and, secondly, to scrutinise the decisions of the executive. It also has statutory powers to scrutinise health functions in Newham and this can be done jointly with other boroughs. All Councillors, with the exception of members of the executive, can be members of the Council's scrutiny committees.

The role of Scrutiny is that of a critical friend. Scrutiny has no decision making powers but may require evidence to be called and information to be provided. It may also "call in" executive decisions that have been made but not implemented. This allows Scrutiny to review decisions and make recommendations to the original decision-maker who must consider any recommendations before making a final decision.

The Council has an Overview and Scrutiny Committee and is currently supported by Task and Finish Commission that undertake specific areas of scrutiny

The Strategic Leadership Team (SLT) / Corporate Management Team (CMT)

SLT is the Council's senior management team and is held once a week. Membership includes the Chief Executive, Chief Operating Officer, Executive Directors and Directors. SLT's role is to ensure the Council has strategic direction at an officer level and that there is a corporate approach across the Council. *Please note, since June 2018, the Chief Operating Officer position has been vacant, pending review and SLT has now been renamed Corporate Management Team (CMT). .*

SLT (or CMT) is not a key decision making body; decisions are taken by the Chief Executive and individual Directors. CMT (formerly SLT) acts as a Corporate Programme Board and oversees the implementation of major Council projects.

Council Constitution

The Constitution, available on the Council's website, provides rules for the conduct of decision-making meetings. The Constitution sets out how the Council will discharge its statutory functions, the roles and responsibilities of members and officers and the governance of its decision-making. It also contains rules for governance of specific areas.

Throughout 2018-2019, a continuous review, led by the Director of Legal and Governance and the Democratic Services team have presented Council with proposed changes to the Constitution, mainly focusing on improving Council meetings and how they appeals to and encourages public engagement and participation.

Codes of Conduct

The Council has a Code of Conduct for both Councillors and officers.

The Council's current Code and Protocols relating to officers are supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision-making and procurement positions. Email alerts go to officers requiring a DOI when required. Officers are required to generally decline gifts and hospitality to ensure that officers are not inappropriately influenced. These Codes and processes are made available to staff at their induction; are on the Intranet; and online training is available to ensure every staff member understands their responsibilities. All declarations are made on-line and are automatically referred to the manager for approval under the on-line system.

Members must agree to abide by the Council's Code of Conduct for Members, which complies with the Localism Act 2011 and is based on the 7 Nolan Principles for conduct in public life. The Code's main obligations on members are:

- To register disclosable pecuniary interests [DPI] and to disclose any interests in meetings where they are affected by a decision;
- Where a DPI is disclosed in a meeting, to withdraw when the item is considered and not participate in the decision-making;
- To register gifts and hospitality with an estimated value over £25 [declarations are recorded on the website];
- To comply with general standards of conduct when acting in their official capacity.

Details of members' interests are available online and members' obligations are set out in all public agenda papers.

Any person may complain in writing that a member has breached the Code of Conduct. The Monitoring Officer [Director of Legal & Governance] will determine whether the complaint should be investigated and, where a complaint is investigated, whether further action is necessary.

The Standards Advisory Committee [SAC] is an advisory committee, chaired by an independent person, that receives reports from the Monitoring Officer on conduct matters and his decisions. It has no decision making powers but may, on the Monitoring Officer's advice agree that an investigated complaint should be determined by a Hearing Sub-Committee. The Sub-Committee must be comprised of elected members which determines whether the Code has been breached and if so the sanction. The Council has appointed Independent Persons who will be consulted during consideration of complaints.

Procedure Rules

The Council's Constitution contains procedures to govern key aspects of the authority's decision making. These include:

- **The Mayors and Officer Schemes of Delegation**
  The schemes of delegation set out who is authorised to make decisions to discharge Council duties and powers. They supplement the Responsibility for Functions section of the Constitution.

  The Council has also delegated functions provided by oneSource to the oneSource Joint Committee most recently in September 2015. In January 2016, the Joint Committee renewed its scheme of delegation to its officers.

- **Financial Regulations**
  The Council has financial regulations which provide details of officers' responsibilities for the Council's control environment relating to income, expenditure, internal control, risk management and partnerships.

- **Contract Standing Orders and Procedure Rules**
  The Council has rules to ensure works, goods and services are procured in accordance with EU and domestic law and best value is obtained. The Council has developed guidance, templates and model documents to assist with procurement activity.

- **Access to Information:**

  In accordance with legislation, these rules require all formal member meetings are open to the press and public and papers are published 5 clear days in advance of the meeting. The Rules set out the exemptions to this rule, including the categories of exempt information [schedule 12A of the Local Government Act 1972] that may be removed from publication and considered in private where it is considered to be in the public interest.

  The Rules set out the rules on the advance notification of key decisions by publication in the Forward Plan 28 days prior to the meeting in which the decision-making takes place. The Forward Plan also includes notification of any reports which are in whole or partly excluded from publication and provides for public consultation on this and other aspects of the governance process. The Rules also provide how decisions that must be made urgently but are not on the Forward Plan can be made and that they are exempt from call in.

- **Officer Employment Rules**
  The mandatory standing orders for the employment of staff and for the appointment and dismissal of senior employees.

Statutory Officers

The Council employs statutory officers to discharge specific functions. These include:

The Head of Paid Service (the Chief Executive), the Chief Finance Officer designated under s151 of the Local Government Act 1972 (The Director of Financial Sustainability) and the Monitoring officer (the Director of Legal and Governance). It should be noted that, since the new municipal year 2018-2019, both the Chief Executive and the Section 151 Officer have changed, with interim arrangements in place. The Council and the Mayor are progressing recruitment for permanent appointments.

Each has the power to refer certain matters to the Council. These officers meet regularly to discuss current issues and liaise regularly in between meetings on matters affecting the governance of the authority. The statutory officers ensure the provision of professional advice on all key decision-making reports to ensure legal, financial, risk management, procedure and equality implications are addressed**.**

Executive decisions follow an agreed report writing procedure, which ensures reports comply with governance standards and contain all necessary commentary on implications.

Under the provisions of the Children Act 2004, the Local Authority must appoint an officer, who has lead responsibility for children. During 2017-2018 this role was carried out by the Executive Director of Strategic Commissioning. The Council is also required to appoint a lead Member for Children Services. In 2017-2018 this was Councillor Rev. Quentin Peppiatt, who was a member of the Council's Cabinet with the portfolio as the Cabinet Member for Children and Young People (including Children's Safeguarding) and he was supported by Councillor Lakmini Shah, Cabinet Member for Works and Skills and Domestic Violence Prevention. In May 2018 Cabinet Members changed and now the lead member for children's services is Councillor Charlene McLean (leading on children and young people and safeguarding),, with Councillor Julianne Marriott leading on Education.

The Executive Director of Strategic Commissioning discharges the Council's responsibility for Adults under the provision of s.6 of the Local Authority Social Services Act 1970. Councillor Clive Furness, Mayoral Advisor – Adults and Health, is the lead portfolio holder to Adult Social Care.

The Council appoints a statutory Director of Public Health post. One of the roles discharged by the Director of Public Health is scrutiny of health protection practice and procedures, which includes chairing a health protection committee as a formal sub committee of the Health and Well-Being Board. Key risks being scrutinised are the levels of TB in the borough, the provision of BCG vaccination to babies under the age of 1 and cancer screening programmes.

A statutory scrutiny officer is also appointed, who is the Corporate Governance Manager.

Whistle-blowing and Personal Interests

The Council takes disclosures of wrongdoing, or malpractice (in any form) very seriously, and will seek to ensure that employees acting in the public interest - who genuinely believe that wrongdoing is evident or has occurred - are able to make a disclosure in confidence, without fear of detriment or victimisation. The Whistle-blowing Policy is actively promoted through staff emails and intranet news articles, to remind staff of the process for raising their concerns. The effectiveness of the policy and the type of issues raised are reviewed and monitored annually by the Council's Audit Board.

In addition, the Council has formally adopted an anti-bribery and corruption policy. The Council also has an online Declarations of Interest system which is promoted to all staff and monitored on an annual basis.

Complaints Process

The complaints team is based in Customer Services in order to utilise services already in place to resolve issues quickly without the need to resort to the formal complaints process. This should result in a more responsive service which will intervene early and resolve customers' concerns at an early stage.

The Customer Services team will continue to work with services to reduce complaints by identifying trends and high profile issues.

Freedom of Information

The Council must respond to Freedom of Information (FOI) requests within 20 days. The following table shows the Council's overall performance for 2014/15, 2015/16, 2016/17 and 2017/18, Whilst there was a decrease in requests in 2015/16, the numbers began to rise in 2016/17. 2017/18 numbers show a slight decrease in the previous year but still higher than previous years. In 2018 the team moved to the Policy, Performance and Scrutiny Service (PPS). It is thought that being part of the PPS Service will aide the production of performance data which should enable a more efficient and streamlined service, which is transparent to all services. All FOI responses continue to be cleared at Director level in order to ensure accuracy and quality.

Year	Status	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2014/15		464	417	397	484
	In Time	327	299	249	337
	Overdue	137	118	148	147
2015/16		357	390	327	381
	In Time	218	217	235	291
	Overdue	139	173	92	90
2016/17		526	427	469	521
	In Time	452	352	437	494
	Overdue	74	75	32	27
2017/18		427	483	423	525
	In Time	340	416	385	427
	Overdue	87	67	38	98

Information requests under provisions of the Data Protection Act

The Council must respond to requests within 40 days. The following table shows the Council's centrally recorded performance for 2015/16, 2016/17 and up to 31st March 2018. It is noted that DPA requests are dealt with by a team in the PPS service and also social care services. Work has began to ensure that all cases are logged centrally to ensure monitoring and performance data is consistent and complete.

Year	Status	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2015/16		200			
	In time	160			
	Overdue	40			
2016/17		45	51	50	73
	In time	43	44	47	70
	Overdue	2	7	3	3
2017/18		58	59	88	84
		57	58	85	68
		1	1	3	16

In addition the Information Governance team dealt with 1964 information sharing requests in 2015/16, 1522 requests in 2016/17 and 869 requests so far (up to 31st December 2017).

Procurement Gateway and Governance

A Checkpoint process operates within the Council to ensure that the service leading a procurement is adhering to the Council's appropriate procurement processes and following relevant procurement legislation.

- Checkpoint is a three step Governance process designed to help staff who commission high value contracts, works and goods above £181,176;
- Checkpoint ensures that the correct decisions and steps have been undertaken to achieve better procurement outcomes, and mitigate risks;
- It provides a checkpoint of three key points, overseen by a panel, with representatives from services including: Legal, Procurement and Finance, to offer expert advice, support and guidance;
- It makes sure the procurement process complies with the Contract Procedure Rules and The Public Contract Regulations 2015;
- The Strategic Leadership Team acts as a pre-procurement gateway, adding challenge to the Council's procurement activities and robustness to the overall procurement process.

Corporate Health and Safety

The formal Governance arrangements for Health and Safety across LBN are set out in the Health and Safety Policy. A Corporate Health and Safety Board meets quarterly and is chaired by Interim Director of Commissioning Enforcement & Safety. The Director of Commissioning and Enforcement & Safety is the key link into SLT. The Board deals with strategic and high level health and safety issues and monitors health and safety arrangements. The members of the H&S Board either Chair or are members of their respective service divisions to enable more operational aspects to be considered and allow a two way communication flow that highlights key risks and monitoring arrangements.

The Council has a robust reporting procedure to the Health & Safety Executive (HSE) under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR). The reportable categories under RIDDOR are: deaths, specified injuries, over-seven-day injuries to workers, injuries to non-workers if they are taken from the accident scene to a hospital, dangerous occurrences and reportable diseases.

The highest risks to the organisation (and are unlikely to change in the near future):

- Fire;
- Lone Working / Violence;
- Stress;
- Musculoskeletal;
- Construction work;
- Asbestos Management;
- Works commissioned directly by schools.

In order to mitigate the above areas of risk a H&S framework has been introduced by oneSource Corporate Health and Safety on behalf of Havering and Newham. The objective of the Framework is to strengthen the H&S Management System and to provide the following:

- A RAG rated compliance assessment;
- Clearer reporting;
- Consistency across services;
- Flexibility for different clients and services;

The Framework is based on the Occupational Health and Safety Standard 18001 (45001) and fits in with the requirements of the HSE model (HS(G)65). The model has been fully developed from within the oneSource Corporate H&S Team taking advantage of utilising current systems.

The Framework assessment process is health and safety adviser led and involves an in-depth examination of the entire health and safety management system and associated arrangements. It will focus on the key aspects of each service area's approach to managing occupational health and safety in the workplace and the outcome will provide a structured path for continuous improvement towards best practice.

The assessment process is intended to ensure all appropriate aspects of occupational health and safety have been considered within the safety management system and how effectively such arrangements are being implemented against the set criteria. A subsequent RAG rated compliance assessment report is prepared to identify the strengths and areas for improvement within the health and safety management system and also to provide observations and recommendations, together with action planning, for consideration. Health and Safety Advisers are able to assist with support and advice etc. on implementation of the action plan.

Grading of a Service/Directorate/Council will be based on the Framework criteria as follows:

Green – 100% compliant
Amber – 80% or more compliant
Red – Less than 80% compliant

The accredited course has been rolled out across Newham – Managing Safely. The (Institute of Occupational Safety and Health) IOSH Managing Safely is designed for managers and supervisors in any sector, in any organisation. Its content is designed and quality-controlled by IOSH, the chartered body for health and safety professionals.

It is a nationally recognised level of competence which gives the Council a reassurance that managers and supervisors understand their responsibilities and are managing safely. It focusses on the practical actions they need to take and builds knowledge to tackle the safety and health issues they're responsible for. The course is delivered in house by accredited Corporate Health and Safety Advisers.

Some of the benefits of the course are:

- Greater productivity as fewer hours are lost due to sickness and accidents;

- Improved organisation-wide safety awareness culture and appreciation for safety measures;
- Active staff involvement to improve the workplace and Council activities (that affect staff and members of the public);
- Nationally recognised and respected certification for managers and supervisors.

Reviewing Governance Effectiveness

Reviewing the governance arrangements for their effectiveness is ongoing and is carried out through the work of the Directors and Statutory Officers within the Authority (who have responsibility for the development and maintenance of the governance environment); the Head of Assurance's annual report; the work of the Audit Board; and also by comments made by the external auditors, other review agencies and inspectorates.

The processes that maintain the effectiveness of the governance framework includes the following:

• The Council's internal management processes, such as performance monitoring and reporting; the staff performance appraisal framework; monitoring of policies, such as the corporate complaints and health and safety policies; and the corporate budget challenge process;

• The procurement checkpoint governance process which is designed to give assurance on Council procurement;

• An annual self-assessment of the adequacy of the governance arrangements in departments completed by each director of commissioning;

• The Council's internal audit coverage, which is planned using a risk-based approach. The outcome from the internal audit coverage helps inform the Head of Assurance's opinion on the overall adequacy of the Council's internal control framework, which is reported in their Annual report;

• Ofsted's inspection of Children's Social Care and Safeguarding services and Schools

• External audit of the Council's financial statements and the Pension Fund accounts;

• The work of the Audit Board, which reviews the outcomes from the annual audit plan and the Annual Report of the Head of Assurance;

• The work of the Overview and Scrutiny committee;

• Work of the Standards committee, which includes monitoring the operation of the members' code of conduct and the member and officer Protocol.

• Findings from fraud investigations

• Findings from whistle blowing

• Complaints Information

• Programme Management Office

In addition an independent review was commissioned by the Council from Peter Oldham QC, which focused on governance and assurance around the Olympic Stadium and loan and identified a number of issues to be progressed throughout 2018-2019. The report is available at:www.newham.gov.uk/Documents/Campaigns/ReviewOfAspectsOfLBNsInvestmentInE20StadiumLLP.pdf

Internal Audit

Annual report from Head of Assurance 2017/18

The Assurance service, based in oneSource, provides a number of services to the Council including; Internal Audit, Insurance, Risk Management and Pro-Active Audit & Counter Fraud. This report sets out the Head of Assurance's opinion on the overall adequacy and effectiveness of the Council's internal control framework, together with the details upon which the opinion is based. Each area has a contribution to the annual opinion as indicated below:

Internal Audit

The audit section has a plan of work that is discussed with Audit Board and is agreed by the section 151 Officer. The plan is kept under review during the year and is adapted to take account of changes in circumstances, the risks facing the Council and to assist in supporting services where weaknesses are identified. The plan is intended to provide assurance to managers that the controls they have put in place address the Council's risks and that they are working effectively.

The audit section works in accordance with the Public Sector Internal Auditing Standards.

Summaries of audit reports and performance are provided to the Audit Board on a regular basis.

Pro-Active Audit & Counter Fraud

Members of the Audit Board review the counter fraud policies to ensure that they are fit for purpose. These reviews form part of members' assessment of the system of internal audit, as required by the Accounts and Audit Regulations.

The fraud section has a role in preventing, detecting and deterring fraud. It uses a number of methods to achieve these objectives. The section runs training courses and on line training packages, to raise awareness of the risk of fraud and to assist with fraud prevention. It uses publicity to help deter and prevent fraud by publishing case outcomes and the type of sanctions incurred. In terms of detection, the section participates in data matching with the National Fraud Initiative. Additionally, locally initiated data matching is carried out in discreet areas to try to identify other types of frauds such as housing tenancy fraud.

Fraud investigations can be the result of a control weakness in the system. There is a system in place to report any such weakness to management, for them to take corrective action and put in place preventative controls to stop a re-occurrence. There is a close working relationship between the Internal Audit & Counter Fraud teams and if there is a perceived weakness in control identified by the Counter Fraud team, Internal Audit are made aware.

Head of Assurance's Opinion

The Head of Assurance is required to provide an annual opinion on the internal control environment and the level of assurance that can be gained from the work carried out by the service. This is achieved through an audit plan that has been focused on key strategic and operational risk areas, agreed with senior management and approved by the Audit Board. The Head of Assurance opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based audit work formulated around a selection of key systems and risks.

The basis for this opinion is derived from an assessment of the range of individual opinions arising from assignments contained within the Internal Audit risk based plan that have been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. A summary of Audit Opinions is shown in the following table:

Table 1 – Summary of Audit Opinions 2017/18

Category	Substantial	Moderate	Limited	Not applicable
LBN Systems Audits	14	7	1	10
LBN Schools Audits	5	12	0	0
Total	**19**	**19**	**1**	**10**

Based solely upon the internal audit programme of work undertaken during the year, reasonable assurance can be provided that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally applied consistently. The level of assurance would, therefore, remain at a level consistent with the assurance provided in 2016/17.

However, this opinion is qualified as a result of additional audit and counter fraud work that has been undertaken in one directorate within the council, and financial control issues identified during the annual 2016/17 external audit process (reported in April 2018). The issues identified mean that the overall opinion must be qualified, and limited assurance is provided in these areas until it is demonstrated that action plans in place have been implemented. Further details of these are included below:

Additional assurance work to support the qualification of the Head of Assurance opinion:

The Internal Audit and Counter Fraud teams within the assurance service have undertaken a number of reviews within the Council's repairs and maintenance service. These have highlighted significant control issues regarding the procurement of external contractors; the authorisation of supplier invoices; and, the authorisation of overtime payments. An action plan has been established by the service Director, and progress against this is reported to the Audit Board.

The extent of the procurement issues within the repairs service, combined with the wider issues identified in the Annual Governance Statement regarding the number of waivers across the Council, means that internal audit cannot provide assurance that Officers are procuring services in accordance with financial standing orders.

The external auditors report for the financial year ending 31st March 2017 highlighted ten issues that needed to be resolved in advance of the 2017/18 audit work. These included deficiencies in the following areas:

- Sub ledger to general ledger reconciliations;
- Bank reconciliations;
- Unsupported or incorrectly classified payables and receivables;
- Bad debt impairment;
- Collection of parking receivables;
- Reasonableness of parking receivables;
- Business rates appeal provision;
- Earmarked reserves;
- Expenditure transaction testing; and,
- Starters and leavers on the payroll system.

Recommendations have been made by the external auditors to address these issues, and an action plan agreed with the relevant service area. This will be followed up as part of the 2018/19 external audit process.

Audit Board

The Council has a committee called the Audit Board comprising elected Members drawn from Cabinet or Mayoral Advisers and other Members. They meet up to eight times per year. Their role is to review and advise the Council's Internal Control Framework and to hold those responsible for any apparent failures to account. Board members receive regular training and briefings on matters relating to their terms of reference to keep them up to date.

Any report with a limited assurance opinion is reported to the Board, and relevant officers are invited to go through the findings, field questions and outline intended actions. During the year, the Audit Board has called officers to its meetings to explain how they are progressing with internal and external audit recommendations. The Board has received a range of reports from the internal and external auditors to assist them in considering the effectiveness of the Council's Control Framework. The Board also receives regular reports on internal audit, risk management and counter fraud performance.

External Audit

The Statement of Accounts is prepared in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and Service Expenditure Reporting Code of Practice (SerCOP). The accounts are then audited in accordance with the Audit Commission Act 1998, and the Code of Audit Practice issued by the Audit Commission.

Each year the Council receives a report from its external auditor on the results of the audit of the financial statements. The most recent audit letter indicated that the Council's financial statements give a true and fair view of the Council's affairs and of the Authority's income and expenditure and cash flows for the year, and have been prepared in accordance with the requirements of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Shares and Investments

The Strategic Investment Board

The Strategic Investment Board (SIB) is an operational committee of Directors of the Council which is held once a month. The meeting is chaired by the Director of Business and Growth, and has representation from Regeneration, Finance, Strategic Finance, PMO, Asset Management and key Commissioners as required. SIB's role is to assess major projects that require funding and to ensure that there is corporate scrutiny to projects going through the Council's governance process (Verto). The committee is not a formal/statutory body of the Council, but Directors acting in their individual capacity to provide appropriate challenge and corporate oversight. Projects are ultimately approved via the relevant governance routes (Cabinet, Delegated Authority, Mayoral Proceedings, etc.) once the business case is sign off by Directors who are members of SIB.

The Shareholder Board

The Shareholder Board supports the commercialisation of the Council and financial resilience and leads on commercial agreements, due diligence and the externalisation process. It ensures investments are managed and monitored in relation to compliance with existing agreements and agreed business plans and that companies deliver the shareholder return and comply with the agreed reserved matters. It leads on all shareholder issues through the CSSB & investment process and embed shareholder view throughout projects.

Learning and Organisational Development

The Council recognises that effective performance from every individual is critical to the commissioning and delivery of excellent services for the people it serves. It recognises the importance of giving all employees clarity in relation to their job role, their individual contribution and that of their team through setting performance objectives. The appraisal scheme enables managers and staff to connect their objectives to our behaviours and competency framework. It enables managers and staff to discuss performance, goals, behaviours and competencies and any personal development needed to achieve them. How employees behave is critical to the delivery of cultural change and the delivery of excellent services, and a behavioural competency framework was introduced and incorporated within the Personal Development Scheme (PDS) to ensure performance discussions support individuals to understand what is expected at the Council. This framework will be revised during early 2018 as part of the Council's transformation programme – and a programme to embed it more consistently across the organisation will be developed. We will also be exploring the development of a set of organisational values. Through the PDS, leaders, managers, teams and individuals are able to explain both the behaviours that the organisation needs to succeed, and those which do not contribute to the delivery of excellent services. In addition, leaders and managers have key accountabilities and requirements associated with their roles and these are assessed through PDS discussions.

During 2018/19 we will be implementing our new People Plan that will underpin the 2020 transformation programme, enabling the organisation to succeed the Plan, which outlines how we will be structured. We will start to look at talent management and succession planning and how we will provide development and improve performance management, as well as exploring a new performance management system that focuses on performance and potential as we move towards our goal of being a commissioning organisation.

The Council will commission learning & development interventions to ensure employees are supported and a particular focus will be on the move to a fully commission based organisation and our desire to achieve greater commerciality and income raising potential. Each course will be matched to our organisational values and expected behaviours and competencies, to ensure it is meeting the Council's needs. The new offer will include generic corporate courses to improve our commercial acumen, but the focus will be more on self-directed learning and an improved E Learning offer.

With the introduction of the Apprenticeship Levy we will be undertaking a skills analysis of the organisation to help us plan for the effective upskilling of our employees as well as being clear about what skills we need when we recruit apprentices, rather than providing generic business administration training for example

The Council is committed to inducting new employees effectively and provides induction guidance. We are now exploring how to do this more digitally through the use of an E Learning platform, we are still working on this solution and concluded that we need to offer a face-to-face session for new employees with senior management and Members as part of the induction, on a quarterly basis. We have also, reviewed our Induction intranet presence to ensure it is up to date and relevant, part of this, a newly designed starter and leaver portal (online) has been launched to assist line managers more effectively. The Council has an agreed framework for managing people which articulates the Council's approach to leadership development, talent management and employee development, employee engagement, culture change and performance.

The Council is continually developing its e-learning delivery capacity and has developed on-line governance and financial training including compulsory modules in Codes of Conduct; Data Protection; Declaration of Interest; Fraud Awareness; Information Security, Safeguarding and Whistle-blowing. The range of modules will be expanded as required during 2018/19.

The Audit Board and the Investment and Accounts Committee, include training as part of their agendas and agree specific training plans for themselves annually. For some aspects of Council work, members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence. This applies to Planning and Licensing arrangements, for example. For other positions Members are supported through briefings and conferences.

Annual Update to Residents

The Newham Mag is distributed every two weeks to households in the borough and provides information to residents on the Mayor and members' progress on delivering local priorities. It also communicates service changes and Council activities, events and initiatives. The Mayor's annual update is published within the Newham Mag.

An annual update for the Mayor's promises for the 2016/17 financial year was carried in issue 369 (dated 30 June 2017).

Communication and Engagement

During May 2017-2018, community engagement was led from the top in Newham Council. Newham's elected Mayor and councillors had regular and widespread contact with residents and communities throughout the borough. They had a key role in listening to and talking with local people about their aspirations, as well as the day-to-day issues that affect their quality of life. The Mayor of Newham, for instance, personally undertook an extensive schedule of listening opportunities through borough events and telephone surgeries. This has continued with the new Mayor since May 2018. From these many contacts, the Mayor and councillors are well informed to take decisions that aim to improve people's lives and futures.

Community engagement is a key strength for Newham. More than 100,000 people attended the free major corporate events programme for 2017/18, including the Mayor's Newham Show (now called The Newham Show), Under the Stars music festival and Guy Fawkes Night fireworks display. These events are designed to get people from different backgrounds and areas together; get them active; and provide information on how they can make the most of local services from the Council and partners. In addition we have one of the biggest community activity events programmes in the country run across our eight Community Neighbourhoods, including sports and cultural activities.

During 2017-2018, the Community Neighbourhoods were central to community engagement within Newham. Led by local Councillors, Community Neighbourhoods are localised networks bringing together physical assets like libraries and community centres with social assets like volunteering and sports activities.

Community Lead Councillor were appointed by the Mayor to lead activity and engagement in each of the eight Community Neighbourhood areas. This includes engagement with residents, schools, businesses and community groups within the neighbourhood area to identify local priorities. Each Neighbourhood produces an annual community plan which details how local priorities will be delivered. Since May 2018, the position of community lead councillors have ceased, with the new Mayor's vision of community engagement through citizenship assemblies being developed. The Council is aiming to move towards a model of citizen participation in its decision-making and engagement with its 60 councillors. The Council has established 20 ward based Citizen Assemblies to all residents to provide a "bottom up" agenda of their issues and concerns. Ward councillors have a key role in the success of the assemblies. The first round of Citizen Assemblies took place over the Summer 2018.

The Council also understands residents' priorities and needs through surveys, a programme of qualitative research and ongoing consultation. These include the Newham Survey, focused on Council services and quality of life and the Newham Household Panel Survey which is focused on understanding households in Newham. The findings of the surveys directly inform corporate planning processes, service improvements and ongoing policy making. The Council uses a range of tools to engage directly with service users, including user and partnership groups, consultations on specific issues and user surveys, such as the regular Tenants and Leaseholders Survey, again, informing service improvements and policy issues.

With regard to communication the Council has strong and proactive communication channels, including:

- Marketing communications: The marketing and information team consists of a marketing and graphic design function and together develop and deliver more than 100 campaigns and other marketing activities annually. These are aimed at residents, businesses, visitors and other stakeholders and support a range of Mayoral, corporate or service area priorities. These marketing communications provide information about the Council's services, drive behaviour change among residents, support resilience, and promote the borough as a destination for inward investment and as a place to live, work and stay. The team works with partner and stakeholder organisations to provide a brand guardianship service, ensuring that Newham brand values are upheld in the content of materials produced for partnership.

- New media: The New Media Team maintains and develops the Council's corporate digital platforms, which include the website, social media and audio-visual channels. The team centrally manage the digital content and provide proactive and reactive editorial support to Council services to ensure content is written in a suitable online style. An out of hours service is provided 24 hours per day seven days per week. The team's key objective is to drive users to more efficient, convenient and cheaper online platforms and encourage self-service and resilience as part of the Council's wider channel shift strategy. The team uses the Council's social media channels to engage with residents, partners and external bodies at reduced costs. Social media is factored into key marketing campaigns and is used as a tool for networking and maintaining good relationships. The team provide a customer service role which involves signposting users to the website or to a relevant Council officer. The team use a range of software to identify emerging issues discussed on social media for the Council and its services to respond accordingly.

- Events: The events team manage the delivery of free corporate events such as the Mayor's Newham Show (now named the Newham Show) and Carnival, Under the Stars music concerts, the Great Newham London Run, Guy Fawkes Night, Holocaust Memorial Day and Remembrance Day commemorations. The team offers expert guidance on event style, structure and set-up, objective setting, venue management, event management on the day, catering, audio/visual requirements, lighting, the invitation process, floor plans, signage, branding, delegate management, briefing hosts, hospitality, health and safety and licence guidance. The team also plays a major part in the logistical arrangements around General and Local elections. Community events deliver increased community cohesion and offer residents opportunities that they may not otherwise be able to access and help build Newham's reputation. Newham's events are aspirational and aim to inspire residents and especially Newham's young people.

- Publications: The Newham Mag is produced fortnightly with a print run of 118,100 copies. It is also available through Council information outlets such as libraries, customer service centres, leisure centres and other public buildings. It ensures residents are well informed about Council services and work that the Council is doing on their behalf. It also helps to communicate how the Council listens and responds to residents. The Mag offers a dedicated focus on the work of the eight community neighbourhoods. It publicises the work of Councillors and informs residents about specific events and news in their area as well as seeking to increase public participation in local activities. The Newham Mag is also widely used by a range of public sector bodies in Newham to communicate important information to residents. These include Newham Clinical Commissioning Group, the, the Mayor of London, Metropolitan Police, Transport for London, the NHS, Greater London Authority, Public Health England and London Fire Brigade.

- Media relations: The media team works to ensure a positive profile for the Council in local, regional, specialist and national media, either in print, on air or online. The media team also works to defend and protect the Council's reputation by providing robust responses and rebuttals when appropriate or inaccuracies have taken place. Key audiences are residents and businesses; central and regional government and other statutory and stakeholder partners; inward investors; those whom the Council wishes to recruit and retain.

- Internal communications: the Council engages with staff through the intranet, bulletins to managers, strategic leadership forums and all staff emails.

Newham has one of London's youngest populations and in 2007 the Council decided to engage with young people in a new way. One of the first programmes of its kind, Newham's Young Mayor scheme is the Council's flagship youth democracy initiative. Each year, young people nominate themselves to stand as Young Mayor in an election which is held each October, with young people aged 11–18 taking to polling stations to vote. The most recent election in 2017 saw an impressive 79% turn-out: thought to be the highest turnout nationally. The Young Mayor is responsible for a £25,000 budget which goes towards initiating projects for young people. As part of the programme a total of 21 young people make up the Youth Council including the Young Mayor, Deputy Young Mayor and Members of the UK Youth Parliament focus on the delivery of specific manifesto points with a remit to support and advise the Youth Council.

Partnerships

The Council has partnership arrangements with NHS Newham Clinical Commissioning Group (CCG), with whom it works closely on proposals for arrangements for health governance and delivery across the borough. The statutory Strategic Health and Well Being Board brings together Newham Council, NHS bodies and other organisations which provide health and social care in Newham and represent customers.

There are also partnership arrangements in place with the Police, Probation, Fire and Rescue and Youth Justice Services to help meet the targets for reducing crime and making Newham a safer and stronger community through the Community Safety Partnership. The Council also has Partnership Boards for Children and Young People which have key roles in developing a joint strategic approach to the delivery of services and improving outcomes for Newham's young people. The adults and children's safeguarding boards are chaired independently bringing together the Council and other partners to focus on safeguarding and improving outcomes for those at risk of violence and abuse. The Employment and Enterprise Partnership Action Board focuses on facilitating joint partnership work between the public, private and third sectors, to enable Newham residents to access employment opportunities through job brokerage and skills development.

Newham has been working with seven other boroughs across east and north east London under the Local London partnership, which is seeking to maximise opportunities for growth in the sub-region through greater devolution of power and responsibilities from central Government.

The Council is also developing partnerships in order to increase its long-term financial security becoming less reliant on government grant funding. For example, Newham is making sound investments that will deliver a return, such as the investment in our Council-owned housing company and developer Red Door Ventures.

The Overview and Scrutiny function encompasses partnerships and includes the Inner North East London Joint Overview and Scrutiny Committee, which a joint committee with other councils to review health matters affecting the sub-regional area.

Significant Governance Issues

2016/17 – Update: Significant Governance Issues

The review process to support the production of the Annual Governance Statement for 2016/17 has provided updates on the Significant Governance issues identified in **2016/17.**

Control Area	Governance Issue	Issue/Action Taken	Responsible Officer for subsequent action
Procurement	Procurement standing orders	Internal audit reviews and work undertaken by the oneSource procurement team have identified instances where procurement standing orders have not been adhered to. In some cases, contracts have been awarded without a formal procurement process being undertaken, which could result in best value not being obtained. Action: an internal audit review has been undertaken in one specific business area to establish the extent of non-compliance with procurement rules. This work is ongoing. The Procurement team are working across the Council to review the contracts register, procurement arrangements and enhancing the control environment through robust systems and procedures. Internal Audit has progressed a range of investigations with any findings requiring disciplinary action being passed to Human Resources. A range of reports developed by Internal Audit, OneSource, are to be presented to the Council's Audit Board in early 2018.	Managing Director - oneSource
Sub Ledger Reconciliations	Financial Control	Following the implementation of 1Oracle at Newham, there was a lower level of compliance in the internal control environment in relation to the reconciliation of postings by the Accounts Receivable, Accounts Payable and Payroll modules of 1Oracle. Action: During the course of the audit, these reconciliations were performed in full with all significant differences investigated and reconciled. Going forward, additional resources have been secured tasked with ensuring that that these reconciliations are completed in a routine and timely manner, and procedure notes are being drafted to ensure business continuity.	Managing Director - oneSource

Control Area	Governance Issue	Issue/Action Taken	Responsible Officer for subsequent action
Bank Reconciliation	Financial Control	The overall Bank Reconciliation needed to be re-performed in full during audit examination, contributing to delays in the audit of the Councils accounts. Action: The responsibility of managing and reconciling the Councils cash position was transferred to the Financial Control team. A full reconciliation was undertaken, identifying a number of misclassifications between cash, debtors and creditors, resulting in amendments to the draft accounts. To support the position going forward, an interim resource has been bought in to review the priorities and processes of the team, and realign them with those of the wider financial control environment. Bank reconciliations are being produced in a timely manner, and are reviewed by the interim Chief Accountant.	Managing Director - oneSource

2017 / 18 Significant Governance Issues

Control Area	Governance Issue	Issue/Action Taken	Responsible Officer for subsequent action
Procurement	Procurement	The procurement of external contractors is an area of risk to all public authorities, having significant financial and strategic impact on the delivery of the Council's vision and outcomes. Procurement is also subject to EU and domestic regulation and increasing risk of legal challenge to individual processes and decisions. This requires clear and effective Contract Standing Orders to ensure compliance, which Newham has, and compliance in practice. Newham has mitigation "checkpoint process" in place that's supports the procurement element and a new capital e-sourcing programme that provides an audit trail for the tendering process. However, the number of contracts being agreed through the waiver process are more	David Pridmore - Head of Procurement

Control Area	Governance Issue	Issue/Action Taken	Responsible Officer for subsequent action
		than would be expected (200+) Action: A quarterly report is produced for SLT detailing the number and value of all waivers agreed in the preceding quarter. Staff undertaking procurement exercises are provided with training on appropriate contracting routes and that waivers are not an acceptable contracting route	
Financial Position	Service Overspends	The Council has put in place a number of savings measures and income generating streams in order to manage its budget following ongoing central Government cuts, including the Transformation Programme and a long-term plan created to generate income through commercial activity and strategic investments. The Council budget, agreed in February 2017 for 2017/18, included a commitment to make savings from transformation. However, the income and expenditure forecast in August 2017, and figures from December 2017, indicated that not all of these savings targets would be met, and that additional cost pressures had arisen in CYPS). To address the issues, Management Action Plans were submitted across the council. Managers were required to quantify the plan for their area, so that performance against each plan could be measured. Whilst managers remain responsible for delivering their services within the approved budget, some targets were transformed into the 2018/2019 budget and additional income has had to be incorporated, the Council's financial position is still challenging.	Kathrine Kerswell Chief Executive
Health and Safety (H&S)	Key H&S Risks	There are some challenges to ensuring that service areas are providing relevant health and safety information to the Corporate H&S Board in order for the Board to populate the key risk log and highlight any significant issues to SLT. The Board have regular meetings with representatives across the Council to ensure that: • Information is provided on audits to help identify key risks • A key risk log is maintained by the group to track any significant ongoing issues	Matthew Hooper, Director of Commissioning (Enforcement & Safety)

Control Area	Governance Issue	Issue/Action Taken	Responsible Officer for subsequent action
		• The group are tasked with providing key information about risk assessments, training etc. • Key risk topics are a regular ongoing feature for feedback/action e.g. Fire Risk Assessments, Security, Asbestos, Lone Working, Stress etc. • The representatives on the Board are able to provide 2 way communications from the service areas which they represent. The H&S Board have clarified expectations for H&S Board attendees and highlighted the importance of receiving updates with regards to statutory H&S compliance by the set deadlines.	
Housing /Telecare		There have been two fatalities of monitored service users during the year. Following the first incident in August 2017, a disciplinary investigation was carried out and two staff were dismissed. A second fatality occurred on 18 February. The circumstances of the telecare response to the alarm raised, procedures and processes being followed are under investigation by the Housing Commissioning team and the service area has also been referred to Internal Audit for separate investigation. The current investigation is expected to be completed by mid April 2018.	Simon Letchford, Director of Environment & Community, Neighbourhood Operations
Social Care Adults/CYPS	Case Recording System Statutory Reports	Following the implementation of a new case recording system for Adults and Children's Social Care in Oct 2017, the system remains subject to ongoing development. Whilst the service is confident statutory reports will be delivered, significant development is still taking place in order to deliver the Short and Long Term Support (SALT) statutory data return for Adult Social Care, the Safeguarding Adult Collection (SAC) and Deprivation of Liberty Safeguards (DoLS) statutory returns.	Grainne Siggins, Executive Director of Commissioning (Senior Responsible Officer)
Recording of Decisions	Recommendation omitted from Cabinet minutes in 2014	At the Cabinet meeting held 20 February 2014 the Mayor in consultation with Cabinet received a report entitled 'Newham Private Rented Vehicle – Incorporation of a Company'. The report asked for approval to set up a company, complete all necessary documentation to allow the company to start building quality homes for current and future	Daniel Fenwick - Director Legal & Governance, Legal & Democratic Services

Control Area	Governance Issue	Issue/Action Taken	Responsible Officer for subsequent action
		residents. The report also asked for delegated authority to the Director of Financial Sustainability, to negotiate and finalise loan agreements, and to release funding subject to satisfactory financial due diligence. The report recommendations were agreed at the meeting. The minutes of the Cabinet meeting held 20 February 2014 were submitted to the 20 March 2014 Cabinet meeting and approved. It was identified in late January 2018, that one of the recommendations in the report was inadvertently omitted from the minutes. This omission was due to administration error by the Committees team at the time. Action: A report went to the Cabinet meeting of the 8 March with recommendations to amended the February 2014 minutes and ratify decisions made under the purported delegated authority since February 2014. Any further required actions are to be identified by legal, and progressed.	

The Mayor during 2017/18, Robin Wales did not stand for re-election and is no longer an elected Councillor. Rokhsana Fiaz was elected as Mayor in May 2018.

I propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. I am satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review. The Audit Board received and approved the Annual Governance Statement on 25th July 2018.

Signed

Katie Kerswell

Katherine Kerswell

Interim Chief Executive

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.

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.

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.

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.

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
CRC Carbon Reduction Commitment
DCLG Department of Communities and Local Government
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
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