



## Audit Committee

**Thursday 27 September 2012 at 7.30 pm**  
Committee Room 4, Brent Town Hall, Forty Lane,  
Wembley, HA9 9HD

### Membership:

**Members**

Councillors:

Stephen Wood (Chair)  
Al-Ebadi  
Cummins  
Van Kalwala

**first alternates**

Councillors:

S Choudhary  
Ashraf  
Harrison

**second alternates**

Councillors:

Pavey  
Green  
Hector

**For further information contact:** Bryony Gibbs, Democratic Services Officer  
(020) 8937 1355, [bryony.gibbs@brent.gov.uk](mailto:bryony.gibbs@brent.gov.uk)

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**The press and public are welcome to attend this meeting**

# Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item	Page
<b>1 Declarations of personal and prejudicial interests</b>	
Members are invited to declare, at this stage of the meeting, any relevant financial or other interest in the items on this agenda.	
<b>2 Deputations</b>	
<b>3 Minutes of the previous meeting</b>	1 - 6
<b>4 Matters arising</b>	
<b>5 Annual Governance Statement</b>	7 - 42
This report sets out the Annual Governance Statement for 2011/12 as required by the Accounts and Audit Regulations 2011.	
<b>6 Brent Council Statement of Accounts 2011/12 and Annual Governance Reports</b>	43 - 254
<b>Ward affected:</b>	<b>Contact Officer:</b> Mick Bowden, Deputy Director of Finance
All Wards	Tel: 020 8937 1460 <a href="mailto:mick.bowden@brent.gov.uk">mick.bowden@brent.gov.uk</a>
<b>7 The Treasury Management Annual Report 2011/12</b>	255 - 268
This report attaches the Treasury Management Annual Report 2011/12 that the Executive has recommended to Full Council to approve at its meeting of 19 November 2012, and updates members on recent treasury activity	
<b>Ward affected:</b>	<b>Contact Officer:</b> Mick Bowden, Deputy Director

of Finance  
All Wards Tel: 020 8937 1460 mick.bowden@brent.gov.uk

**8 Corporate Risk Register** 269 - 274

The purpose of this report is to present an updated version of the Council's Corporate Risk Register to be noted by the Audit Committee.

**Ward affected:** **Contact Officer:** Simon Lane, Audit and Investigations

All Wards Tel: 020 8937 1260 simon.lane@brent.gov.uk

**9 1st Internal Audit Progress Report 2012/13** 275 - 306

This report summarises the work of Internal Audit and the Investigations Team from 1<sup>st</sup> April 2012 to 31 August 2012. The attached report provides further details of this together with assurance ratings of reports issued.

**Ward affected:** **Contact Officer:** Simon Lane, Audit and Investigations


All Wards Tel: 020 8937 1260 simon.lane@brent.gov.uk

**10 Any other urgent business**

Notice of items to be raised under this heading must be given in writing to the Democratic Services Manager or his representative before the meeting in accordance with Standing Order 64.

**11 Date of next meeting**

The next scheduled meeting of the Audit Committee is scheduled to be held on

	<p>Please remember to <b>SWITCH OFF</b> your mobile phone during the meeting.</p> <ul style="list-style-type: none"><li>• The meeting room is accessible by lift and seats will be provided for members of the public.</li><li>• Toilets are available on the second floor.</li><li>• Catering facilities can be found on the first floor near The Paul Daisley Hall.</li><li>• A public telephone is located in the foyer on the ground floor, opposite the Porters' Lodge</li></ul>
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## LONDON BOROUGH OF BRENT

### MINUTES OF THE AUDIT COMMITTEE Wednesday 27 June 2012 at 7.30 pm

PRESENT: Stephen Wood (Independent Chair) and Councillors Al-Ebadi, Cummins and Van Kalwala

Also present: Councillor S Choudhary

#### 1. **Welcome**

Members welcomed Councillor Cummins to his first meeting following his re-appointment to the Audit Committee.

#### 2. **Declarations of personal and prejudicial interests**

None made.

#### 3. **Deputations**

None.

#### 4. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 22 February 2012 be approved as an accurate record of the meeting subject to the amendment of Clause 10 – Verbal update on progress of strategic risk register and civic centre project risk register, para 2, 2<sup>nd</sup> sentence to read: “in order to overcome the possibility of the main sub-station not being made available on target, every support would be given to QED in their negotiations with UK Power networks”.

#### 5. **Matters arising**

None.

#### 6. **Audit Commission Progress Report**

Andrea White and Martin Searle (Audit Commission) introduced the report from the Audit Commission which set out the Commission’s progress in discharging their responsibilities as the council’s external auditor. Martin Searle advised that the interim audit was nearing completion, the Commission was pleased with progress and there were no significant findings to date. Preparation of the 2011/12 financial

statements had been challenging and together with finance officers had been closely monitored. Work was also continuing on the council's private finance initiative schemes. It was expected that a complete set of financial statements would be ready by the end of the month. Discussions had also taken place over accounting arrangements for schools and improvements have been made.

The Deputy Director of Finance and Corporate Services, Mick Bowden, summarised the progress of work by finance officers. Issues raised in the previous year's audit had all been addressed including the technical accounting issues referred to the report. Final checks against the check list were taking place.

The Chair congratulated the finance team for their work and for adhering to the plans put in place the previous year. The Director of Finance and Corporate Services acknowledged the significant improvement in efficiency and advised that a review would be taking place at the end of the week. He also thanked the Audit Commission staff for their contribution.

Andrea White advised that auditing of the Pension Fund had commenced. The change in administration from LPFA to Capita Hartshead would be the subject of a report in November. The committee heard from Martin Searle that there were currently no Value For Money issues to report and the outcome of work would be reported in September 2012. Members also heard that the Audit Commission had received correspondence on issues of importance to the borough and its residents such as library transformation programme and would be responding. Martin Searle drew attention to the reduction in subsidy of approximately £15,000 resulting from the misclassification by the council of overpayments revealed by the Department of Work and Pensions and work on other grant claims would be prioritised for completion in advance of transfer to KPMG on 31 October 2012. Martin Searle reminded the committee of the announcement in the Queen's Speech of the government's intention abolish the Audit Commission and drew attention to the reduction in fees for the main audit and the certification of grant claims. The committee noted that the National Fraud Initiative had been successful and revealed issues on which members could challenge. Other matters of interest included consultation on Public Sector Audit Standards which would take place over the summer and the introduction of Local Payment By Results schemes in local authorities. It was noted that CIPFA's 'Brief Guide to Local Government Finance Reforms' was available.

Members welcomed the report, particularly the fee reduction, noted that the Payment By Results document was still in the process of being evaluated and asked that any relevant issues be circulated so a decision could be made on how best to proceed.

RESOLVED:

that the report be noted.

## **7. Annual Governance report - progress report on action plan**

The committee received the report from the Director of Finance and Corporate Services which set out progress against the recommendations in the Annual Governance Report.

RESOLVED:

that the report be noted.

#### **8. Treasury activity update**

The report from the Director of Finance and Corporate Services, introduced by the Deputy Director, provided an update on recent treasury activity. It was noted that £4M was still outstanding from the Icelandic Bank deposits. The Brent Treasury List had been extended to bring in highly rated overseas banks following the downgrade of some UK banks. It was noted that as at 31 March 2012 there was a deposit with Santander UK. That bank had subsequently been removed from the list. All deposits were short term to reduce exposure. The Deputy Director drew attention to the possible need for long term borrowing later in the year for the capital programme.

RESOLVED:

that the report be noted.

#### **9. Corporate Risk Register and departmental risk registers**

The committee welcomed receipt of the council's Corporate Risk Register and Departmental Risk Registers presented in accordance with the risk management strategy and policy. Simon Lane (Audit and Investigations) reminded members that risks detailed were possibilities and the aim was to demonstrate that measures were in place to mitigate the likelihood of a risk occurring or its impact. He advised that the register had been signed off by the Executive and would be put before the Corporate Management Team on a quarterly basis highlighting key areas of concern. Discussions were taking place regularly with departments over operational risks and those of most concern reported to the Corporate Management Team.

The Chair identified that a number of risks carried the same score both before and after controls, querying whether or not this was correct. Simon Lane undertook to take this away and clarify although clearly this should not be the case. Reference was made to recent adverse publicity over the library transformation programme for which the Executive had ultimate responsibility. Members questioned the sources of assurance and were reminded that before them was a high level overview of activity and more detailed reports were in existence with each department having its own register. Further scrutiny was undertaken by the High Level Monitoring Group and this committee's role was to monitor whether the risk management system was effective rather than individual risk management. Internal Audit also had a monitoring role.

Members requested regular reporting of high risks, with corporate strategic risks reported to each meeting and an annual update of operational risks with appendices. Members also requested more information on previous activity so that scores could be compared. Simon Lane advised that service directors could be called to account for their indicators or issues referred to scrutiny committee where appropriate.

RESOLVED:-

that the contents of the Corporate Risk Register and Departmental Risk Registers be noted.

**10. Final Internal Audit progress report 2011/12**

Simon Lane (Audit and Investigations) introduced the report which summarised the work of the Audit and the Investigations Team and provided an update on progress since last reported in February 2012. He was pleased to report that in terms of inputs, 99% of the Internal Audit Plan had been delivered. Of concern were audits which had received a Limited Assurance opinion relating to corporate/cross cutting audits, service departments, some schools and computer audits and also Brent Housing Partnership.

Members expressed concern over the findings on school audits and questioned what further action could be taken to improve governance. Simon Lane responded that the findings were the result of a number of days working at each school, reporting to governing bodies and to head teachers and revisiting on a periodic basis. Resources did not allow for visits to all schools annually. Recommendations were considered and implementation plans discussed and agreed at exit meetings with relevant school staff. However, the extent to which concerns were taken seriously was questionable. The Director of Finance and Corporate Services advised that while ultimate responsibility rested with him, his powers were limited. He had issued guidance and attended conferences in an effort to impress the need for schools to work within the law and the financial regulations. Additionally, schools could buy in additional financial support. The Chair questioned whether there was any correlation between performance and deficits and surpluses and heard that none had been found. It was noted that the issue was on the Children's and Families risk register. Clive Heaphy referred to action being taken to terminate leasing arrangements into which some schools had entered which could potentially lead to deficits. Additionally, consideration was being given to strengthening the role of governing body clerks and additional training for the chairs governing bodies.

RESOLVED:

that the progress made in achieving the 2011/12 Internal Audit Plan and the review of fraud work be noted.

**11. Annual Internal Audit Report 2011/12**

The report before the committee summarised the work of Internal Audit and the Investigations Team and provided an update on progress since the previous report on 22 February 2012. Andrea White (Audit Commission) advised that the level of their testing was relatively high in the light of concerns in the previous year. Members questioned the findings of the Conflict of Interest audit which had only limited assurance and heard that the Internal Audit Team were working with departments to ensure consistency, not helped by the timing of the introduction of HR Oracle. Martin Searle (Audit Commission) made reference to the general ledger and the steps being taken with service areas to improve and embed processes. Elements relating to Oracle were taking longer to address.



In response to an enquiry, Simon Lane (Head of Audit and Investigations) referred to the summary of assurance opinions and direction of travel for the past three years and explained that issues with schools had a distorting effect on the figures. On priority recommendations where 86% had been fully or partly implemented he felt that this was an acceptable level, given the high numbers involved and emphasised the importance of the direction of travel. Members asked that consideration be given to how to provide qualitative analysis in addition to quantitative currently available.

The Annual Report on the work of Internal Audit included an opinion on the overall adequacy and effectiveness of the council's internal controls and presented a summary of the audit work undertaken during the year. He drew attention to the qualified opinion in relation to the effectiveness of financial and other controls in schools, which had been raised in the previous year's report. Specific areas of concern were failure to adhere to the national legal requirements concerning teachers' pay, specifically in relation to head teachers' pay and the appointment of relatives and also the procurement of equipment through finance leases. In regard to the investigation of fraud Simon Lane referred to the National Fraud Authority's new strategy for local government, the implementation of which was being reviewed. He drew members' attention to the 2011/12 fraud case load statistics and the sanctions that had been imposed on the closed cases. It was noted as part of new proposals for fraud investigation, a Single Fraud Investigation Service would operate under the remit of the Department of Work and Pensions and in the long term local authority staff would transfer to the DWP. A further report would be submitted on the implications of this and the government's recently released document *'Fighting Fraud Locally – The Local Government Fraud Strategy'*.

Andrea White (Audit Commission) emphasised the need for controls to be place to limit internal fraud and supported the council's zero tolerance approach. She acknowledged that the council was working with limited resources however noting that a number of cases had resulted in dismissal. Simon Lane explained that none of these dismissals related to incidents affecting the key financial systems or had a material impact upon finances and undertook to provide the Audit Commission with a detailed breakdown.

Members questioned the extent to which risk assessments were working given the finding of 33 cases of fraud and irregularity during a one year period. They were reminded that it was for this committee to take a strategic approach and consider the extent to which controls in place were effective.

RESOLVED:

that the report be noted.

## 12. **Internal Audit Plan 2012/13**

The report from the Director of Finance and Corporate Services advised of the final Internal Audit Plan for 2012/13. Members noted that as requested at the previous meeting, specific time for risk management time had been built in and also that an additional 20 days for follow up work on schools with earlier limited assurance reports had been included. Discussions had also taken place on linking the Plan to the Risk Register.

RESOLVED:-

that the report be noted.

13. **Any other urgent business**


None.

14. **Date of next meeting**

It was noted that the next meeting was due to take place on 27 September 2012.

The meeting closed at 9.40 pm

S WOOD  
Chair

	<p style="text-align: center;"><b>Audit Committee</b> 27 September 2012</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Services</b></p>
<p>Wards affected: ALL</p>	
<p style="text-align: center;"><b>Annual Governance Statement 2011/12</b></p>	

## **1 Summary**

- 1.1 This report sets out the Annual Governance Statement for 2011/12 as required by the Accounts and Audit Regulations 2011<sup>1</sup>.

## **2 Recommendations**

- 2.1 The Audit Committee approve the content of the Annual Governance Statement as set out in appendix 1.

## **3 Detail**

- 3.1 The requirement for an annual review of governance is set out in the CIPFA/SOLACE framework, "Delivering Good Governance in Local Government"<sup>2</sup>. The Audit Committee has a key role to play in assessing the adequacy of governance across the council and the validity of the Annual Governance Statement (AGS).
- 3.2 The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework. A copy of the code is contained in part 7 of the council's Constitution<sup>3</sup>. The AGS explains how the council has complied with this code.
- 3.3 The AGS has been informed by a corporate governance review which relied upon already existing documentation and information from various sources across the council. These sources include performance information, risk management, Borough Solicitor, Service Directors, Director of Finance and Corporate Services, Internal Audit, External Audit, Inspectorates and partners.
- 3.4 The AGS contains the council's corporate governance action plan. This plan was first developed in October 2003 and has been refreshed annually.

## **4 Financial Implications**

4.1 None

## **5 Legal Implications**

5.1 Regulation 4(2) of the Accounts and Audit Regulations 2011 requires the Council to review its system of internal control and Regulation 4(3) requires the preparation of a statement on that review in accordance with “proper practice”. Following the review, an Annual Governance Statement (AGS) must be approved and accompany the statement of accounts.

## **6 Diversity Implications**

6.1 None

## **7 Background Papers**

1. Accounts and Audit Regulations 2011
2. CIPFA, SOLACE (2007), *Delivering Good Governance in Local Government*.
3. London Borough of Brent (2011). *Constitution*.  
<http://www.brent.gov.uk/constitution.nsf/>

## **8 Contact Officer Details**

Simon Lane, Head of Audit & Investigations, Room 1, Town Hall Annexe.  
Telephone – 020 8937 1260

CLIVE HEAPHY  
Director of Finance and Corporate Services

**BRENT COUNCIL  
ANNUAL GOVERNANCE STATEMENT  
2011/12**

**1 Scope of responsibility**

- 1.1 The Council conducts its business in accordance with the law and proper standards and principles to ensure that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs and those of its subsidiary, Brent Housing Partnership..
- 1.2 The Council has adopted a code of corporate governance consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is contained in the council's Constitution and can be found on our website at [www.brent.gov.uk/constitution.nsf](http://www.brent.gov.uk/constitution.nsf)
- 1.3 This statement explains how the Council conducts its business, how it has sought to comply with the code and also how it meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011.

**2 The purpose of the governance framework**

- 2.1 The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level of assurance. It not designed to eliminate all risk of failure to achieve policies, aims and objectives and as such, provides reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives. It is intended to evaluate the likelihood of those risks materialising, to evaluate their impact should they materialise and to manage them effectively.
- 2.3 The governance framework has been in place at the Council for the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

### **3 Compliance with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government**

3.1 The Chief Financial Officer (CFO) within the council is the Director of Finance and Corporate Services. A self-assessment has been undertaken by the Head of Audit and Investigations and the Director of Finance and Corporate Services against the five principles set out within the CIPFA Statement on the Role of the CFO. This assessment is attached at appendix A and demonstrates that the council complies with the statement. A summary of the assessment is shown below:

- **Principle 1:** The Director of Finance and Corporate Services is a permanent member of the Corporate Management Team (CMT) reporting directly to the Chief Executive. He meets regularly with external audit, the Chief Executive, and CMT members to provide strategic financial advice on all significant financial matters.
- **Principle 2:** The Director of Finance and Corporate Services is responsible for preparing the medium term financial strategy and annual budget and for the systems and processes in place to monitor and account for all financial activity across the council. Professional advice to service areas is ensured through the finance business partners and all committee reports contain financial implications reviewed by professionally qualified staff. The authority has a full framework of financial standing orders and this is backed up by regular monthly meetings of the Strategic Finance Group and attendance at Departmental Management Teams by finance business partners.
- **Principle 3:** The Director of Finance and Corporate Services has responsibility for implementing internal financial controls and making appropriate arrangements for the management of financial risk. The council has a set of financial regulations and associated guidance and an effective internal audit service. Ensuring best use of resources is a constant consideration for the council and is a key driver for the one council programme.
- **Principle 4:** The finance function, including business partners is adequately resourced and appropriately qualified. All staff report to the Director of Finance and Corporate Services.
- **Principle 5:** The Director of Finance and Corporate Services is a CIPFA qualified accountant with 26 years post qualification experience, 16 of which have been as a Finance Director.

#### **4 The governance framework**

- 4.1 The key elements of the systems and processes that comprise the Council's governance arrangements are set out over the following pages against the six core principles upon which the CIPFA/SOLACE Framework is based. The six core principles being as follows:
1. Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area;
  2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
  3. Promoting values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
  4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
  5. Developing the capacity and capability of members and officers to be effective; and
  6. Engaging with local people and other stakeholders to ensure robust public accountability.
- 4.2 Each of these core principles are broken down into a number of supporting principles and these are used by the Council on an annual basis to review and summarise the key elements of the overall governance framework, as well as to identify specific actions needed to address any weaknesses and/or to achieve further improvement in the year ahead. The arrangements for reviewing the effectiveness of the governance framework are detailed in section 4 of this statement.
- 4.3 The tables set out over the following pages provide an overview of the key elements of the governance arrangements against the six core principles, together with any actions to be focussed upon during the 2012/13 financial year.

CORE PRINCIPLE 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area		
The local code should reflect the requirements for local authorities to:	Position at March 2012	Actions Needed to Address Weaknesses and responsible officer
1. Develop and promote the authority's purpose and vision	<p>The Council has a Borough Plan, 'Brent – Our Future', for the four year period of 2010-2014. This document includes both the corporate objectives of the Council and our shared partnerships priorities.</p> <p>The Borough Plan sets out the Council's vision that <i>'Brent will be a thriving, vibrant place, where our diverse community lives in an environment that is safe, sustainable and well maintained. All our services will enable local people to fulfil their potential and improve their quality of life. Public resources will be used creatively and wisely to produce lasting benefits for our residents and the borough. Our commitment to reducing poverty, redressing inequality and preventing exclusion will be at the heart of all our actions'</i>.</p> <p>The Plan is focused around three core objectives as follows:</p> <ul style="list-style-type: none"> <li>• One Borough – Creating a sustainable built environment that drives economic regeneration and reduces poverty, inequality and exclusion;</li> <li>• One Community – providing excellent public services which enable people to achieve their full potential, promote community cohesion, and improve their quality of life; and</li> <li>• One Council – improving services for residents by working with partners to deliver local priorities more effectively and achieve greater value for money from public resources.</li> </ul> <p>The Plan references other key relevant documents, including the following:</p> <ul style="list-style-type: none"> <li>• Local Development Framework;</li> <li>• Climate Change Strategy;</li> <li>• Housing Strategy;</li> <li>• Sports and Physical Activity Strategy (as linked to the 2012 Olympic and Paralympic Games);</li> <li>• Cultural Strategy;</li> <li>• Health and Wellbeing Strategy;</li> <li>• Engagement Strategy; and</li> <li>• One Council Programme.</li> <li>• Children and Young Peoples Plan</li> <li>• Child Poverty Strategy</li> </ul>	



<b>CORE PRINCIPLE 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
	<p>The priorities of the Borough Plan are regularly set out in The Brent Magazine, its website, press releases and targeted campaigns.</p> <p>Service priorities are extensively consulted on with users and other relevant stakeholders. Service Plans are presented annually to Lead Members prior to finalisation.</p>	
2. Review on a regular basis the authority's vision for the local area and its impact on the authority's governance arrangements	<p>Implementation of the Borough Plan is monitored by the Executive.</p> <p>Implementation of Service Plans is monitored throughout the year by Corporate Management Team (CMT) and Departmental Management Teams (DMTs) using a range of embedded systems and processes including quarterly performance monitoring.</p> <p>Progress against the administration's priorities is also reported to the Executive and Overview and Scrutiny Committees.</p>	
3. Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all parties.	<p>The Council's Policy Team is responsible for supporting local partnership arrangement, known as Partners for Brent. The team co-ordinates a broad range of collaborative activities, which stem from the Council's engagement with local public, private and voluntary sector organisations.</p> <p>Local partners collaborate within Brent through our Local Strategic Partnership (LSP) to deliver the vision set out in the Borough Plan 'Brent – Our Future 2010-2014'.</p> <p>The LSP includes partners from all sectors and consists of an LSP Strategic Forum, LSP Executive and Thematic Partnerships.</p> <p>The LSP's focus is to understand how to ensure the best outcomes for residents by aligning the work undertaken by different organisations in the borough and engaging people effectively in change.</p> <p>At service area level, objectives of partnerships are documented in the Service Plans and within contract documentation.</p>	
4. Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance.	<p>The Council reports its performance and budgets every three months against a range of indicators.</p> <p>The Performance and Finance review report includes details on spending and activity as well as performance. This is reported to the Executive and the One Council Overview and Scrutiny Committee on a quarterly basis</p> <p>A joint review of performance and summary of accounts is produced annually and summarised in the Brent Magazine.</p>	
5. Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality	<p>The Council has a Performance Management Framework, as overseen by the Corporate Performance Team and delivered via departmental performance officers working with the corporate team which seeks to strategically align all the Council's performance monitoring and reporting activity.</p> <p>Sitting under the Borough Plan the service planning framework serves as the cornerstone of the</p>	

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<b>CORE PRINCIPLE 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
effectively and regularly is available.	<p>Council's approach to performance management. Each DMT is responsible for monitoring performance against their Service Plan and for reporting performance to CMT through regular scorecards to the High Level Monitoring Meeting with the Chief Executive and the Leader of the Council. Performance is also routinely discussed with the relevant Lead Member at Directors briefings..</p> <p>Key groups within the overall framework include:</p> <ul style="list-style-type: none"> <li>• Executive – agree proposals and challenge and question lead members and directors;</li> <li>• CMT – challenge the performance of the Council as a whole and has overall responsibility for achieving corporate objectives;</li> <li>• High level Monitoring Group – the Leader, Deputy Leader, Portfolio Holder and key officers conduct monthly in-depth review of services on a cyclical basis to manage performance;</li> <li>• One Council Overview and Scrutiny Committee, Partnerships and Place Overview and Scrutiny Committee and the Children and Families Scrutiny Committee. Provide a political challenge and scrutiny in relation to decisions taken by the executive</li> <li>• LSP – challenges delivery around key partnerships;</li> <li>• High Level Monitoring Group – chaired by the Chief Executive and attended by the Leader of the Council examines specific performance issues, providing ongoing challenge, support and direction and tracking of improvements;</li> <li>• Strategic Finance Group – examines budget and activity information to assess value for money; and</li> <li>• One Council Programme Board – oversees the progress and achievements against the Once Council Programme.</li> </ul>	
6. Put in place effective arrangements to identify and deal with failure in service delivery.	<p>As per section 5 above, potential service failure is identified through the various levels of performance monitoring, and then dealt with at the appropriate levels in terms of identifying and monitoring the implementation of corrective actions.</p> <p>Performance issues in relation to specific partner organisations / contractors are dealt with at service area level in accordance with agreed contract management procedures. Issues are escalated as appropriate.</p>	
7. Decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance	<p>The One Council Programme Board measures progress against its targets via fortnightly meetings. The One Council Programme Management Office (PMO) has established a robust project and programme methodology to ensure the delivery of change projects and realisation of benefits.</p> <p>This framework includes the preparation of sound business cases for all projects within the programme and identification of future financial and non-financial benefits. The regularly fortnightly monitoring of</p>	

<b>CORE PRINCIPLE 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
effectively. Measure the environmental impact of policies, plans and decisions.	<p>project plans enables effective management of delivery, identification of risk and tracking of both financial and non-financial benefits.</p> <p>A monthly up-date on progress is reported to the Corporate Management Team and a report to the Policy Co-ordination Group is presented each quarter. The Director of Strategy, Partnerships and Improvement and the Head of Programme Management meet each month with the Leader and Deputy Leader to up-date them on programme deliver and achievement of the savings targets.</p> <p>In addition the council now brings together finance, activity and performance monitoring in a single performance and finance review report which enables officers and members to have a more holistic view of progress across the council on Value for Money. In addition, development of a value for money tool-kit for managers is one of a range of measures to support managers delivering better value for money. Unit costs are also used to measure progress in key areas e.g. on the children's transformation agenda.</p>	

<b>CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
1. Set out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the authority's approach towards putting this into practice.	Article 2 of the Constitution describes the role of Members of the Council, the Executive, Mayor, Full Council and overview and Scrutiny.	
	Up to date job descriptions are in place for Senior Officers. Monitoring Officer Advice Notes give advice to Members on decision making and standards of conduct. Further details with regards to London Councils' positive assessment of these are set out against Core Principle 5. Local Democracy and Standards Webpages are updated regularly.	
	All Executive decisions and key decisions by officers are recorded and published.	
2. Set out a clear statement of the respective roles and responsibilities of other authority members, members generally and of senior officers.	Roles and responsibilities are covered in the Constitution In addition Members' Role Descriptions, which were agreed by the member Development Steering Group, have been sent to members and have been put on the member development intranet page.	
	Up to date job descriptions are in place for Senior Officers.	
3. Determine a scheme of delegation and reserve powers within the Constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority taking account of relevant legislation and ensure that it is monitored and updated when required.	Clearly set out in the Constitution.	
	The Borough Solicitor maintains a register of officer authorisations and delegations. The Constitution is renewed and reported to full Council every May.	
4. Make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management.	Covered in the Constitution and job descriptions.	

<b>CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
5. Develop protocols to ensure that the leader and chief executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained.	Regular meetings are held between the Chief Executive and Leader, with a shared understanding of respective roles.	
6. Make a senior officer (usually the section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.	Covered in the Constitution and job description.	
	Covered by statute and Financial Regulations.	
	All Executive reports have to be cleared by the Director of Finance & Corporate Services. Director (or nominee when unavailable) attends all Leader's briefings and meetings of the Executive and full Council.	
	Independent assurance on the adequacy and effectiveness of the overall systems of internal control, including internal financial control, is provided by the Council's external auditors, internal auditors and a number of other external bodies / inspectorate. Both the internal and external auditors report to the Audit Committee on a quarterly basis.	
7. Make a senior officer (other than the Responsible Financial Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes, regulations are complied with.	Covered in the Constitution and job descriptions.	
	Covered by statute and Financial Regulations.	
	All reports have to be cleared by the Borough Solicitor who attends all Leader's briefings and meetings of the Executive and full Council. A lawyer also attends all other committee meetings and is responsible for issuing the, monitoring officer advice notes and legal bulletins.	
8. Develop protocols to ensure effective communication between members and officers in their respective roles.	These are Covered in Part 7 of the Constitution and in the Access to Information protocol.	
9. Set out the terms and conditions for remuneration of members and officers and an effective structure for managing the process including an effective remuneration panel (if	The scheme of Member allowances has been reviewed by the Constitutional Working Group (CWG) and a report recommending changes to the allowances scheme went to Full Council in September 2010 whereby the changes were approved.  The scheme is published annually in accordance with the relevant 2003 regulations.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for local authorities to:	Position at March 2012	Actions Needed to Address Weaknesses and responsible officer
applicable).		
10. Ensure that effective mechanisms exist to monitor service delivery.	The 'PerformancePlus' system is now fully operational across the Council and a standard service planning template and guidance was refreshed in 2010 with a focus upon delivering the Improvement and Efficiency objectives. Performance and service monitoring have been covered in detail under Core Principle 1.	
	An integrated quarterly Performance and Finance monitoring report is now produced. This is reviewed by the Executive, CMT and the Performance & Finance Select Committee.	
11. Ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated.	<p>The -Borough Plan 2010-2014 sets out the aim to <i>'empower people by providing more opportunities for them to engage with local elected members on decisions affecting their area at ward forums'</i>. A Brent-wide Engagement Strategy was agreed in 2010/11 setting out the <i>'ambition of the council and partners to inform, consult, engage and involve our communities in all aspects of service provision from design through to delivery'</i>.</p> <p>There are a range of ways in which the local community and other key stakeholders are consulted. Key ones include:</p> <ul style="list-style-type: none"> <li>• The Brent Magazine is regularly distributed to households, promoting Council policy and initiatives, and providing information on available services and consultation events.</li> <li>• Surveys of residents' are undertaken to evaluate resident satisfaction with the area and with council services. We have commissioned three surveys this financial year. These will also help us to recruit and refresh the Citizen's panel.</li> <li>• The Ward Working initiative focuses on members working within their communities to collectively address local priorities and improve the way services are delivered on a neighbourhood level.</li> <li>• The Council's website is another key point of engagement, both with regards to publicising and communicating key information, as well as providing residents with the opportunity to access services via web technology. We are in the process of re-designing the website around customer's needs so it is easier to use.</li> <li>• There are five Area Consultative Forums (ACFs), each chaired by a councillor, with meetings open to all members of the public. At each meeting, there is also a <a href="#">'Soapbox slot'</a> for residents to express their views and concerns about issues that affects them directly or indirectly. These are being reconfigured and re-branded as 'Brent Connects' to encourage more direct engagement with residents.</li> </ul>	<p>Social media protocols to be introduced and consideration to be given to the possible use of social media in consultation channels. (Head of Communications and Marketing)</p> <p>The replacement of local LINKs with local HealthWatch will now take place in 2013. (Senior Practitioner Consultation)</p>

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for local authorities to:	Position at March 2012	Actions Needed to Address Weaknesses and responsible officer
	<ul style="list-style-type: none"> <li>Outcomes of formal consultation are fed back through the Consultation Portal website.</li> <li>A young person’s website, ‘bmyvoice’, was launched in March 2010, specifically for engaging and communicating with Brent’s younger residents.</li> <li>The Brent Local Involvement Network (LINK) is an independent network, of residents, local charities, community groups and people who work in the borough who have an interest in improving health and social care services in and around Brent. A transitional contact for 2012/13 has been entered into. This will prolong the life of the LINK for a further year until the establishment of Local HealthWatch.</li> <li>Staff are kept informed through manager’s briefing and the intranet. Additional workshops / meetings are also run as appropriate for example on moving to the Civic Centre.. A new e-newsletter for staff will be launched in September. In addition we have a number of snapshot surveys taking place to evaluate staff understanding of the council’s overall aims.</li> </ul> <p>The Borough Plan 2010-2014 stresses that <i>‘our engagement and consultation activities will take into account the need to reflect the diverse needs of our population and seek out the views of all sections of the community’</i>. We are working towards achieving ‘Excellence’ level of the national equalities framework by 2012.</p>	
12. When working in partnership ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority.	<p>The term ‘partnership’ is defined in the Constitution and a partnership map has been established..</p> <p>Protocols and guidelines for the operation of joint working have been agreed by the LSP and covers roles and responsibilities, protocols for financial administration and staff management.</p> <p>Further details regarding the performance management of partnerships is set out against Core Principle 1.</p>	
13. When working in partnership: ensure that there is clarity about the legal status of the partnership ensure that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.	<p>Guidance on the legal status of partnerships is provided by the Borough Solicitor as appropriate.</p>	

<b>CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
1. Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect.	<p>Executive members have undertaken a range of training including media and presentation skills, and key members have had support from an external mentor. Further details regarding member training are set out against Core Principle 5, including details of the positive assessment made by London Councils in this area.</p> <p>The Member Code of Conduct includes the 10 general principles of conduct, including respect for others, leadership and stewardship. The Constitution contains the Planning Code of Practice, Licensing Code of Practice, Code of Practice on Publicity and the protocol for Member Officer Relations. Members and Chief Officers work collaboratively on the Policy Co-ordination Group, Leader's Briefing, Service Planning and Budget Awaydays.</p> <p>The Leader meets weekly with the Chief Executive and also addresses the Corporate Roadshows and the Senior Managers Conference.</p>	
2. Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols.	<p>The Code of Conduct for Officers was updated and re-issued in 2010. Other codes, including the IT Usage Policy, Data and Information Security and Harassment Policy are all held on the intranet and are subject to regular review. Some of these are mandatory for all staff.</p> <p>Staff are made aware of their responsibilities through general communications, such as the Chief Executive Newsletter, and via attachments to payslips, as well as at team briefings.</p>	
	The Brent Member Code of Conduct reflects the model code published by the government.	
3. Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.	<p>The Constitution contains various other codes including: Licensing, Planning, Member Officer relations. Advice notes are issued by the Borough Solicitor regarding conduct.</p>	
	The registers of Members' interests and Members' gifts and hospitality are now placed on the web site enabling easy public access.	
	<p>The Conflict of Interest Policy for staff provides clear guidance regarding contractual and other potential conflicts.</p> <p>The Gifts and Hospitality Policy for staff and members provides guidance on how to deal with offers of gifts and hospitality and how to record such offers, rejections and acceptance.</p> <p>In both cases they make reference to the Prevention of Corruption Acts 1889-1916, as well as the Local Government Act 1972. The new Bribery Act 2010 came into force on 1 July 2011 and hence both policies now need to be further reviewed and updated in light of this, taking account of the finalised guidance on 'Adequate Procedures' as issued by the Ministry of Justice in March 2011.</p>	<p>Both policies to be further reviewed and updated in light of the Bribery Act 2010. (Borough Solicitor)</p> <p>Ensure new Conflict of Interest Policy and</p>



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		Gifts and Hospitality Policy are embedded (Service Area Directors)
4. Develop and maintain shared values including leadership values both for the organisation and staff reflecting public expectations and communicate these with members, staff, the community and partners.	The Member Code of Conduct includes reference to Leadership and Stewardship and other values. The Code of Conduct and competency framework which has been developed for managers and staff together with a management charter sets out the expected behaviours for officers, including Leadership and working with others.	
5. Put in place arrangements to ensure that procedures and operations are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice.	Standards of conduct for Members are set out in the Constitution.	
	Protocol for Member/officer relations is set out in Constitution.	
	Standards Committee has remit to monitor compliance.	
6. Develop and maintain an effective standards committee.	The terms of reference for the Standards Committee are set out in the Constitution. The Committee has an independent chair and vice chair. and two alternate independent members available The Committee has an annual work programme and is supported by the Borough Solicitor.	
7. Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority.	The organisation's shared values are reflected in various policies and procedures, such as the Planning Code of Practice and its Access to Information Rules, both which encourage transparent, informed and well reasoned decision making. These are reinforced by the guidance notes issued to members from time to time in the form of Monitoring Officer Advice Notes and in legal bulletins. The Corporate Strategy also includes clear corporate values for the Council. The One Council programme requires an explicit framework that recognises the importance of high standards in relation to personal behaviour, professional conduct and organisational governance.	
8. In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners'	The members of the Partners for Brent Executive have agreed terms of reference and roles as part of their governance arrangements. These establish the expected values and behaviours for effective partnership working. These include a commitment to addressing inequality, focusing on preventative actions and achieving value for money through greater collaboration. The corporate policy team is working closely with representatives of the voluntary sector to develop a	

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behaviour both individually and collectively.	new compact setting out principles for collaboration with the voluntary and community sectors.	

<b>CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
1. Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the organisation's performance overall and of any organisation for which it is responsible.	The Executive are responsible for the implementation of policy and ensuring the effectiveness of service delivery.	
	Scrutiny is responsible for monitoring the performance of the Executive. The Overview and Scrutiny Committee receive regular up-dates on the delivery of the One Council programme and performance monitoring. The programme of member led task groups enable non executive members to consider matter of concern to local communities and make recommendations for action to the Executive.	
	The Corporate Management Team (CMT) monitors delivery of the One Council programme through a Programme Board and a Programme Management Office.	
	The Chair of Overview and Scrutiny is given an opportunity to report back to every full Council meeting. Call in arrangements in the Constitution allows Overview and Scrutiny to review decisions made by the Executive. Mechanisms are in place to able to scrutiny of Executive decisions before they are made.	
	Further details regarding scrutiny in the context of performance management have been set out against Core Principle 1.	
2. Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.	Decision making arrangements are set out in the Constitution. The Council operates a Leader and Cabinet (Executive) model of decision making. Although some decisions are reserved for Full Council, most are made by the Executive or by committees, sub-committees or officers. There are currently no decision making powers delegated to individual Members.  In accordance with the Local government Act 2000, the Council has mechanisms in place to allow the effective, independent and rigorous examination of the proposals and decisions by the Executive. These mechanisms involve the Overview and Scrutiny process including call-in and question time. The conduct of the Council's business is governed by the Constitution, which includes Standing Orders and Financial Regulations.	
	Decision making meetings of the Executive are open to the public.	
	Copies of reports and decisions are available on the intranet and through the One Stop Shop and Libraries.	
	All meetings are clerked by well trained and experienced committee support officers and lawyers are present to provide advice on law and procedure.	
3. Put in place arrangements to safeguard members and employees	The registers of Members' interests and gifts and hospitality are now placed on the web site enabling easy public access.	

<b>CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice.	The Monitoring Officer prepares an annual report to the Standards Committee.	
4. Develop and maintain an effective audit committee (or equivalent) which is independent or make other appropriate arrangements for the discharge of the functions of such a committee.	The Audit Committee has met four times during the year. The terms of reference are set out in the Constitution. The Committee exists to consider the work of internal audit and its effectiveness; to consider reports from the external auditors; to monitor the effectiveness of the governance and risk management framework and to review the accounts	
	The provision of the internal audit function within the Council is through the Audit & Investigations Team, working in partnership with Deloitte & Touche Public Sector Internal Audit Ltd. The Audit Committee approve the annual Internal Audit Plan and receive progress reports at each quarterly meeting.	
	External audit is provided by the Audit Commission. Their plans, interim reports and annual audit letter are all presented to the Audit Committee. The Audit Commission has recently been abolished and from 1 October 2012, audit work will be transferred to the new provider, KPMG, who were awarded the contract following a comprehensive government-led tender exercise.	
5. Put in place effective transparent and accessible arrangements for dealing with complaints.	<p>The Council has a well regarded corporate complaints procedure that has been praised and endorsed by the Local Government Ombudsman (LGO) in previous years.</p> <p>The Corporate Complaints Policy was revised and reissued in January 2011, together with a new Corporate Complaints Manual. The complaints service is headed by our Corporate Complaints Manager, working with complaints managers and teams across the departments. This reporting line into the Corporate Complaints Manager was introduced in October 2010, and represents a positive move towards further promoting consistent, joined up complaints management across the Council.</p> <p>The 2010/11 Annual Report on complaints performance was presented to the Overview and Scrutiny Committee in October 2011. This noted that the number of complaints had fallen by 36% in comparison to the previous year. Escalated complaints had reduced by nearly 30% which is an indication of the improvements made to the investigation process.</p> <p>In total, 79 complaints were investigated by the LGO during 2010/11. For the fourth year running, no formal reports were issued against the Council as a result of this. For the second year running Brent achieved the best figures for any London borough in terms of the lowest percentage of complaints upheld by the Ombudsman.</p>	
6. Ensure that those making	Members are required to make sound decisions based on written reports which are prepared in	

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decisions whether for the authority or partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.	accordance with the report writing guide and have to be cleared by both Finance and Legal. The Executive receives a briefing (Leaders Briefing) two weeks prior to the Executive meeting when members can ask detailed technical questions of officers.	
7. Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately.	All reports must be reviewed and signed-off by the Director of Finance & Corporate Services and the Director of Legal and Procurement and contain clear financial and legal advice to help members arrive at decisions. Senior Legal and Finance officers are available to give clear and robust advice.	
8. Ensure that risk management is embedded into the culture of the organisation; with members and managers at all levels recognising that risk management is part of their job.	A new risk management strategy has been approved by the council in 2011/12. As part of the above: <ul style="list-style-type: none"> <li>• The Executive / Council consider risks as part of their decision making role on corporate policies, including the annual budget setting processes, major policy decisions and major projects;</li> <li>• The Executive and Corporate Management Team, review corporate risks through regular monitoring reports.</li> <li>• The Strategic Finance Group review high level finance risks through regular Hotspots monitoring reports. Hotspots are identified and reviewed across each of the service areas on a monthly basis by the Strategic Finance Group. In each case the risk is assessed in terms of the minimum and maximum impact from a monetary perspective. In addition, an indication is provided as to whether the risk has been included in the year-end forecast for each Service Area, thereby providing a link between risk management and budget monitoring;</li> <li>• Risks within the One Council programme are fully documented within the reporting framework of the programme. These are reported fortnightly to the Programme Board and a risk log is maintained. These are project risks and are not separately identified within the Risk Register. Operational risk arising from the One Council change programme feed into departmental registers; and</li> <li>• Risks are identified within Service Plans and considered on a quarterly basis as part of the performance management framework. Key operational risks are reported through to the Corporate Management Team</li> </ul>	Further work to be needed to ensure process embedded across organisation (Head of Audit & Investigations)

<b>CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
9. Ensure that arrangements are in place for whistle blowing to which staff and all those contracting with the authority have access.	The council actively promotes its Whistleblowing Policy which has been publicised to staff and can be found on the intranet under 'Raising Concerns'. Whistleblowing allegations are taken seriously and dealt with, in the first instance, by the Audit & Investigations Team.	
10. Actively recognise the limits of lawful activity placed on them by, for example the ultra vires doctrine but also strive to utilise powers to the full benefit of their communities.	See above section 6. In addition, regular Monitoring Officer Advice Notes are issued. Regular training is provided to ensure Members understand areas of risk. Further details with regards to London Councils' assessment of the quality of member training and the Monitoring Officer Advice Notes are set out against Core Principle 5 below.	
11. Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law.	See above section 6. In addition regular Monitoring Officer Advice Notes are issued. Advice is tailored and specific regarding the Authority's capability and capacity to take relevant action including liability of the organisation	
12. Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice into their procedures and decision making processes.	Legal Services provide advice as appropriate on legal issues and review and sign-off on reports.  The Monitoring Officer issues an annual advice notes and issues legal bulletins from time.	

**CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective**

<p><b>The local code should reflect the requirements for local authorities to:</b></p>	<p><b>Position at March 2012</b></p>	<p><b>Actions Needed to Address Weaknesses and responsible officer</b></p>
<p>1. Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.</p>	<p>The Council runs a Member development programme which is reported to the Standards Committee annually. The Borough Solicitor provides training to new and existing Members on decision making and standards of conduct.</p> <p>A comprehensive induction programme was delivered for members following the local elections in May 2010. This included both general induction and service specific sessions. Further member development events were subsequently held during the course of the year, and 34 councillors formulated and agreed individual Personal Development Plans (PDPs).</p> <p>As reported to the Standards Committee in the annual Review of the Member Development Programme May 2010-April 2011, the Council has been awarded the London Councils' charter for member development excellence. This lasts for three years, after which there will be a need for reassessment. The report from London Councils noted that <i>'Brent Council has worked very hard to introduce ways of providing support to its members and helping them to develop their skills and knowledge. This not only benefits the councillors themselves, but also ensures that their residents receive the best possible leadership and services from their local council.'</i></p> <p>In relation to standards, the assessors found that <i>'Brent's good practice on standards is widely recognised and there is now an annual working event with councils in the West London Alliance and more recently also included Barnet, Islington and Kensington &amp; Chelsea'</i>. The assessors were also very impressed with the Monitoring Officer Advice Notes for members.</p> <p>Going forwards, the member development programme will continue to be focused on specific needs identified through the PDPs. In addition, the Council is in the process of purchasing an e-learning package which will link into the Political Skills Framework tool purchased in conjunction with Harrow Council.</p>	

CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective		
The local code should reflect the requirements for local authorities to:	Position at March 2012	Actions Needed to Address Weaknesses and responsible officer
	<p>It remains a key policy of the Council to provide all new staff with an informative induction that explains the structure and work of the Council and the relationships between different parts of the organisation. It is also an important way of ensuring new staff understand the values of the organisation and the part they will play in supporting the achievements of its goals.</p> <p>We have introduced a policy framework to include individual, managerial local and corporate induction. All new entrants are expected to attend a course within their first three months of being in the Council. The induction process marks the beginning of the relationship between the Council and all new starters.</p> <p>New starters are set up with e-learning accounts to complete the mandatory e-learning modules and also to complete a personal and/or any local induction programmes.</p> <p>The programmes are fundamental in setting standards and influencing patterns of behaviour conducive to working well with partners, colleagues and delivering excellent customer services.</p> <p>The key objectives of the <b>corporate induction</b> programme are for delegates to:</p> <ul style="list-style-type: none"> <li>• Understand the organisations aims, values and the standards of behaviour and performance expected;</li> <li>• Have an opportunity to identify and resolve at an early stage any concerns, issues or queries they may have relating to their employment; and</li> <li>• Feel engaged and enthusiastic about working at Brent.</li> </ul> <p>Within the new <b>management induction</b> the key objectives are for delegates to:</p> <ul style="list-style-type: none"> <li>• Understand the key roles and responsibilities (core standards and expectations) of the Brent Manager and the Management competencies</li> <li>• Understand how to find management information on the intranet, useful contacts, peer support; mentoring and the learning and development management offer</li> <li>• Opportunity to complete a self-assessment of behaviours, skills and knowledge to determine strengths and opportunities and devise an individual development plan</li> <li>• Opportunity for networking</li> </ul>	<p>A concerted plan to ensure all new starters attend mandatory induction is required. CMT to monitor and ensure compliance within departments.</p> <p>(Head of Learning &amp; Development and Head of People Services )</p>



<b>CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
<p>2. Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the organisation.</p>	<p>During the induction process officers are introduced to key personnel and statutory roles. On an individual level, each officer has a job description and person specification, which clarifies their role and identifies the knowledge, skills and competences required to undertake that role successfully.</p> <p>Each year officers have an annual appraisal containing developmental objectives and plans linked to providing them with any required support to enable continuous professional development, to bridge any skills or knowledge gaps and also to support the achievement of statutory goals and to meet Service Plans.</p> <p>The Council's Corporate Learning and Development policy, plans and service offers are based on corporate, strategic and service needs and also individual needs identified in team plans and individual appraisals.</p> <p>Statutory officers are encouraged to maintain their CPD's, participate in and attend external forums to maximise their learning and to development; good practice; networking and sharing learning to improve service delivery.</p> <p>A new People strategy 2010-14 was created and it also highlights workforce development gaps and plans for building capacity and capability in the Councils' Workforce. The workforce development plan highlight actions and success criteria around six people priorities and will address the needs of statutory officers as appropriate. The six priority areas are as follows:</p> <ul style="list-style-type: none"> <li>• Develop strong leadership via the new Brent management model;</li> <li>• Streamline and re-configure the organisation on One Council principles;</li> <li>• Support effective change management that delivers timely results;</li> <li>• Build an agile and efficient workforce that adapts easily to change;</li> <li>• Close skills and resources gaps by developing and reskilling staff; and</li> <li>• Attract, retain and develop highly motivated, diverse and talented people.</li> </ul>	<p>The People Strategy and Workforce Development plan will be monitored and evaluated to identify achievements against the success criteria and taking the Council's agenda forward.</p> <p>To ensure the learning and development programme is aligned to meeting the specific needs of statutory officers.</p> <p>(Head of Learning &amp; Development and Head of People services)</p>
<p>3. Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively.</p>	<p>As per Core Principle 5, section 1, with regards to assessing and developing members' skills.</p> <p>The Council has a People Strategy which is accompanied by a comprehensive Workforce Development Plan. This has identified the key skills and key learning and development that will ensure that the skills of the managers and workforce are enhanced to improve performance and deliver the Councils agenda.</p> <p>The introduction of the Performance and Talent Management system has enabled managers to better assess key competencies; development plans and to check on progress against the objectives which have been set for staff. This technological solution enables management information to be more easily</p>	<p>Further embedding of the generic core management competencies and tasks will be achieved through</p>

<b>CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
	<p>extracted and monitoring of appraisals will be more dynamic and achievements monitored in real time.</p> <p>The Staffing and Structure project began the process of introducing generic management job descriptions which will embed corporate expectations and a common understanding of the management role. This is now being extended to cover business support roles and standardising job titles.</p>	<p>one of the work streams of the Review of Employee Benefits project.</p> <p>A corporate programme to support the Role of the Manager began in July 2011.</p>
<p>4. Develop skills on a continuing basis to improve performance including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.</p>	<p>The annual review of the Member development programme was reported to the Standards Committee in March 2011, as detailed above at section 1.</p>	
	<p>The Learning &amp; Development Plan and service offering reflect the skills and knowledge required to deliver the Corporate Strategy and is reviewed on an annual basis to ensure continuing improvement and alignment to the goals of the Council. Individuals are encouraged to develop through their annual appraisal, six monthly reviews and regular one-to-ones which focus on improving performance and achievement of corporate/departmental objectives.</p> <p>A new appraisal system has been developed based on the competency framework which includes providing a customer focussed service, and leadership and influencing skills. The corporate training offering also offers courses on customer care and working with partners.</p> <p>As indicated above, the Council has an annual corporate Learning &amp; Development programme based on strategic objectives including the Council's performance improvement priorities. A national performance management training programme has recently been piloted for staff in conjunction with the corporate Policy and Performance team.</p> <p>The annual review of the Member development programme was reported to the Standards Committee in March 2011, as detailed above at section 1.</p>	<p>Achieving higher levels of staff appraisal is a priority for the organisation to focus on improving performance. A review of the appraisal scheme to improve implementation and quality is required.</p> <p>(Head of Learning &amp; Development)</p>
<p>5. Ensure that effective arrangements are in place for reviewing the performance of the authority as a whole and of individual members and agreeing an action plan which might for</p>	<p>Standards for performance are set out in the Corporate Strategy and individual Service Plans. Quarterly reports on service and financial performance are produced and considered by the CMT, Executive and Performance &amp; Finance Select Committee. This includes performance on key partnership targets.</p> <p>A summary of the Council's performance is published each year in the Brent Magazine and delivered to</p>	

<b>CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
example aim to address any training or development needs.	<p>all households.</p> <p>All performance data is available on the Council's website.</p> <p>As above under section 4, individual officer performance is assessed through the formal appraisal system.</p>	
6. Ensure that effective arrangements designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority.	<p>As per Core Principle 2, section 11.</p> <ul style="list-style-type: none"> <li>Brent has 5 Area Consultative Forums – each meeting four times per year at locations across the borough. Area forums offer the public and stakeholders opportunities to engage with elected councillors, council officers and managers and our partner organisations – as well as participating in the borough's consultation activity.</li> </ul> <p>In addition:</p> <ul style="list-style-type: none"> <li>There are 5 Service User Consultative Forums (SUCFs) which include: the Pensioners forum; Black and Minority Ethnic forum; Voluntary Sector Liaison forum; Private Sector Housing forum; and a Brent Disabled User forum.</li> <li>The Youth Parliament has been operating since March 2007 and provides an opportunity for children and young people to present their views to the Council. The Youth Parliament worked on the development of the 'bmyvoice' website that was launched in March 2010.</li> </ul>	
7. Ensure that career structures are in place for members and officers to encourage participation and development.	<p>The Council has a new People Strategy which is accompanied by a Learning and Development Plan and programme. This has identified the core skills and key learning and development that will ensure that the skills of the managers and workforce are enhanced to improve performance and deliver the Councils agenda.</p> <p>The introduction of the Performance and Talent Management system (ETWeb) enables managers to better assess key competencies; development plans and to check on progress against the objectives which have been set for staff. This enables management information to be more easily extracted, the monitoring of appraisals to be more dynamic and achievements monitored in real time.</p> <p>Since this was introduced we have been able to monitor completion of appraisals and to take action to improve coverage across the council</p> <p>The Staffing and Structure project began the process of the introduction of generic management job descriptions which will embed corporate expectations and a common understanding of the management role.</p> <p>This area will be strengthened with a designated Learning and Talent Manager from August 2012. Going forward People and Development will focus on succession planning, talent management and</p>	<p>Complete work in relation to career pathways, generic job roles and talent management.</p> <p>(Assistant Director, HR)</p>

<b>CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
	workforce planning. Coaching and mentoring will also be key priority areas.	

<b>CORE PRINCIPLE 6 - Engaging with local people and other stakeholders to ensure robust public accountability</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
1. Make clear to themselves, all staff and the community, to whom they are accountable and for what.	Council policy and services are set out to residents via The Brent Magazine produced ten times per year, the council website and wider media. Neighbourhood Bulletins are produced for each of the 21 wards twice a year to directly communicate response to issues raised by local residents.	Continue using and further developing / improving all forms of communication. (Head of Communications and Marketing)
	Staff are kept informed of council direction, policy and response to legislative change through the intranet, manager's briefings, regular team meetings and specific briefings.	
2. Consider those institutional stakeholders to whom they are accountable and assess the effectiveness of the relationships and any changes required.	As per Core Principle 2, section 11.	
3. Produce an annual report on scrutiny function activity.	An annual report is presented to the Overview & Scrutiny Committee in July each year.	
4. Ensure that clear channels of communication are in place with all sections of the community and other stakeholders including monitoring arrangements to ensure that they operate effectively.	The Brent Consultation Board, established 2009, scrutinises and evaluates all major consultation projects. This includes ensuring that all consultation activity meets current corporate consultation quality and legal standards with regard to information, publicity, methodology, equalities issues and reporting back. An upgraded consultation portal has been procured and is being further developed.	On-going development work to improve the Consultation Board, Consultation Portal and establish the Brent Connects programme through 2012/13 Community Engagement Team (Consultation)
5. Hold meetings in public unless there are good reasons for confidentiality.	Most meetings are held in public. Some parts of meetings are held in private when exempt or confidential information might be discussed. This is subject to the agreement of the members present.	

<b>CORE PRINCIPLE 6 - Engaging with local people and other stakeholders to ensure robust public accountability</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
6. Ensure arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands.	<p>As per Core Principle 2, section 11, and Core Principle 5, section 6.</p> <ul style="list-style-type: none"> <li>Brent has 5 Area Consultative Forums – each meeting four times per year at locations across the borough. Area forums offer the public and stakeholders opportunities to engage with elected councillors, council officers and managers and our partner organisations – as well as participating in the borough’s consultation activity.</li> </ul> <p>In addition:</p> <ul style="list-style-type: none"> <li>There are 5 Service User Consultative Forums (SUCFs) which include: the Pensioners forum; Black and Minority Ethnic forum; Voluntary Sector Liaison forum; Private Sector Housing forum; and a Brent Disabled User forum.</li> <li>A Brent Citizens’ Panel consisting of 2,000 locally recruited resident stakeholders.</li> <li>The Youth Parliament has been operating since March 2007 and provides an opportunity for children and young people to present their views to the Council. The Youth Parliament worked on the development of the ‘bmyvoice’ website that was launched in March 2010.</li> <li>An upgraded on-line consultation portal has been procured with access to this being rolled out to service areas during 2012/13.</li> </ul>	<p>Equalities monitoring at area forums will be undertaken from September 2012 onwards. Continuing development of the Brent Consultation Portal to be undertaken throughout 2012/13</p> <p>Community Engagement Team (Consultation)</p>
7. Establish a clear policy on the types of issues they will meaningfully consult on or engage with the public and service users including a feedback mechanism for those consultees to demonstrate what has changed as a result.	<ul style="list-style-type: none"> <li>A Communication Plan and action plan for 2012/2013 was agreed by CMT on 29 March 2012.</li> <li>All major consultations need to be referred to the Consultation Board at the planning stage.</li> <li>Details of all major consultations need to be logged on the Consultation Portal website.</li> <li>Brent’s consultation and engagement programme to be re-launched as the ‘Brent Connects’ programme.</li> </ul>	<p>(Head of Communications and Marketing)</p> <p>Brent Connects programme to be launched in Sept/Oct 2012</p> <p>Community Engagement Team (Consultation)</p>
8. On an annual basis, publish a performance plan giving information on the authority’s vision, strategy, plans and financial statements as well as	<p>As per Core Principle 1, section 4.</p> <p>The Annual Review was published in October 2011 as part of The Brent Magazine.</p>	<p>Annual Review for 2012 to be produced in The Brent Magazine.</p> <p>(Head of</p>

<b>CORE PRINCIPLE 6 - Engaging with local people and other stakeholders to ensure robust public accountability</b>		
<b>The local code should reflect the requirements for local authorities to:</b>	<b>Position at March 2012</b>	<b>Actions Needed to Address Weaknesses and responsible officer</b>
information about its outcomes, achievements and the satisfaction of service users in the previous period.		Communications and Marketing)
9. Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.	All Committee Reports, Agendas and Minutes are made available to the public through the Council's internet site.	
10. Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making.	The Council's managing change policy includes guidance on staff and trade union consultation. A draft engagement policy has also been developed. The role of the line manager in people management has been documented and is shortly to be published which includes guidance on engagement. The content of this is being incorporated into the Council's new people management courses.	

## **5 Review of Effectiveness**

- 5.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal controls. The review of effectiveness is informed by the work of the Directors and senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the work of the Head of Internal Audit & Investigation and also by comments made by the external auditors and other independent review agencies and inspectorates.
- 5.2 The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is described below:

### **The Council**

- Monitors performance against corporate strategy objectives by producing an annual report setting an annual budget and medium term financial plan. ;
- Receives an annual budget report which summarises the financial position and the transactions for the year and considers the annual performance plan; and
- Has a Constitution which sets out the decision making processes and structure, delegated authorities, standing orders and financial regulations. These underpin the internal control framework.

### **The Executive**

- Makes key decisions in accordance with the Budget and Policy Framework;
- Conducts joint planning sessions with the Corporate Management Team twice per year to consider the council's policy priorities and its linkages with the medium term financial strategy ; and
- Meets monthly with the Corporate Management Team to develop policy and to receive operational and financial performance information.

### **The Audit Committee**

- Met four times during 2011/12 and has considered the work of Internal Audit during the year, the Head of Internal Audit's annual report and opinion and the External Auditor's annual letter;
- Maintains an overview of the Council's Constitution in respect of contract standing orders and financial regulations;
- Monitors the effective development and operation of risk management and corporate governance in the Council;
- Reviews the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council; and



- Considers the Treasury Management Strategy and the Annual Investment Strategy. It also reviews treasury management activity during the year

#### **The Standards Committee**

- Receives reports from the Council's Monitoring Officer on issues concerning member conduct and would consider reports referred from Ethical Standards Officers or the Monitoring Officer which require investigation and/or determination.

#### **The Call-In Committee**

- Is held if a decision of the Executive is called in for scrutiny.

#### **Overview & Scrutiny Committee**

- There are now five Overview and Scrutiny Committees, which cover:-
  - One Council
  - Budget & Finance
  - Partnership and Place
  - Health Partnerships
  - Children and Families

#### **Audit & Investigations**

- Provide assurance to the Council on operational and financial controls via delivery of an agreed audit plan;
- Produce an Annual Audit Report including the Head of Audit annual opinion on the Council's internal controls; and
- Where identified as a result of audit work, significant internal control weaknesses have been reported to Service Directors and copied to the relevant Service or Corporate Area Director. Recommendations for improvement are made in each report. Each significant audit report is followed up after a suitable period and any failure to implement recommendations is noted and reported back to the relevant director and the Audit Committee.

### **External Audit**

- The Director of Finance & Corporate Services and the Council's external auditors meet on a monthly basis to share information and, as appropriate, raise any concerns regarding the internal control environment. These meetings may become more frequent during the closing of the accounts process when any material weaknesses or issues would be raised.
- 5.3 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## **6 Significant Governance Issues**

- 6.1 Set out below are a number of significant governance issues which have been identified, together with a summary of the actions taken to date, or which are being proposed for 2012/13 to deal with these.
- 6.2 We have included an indication as to the progress made against those issues raised in the 2010/11 Annual Governance Statement.
- The One Council programme has continued to identify, drive and deliver a large proportion of the savings identified during 2011/12 and robust governance arrangements are in place to manage this including a comprehensive reporting pack and a well-resourced Programme Management Office. Delivery against this programme is central to the financial health of the Council and to the delivery of efficient and effective services to the public. This remains a flagship programme and the key area of focus for the Council going into 2012/13 and beyond.
  - One of the key objectives of the One Council programme is the need to achieve significant savings over the period 2010-2014 and future years. In addition to £42m savings made in 2011/12 the Council needs to make further savings of £26m in 2012/13, 75% of which will come from One Council programme initiatives. Since April 2010 588 management posts have been cut from the Council's establishment improving the ratio of managers to staff from less than 1:3 to almost 1:6. This represents a challenge in respect of maintaining service delivery and appropriate spans of control as well as ensuring that managers are managing effectively. Separate to staffing, the Council is also looking at all its services to identify possible further areas for savings. Consultation with residents and all other key stakeholders has been and will continue to be of significant importance during this period as well as ensuring that equalities issues are fully considered and addressed.
  - Based on future projections of funding, further fundamental changes to services are inevitable over the forthcoming years requiring decisions about what the council continues to deliver, what it stops delivering and how it delivers its services. Such significant change requires proper

consultation with stakeholders and full equalities impact analysis and the council is committed to meeting its obligations in this regard. The council has proven robust arrangements in place with regard to policy decision making, equalities assessments and consultation.

- In September 2010, the Council introduced a council-wide single accounting system (Oracle) to replace a multitude of departmentally based financial systems. The change together with the implementation of International Financial Reporting Standards (IFRS) presented a number of problems for the council in respect of financial control and resulted in late publication of the 2010/11 financial statements. . The Council has continued to develop more systematic and detailed process and timetables both in-year and for the 2011/12 closedown process which has resulted both in a much improved process for the preparation of draft accounts and a higher quality set of draft accounts and associated documents for audit.
- The Council has been progressing with the construction of the new civic centre, which is expected to be fully operational by summer 2013. As well as significant financial benefits there are also risks associated with the project, given its scale both in capital terms and in respect of the changes it will bring to ways of working and the rationalisation of the Council's property portfolio. However, as with the One Council programme, there are robust governance arrangements in place to manage this. The new building is expected to be amongst the 'greenest' public building in the UK and is forecast to deliver net savings of at least £3.5m per year by 2015/16 through reduced rental, running and maintenance costs of its estate.
- The provision of school place continues to be a key issue for the Council as the number of young people requiring education in the Borough continues to rise above GLA forecasts and exceeds current capacity. Strategies are being developed to seek to address this and Brent has been the recipient of significant funding under the DfE 'Basic Needs Safety Valve' and other funding streams. This will help mitigate the problem but will fall well short of sums needed to meet total future demand, particularly in the secondary sector..
- Arising from this influx of people is an inevitable rise in the number of children and young people who will be required to be looked after by the local authority through kinship placements, foster carers or residential care. Such provision is expensive and strategies are being developed to ensure that vulnerable young people receive the care they need but in the context of budget constraints.
- The full effects of the Government's Academies and Free Schools Programme are yet to be evaluated. Inevitably, funding to the council to provide services across schools will be effected and this may have an impact upon services available to those schools which remain maintained by the local authority.
- The latest census information indicates that the population served by the council is 58,000 more than is recognised through the Formula Grant process resulting in chronic and ongoing underfunding. Population increases have brought with them a significant rise in demand for all

council services and the chronic underfunding has hindered the council through not having sufficient resources to meet rising needs. The Council will be making full representation to ensure that the true population is properly reflected in future grant calculations and within the revised business rates retention system.

- The impact of a number of reforms to welfare benefits, such as the cap on total benefits received, changes to local housing allowance market rents and reductions in council tax support (the replacement for council tax benefit) are likely to impact more heavily in Brent than in any other London Borough with a consequent impact upon the need for support from various council services, such as temporary accommodation, children's and adult's services. Further, there is likely to be an impact upon council tax collection rates, resulting from changes to client groups and the introduction of direct payments to recipients. .
- Concerns remain regarding the governance arrangements within schools. Action has been taken by the Children and Families Department and the Director of Finance and Corporate Services to address weaknesses in compliance with statutory pay arrangements, the financing of equipment purchases and arrangements to secure value for money in procurement. This has included clear instructions on the application of the statutory pay rules, the entering into of credit arrangements and recruitment supported by the council in the form of improved training for bursars, a review of Governor support and support from the council for legal and procurement services. Furthermore, increased internal audit resource has been directed towards school based audits in 2011/12 and 2012/13.
- Historically, Adult Social Care had had significant difficulties in managing its overall budget. In 2011/12, due to continued transformation work within the department to improve the customer journey, thereby improving service delivery, and a strong management lead and focus on financial management, the budget was brought back into line. Over and above this, under the one council programme, significant savings were also made by the department. Nonetheless significant financial pressures remain resulting from demographic increases in the number of elderly people requiring care and from resident requiring support for learning disabilities.

6.3 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are 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.

6.4 On 7th September 2012, Brent's Chief Executive, Gareth Daniel left the organisation. His departure is not expected to have any material impact on the operations of the Council or its ability to conduct its affairs. Arrangements are in hand to appoint an interim Chief Executive to allow a full recruitment process to take place and in the meantime, Fiona Ledden, Borough Solicitor is undertaking duties normally assigned to the Chief Executive.


Signed: .....

Councillor Muhammed Butt  
Leader of the Council

Fiona Ledden  
Acting Chief Executive

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ITEM NO:

	<p style="text-align: center;"><b>Audit Committee</b> 27 September 2012</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Services</b></p>
For Action	Wards Affected: ALL
<b>STATEMENT OF ACCOUNTS 2011/12 ANNUAL GOVERNANCE REPORTS</b>	

## 1.0 Summary

- 1.1 Under the Council's Constitution, the Audit Committee has responsibility for approving the annual statement of accounts and considering issues raised by the external auditors.
- 1.2 The basis for this consideration is the Annual Governance Report (AGR) which the Council's external auditors, the Audit Commission, produce following completion of the audit of accounts. The report is intended to identify any changes to the accounts, unadjusted mis-statements or material weaknesses in controls identified during the audit work. It also provides the overall value for money conclusion for the year. A separate AGR has been produced for the Pension Fund accounts and this will also be considered by the Pension Fund Sub-Committee.
- 1.3 At the time of writing this report the Audit Commission is in the process of completing the audit of the 2011/12 accounts and the draft AGR for the Council, reflecting the current position, is attached to this report, along with the final AGR for the Pension Fund. Based on the current position the Audit Commission intends to give unqualified opinions on the Council and Pension Fund accounts and a clear value for money conclusion.
- 1.4 Representatives from the Audit Commission will attend the meeting to provide an update on the audit and respond to any matters raised by the Committee.

## 2.0 Recommendations

The Committee is asked to:

- 2.1 Consider the Annual Governance Reports from the Audit Commission and:
  - note the adjustments made to the accounts referred to in those reports
  - approve the letters of representation to the Audit Commission

- agree the Council's response to the action plan

## 2.2 Approve the Statement of Accounts

### 3.0 Detail

#### Statement of Accounts

- 3.1 The process for producing the statement of accounts for 2011/12 has been the subject of regular updates to the Committee. These have set out the progress made against the recommendations contained within the 2010/11 AGR.
- 3.2 On 29 June 2012 The Director of Finance and Corporate Services formally approved the draft Statement of Accounts, in line with the Accounts and Audit Regulations. The audit of accounts commenced in July and the draft AGRs set out the key findings from the Audit Commission's work to date.
- 3.3 Overall, there has been a considerable improvement in the quality of accounts submitted for audit and the supporting working papers. There are, however, further improvements that can be achieved and these are set out within the AGR recommendations. At the time of writing this report the Council's response to the recommendations is being drafted and the proposed response will be provided to the Committee.

#### Publication of Statement of Accounts

- 3.4 The Council is required to publish the 2011/12 accounts by 30 September 2012. The statement of accounts attached to this report incorporates the changes agreed with the Audit Commission to date and it is proposed that this set of accounts, subject to any changes from the completion of the Audit Commission's work, is published on the Council's website.
- 3.5 Once the audit has been completed a Letter of Representation (Appendix 3 of the Annual Governance Report) needs to be signed prior to the Audit Commission issuing an audit opinion.

#### Value for Money

- 3.6 The Audit Commission has reviewed whether the Council has proper arrangements for:
- securing financial resilience; and
  - challenging how it secures economy, efficiency and effectiveness
- 3.7 The AGR confirms that the Audit Commission is satisfied that the Council has appropriate arrangements in place. The detailed findings are set out in Table 2 within the AGR.

### 4.0 Financial Implications



4.1 There have been some adjustments to the Statement of Accounts during the course of the audit but for the most part these are changes to accounting entries in the income and expenditure statement, balance sheet items and notes to the accounts that do not affect the financial position of the Council. However one adjustment improves the level of usable reserves by £152k.

## **5.0 Legal Implications**

5.1 No specific implications.

## **6.0 Diversity Implications**

6.1 No specific implications

## **7.0 Staffing Implications**

7.1 No specific implications.

## **8.0 Background Information**

Accounts and Audit Regulations 2011

Progress reports to Audit Committee – 22 February 2012, 27 June 2012

## **9.0 Contact Officer**

Any person wishing to inspect these documents should contact Max Gray, Finance and Corporate Resources, Room 114, Brent Town Hall, Forty Lane, Wembley, Middlesex HA9 9HD. Tel. 020 8937 1464.

**CLIVE HEAPHY**  
**Director of Finance and Corporate Services**

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# Annual governance report

London Borough of Brent

Audit 2011/12

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# Key messages

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**This report summarises the findings from the 2011/12 audit, which is substantially complete. It includes the messages arising from my audit of the Council's financial statements and the results of the work I have undertaken to assess its arrangements to secure value for money in the use of resources.**

## Financial statements

- Subject to the satisfactory completion of my remaining work, I intend to issue an unqualified audit opinion on the financial statements.
- Management has amended the financial statements for the errors (other than those of a clearly trivial nature) identified during the audit.
- Working papers to support the draft financial statements were presented in a timely manner, and were generally of good quality.
- I am pleased to note that the Council has taken action to address the recommendations in my 2010/11 Annual Governance Report. There has been a significant improvement to the Council's year end financial control and closure process. However, the number of errors, while not fundamental to the main statements within the accounts, remains high and further improvements to closure processes should be made for 2012/13.

## Value for money

- I intend to conclude that the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources.
- The Council demonstrated sound financial management to meet the 2011/12 budget and make the planned contribution of £2.5 million to the General Fund Balance. Looking forward, Members should continue to monitor financial performance closely to ensure the Council achieves its short-and medium-term financial plans and continues to improve its financial resilience in a challenging economic climate.
- The Council should continue to improve arrangements to maintain economy, efficiency and effectiveness through embedding the developments evident in risk management and procurement.

## **Certificate**

- I expect to certify the Council's accounts shortly after giving the opinion to enable completion of my work on the Council's Whole of Governance Accounts return (by 5 October 2012 at the latest).

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## **I ask the Audit Committee to:**

- note the adjustments made to the financial statements as a result of the audit;
- approve the letter of representation (Appendix 3) on behalf of the Council, before I issue my opinion; and
- agree the Council's response to the proposed action plan (Appendix 5).



# Financial statements

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The financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected Members, you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

## Opinion on the financial statements

Subject to satisfactory clearance of my remaining work, I plan to issue an audit report including an unqualified opinion on the financial statements, by 30 September 2012.

Appendix 1 contains a copy of my draft audit report.

The main areas of work to be completed as at 17 September 2012 are:

- completing our review of the Council's Group Accounts
- agreeing the revised Annual Governance Statement
- finalising the audit of creditors
- receipt of the letter of management representation
- audit closure and review processes.

## Uncorrected errors

I did not identify any errors during my audit that management has declined to adjust.

## Corrected errors

I set out below and in Appendix 2 the errors and amendments identified and corrected by management during the audit. One material error was identified during the course of my audit, the details of which are set out below. One non-trivial error produced a change in the Council's financial position, increasing the General Fund Reserve by £152k. Otherwise, the amendments made do not change the Council's overall financial position.

### **Material error: misclassification of Other Housing Services Income and Expenditure**

In the Comprehensive Income and Expenditure Statement (CIES), £84.3 million of income and expenditure was erroneously classified as 'Central Services to the Public' which should have been classified as 'Other Housing Services'. The error occurred during a complex exercise to map codes between service types for the production of the financial statements. The statements have been amended and there is no impact on the total Cost of Services reported in the CIES or the Balance Sheet.

### **Non-trivial errors**

I identified a number of non-trivial errors and amendments during my audit. These are detailed in Appendix 2 and include nine issues which resulted in amendments to the primary statements (Balance Sheet or CIES) with the remainder relating to disclosures in the notes to the financial statements.

## Significant risks and my findings

I reported to you in my 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: Risks and findings

Risk	Finding
<p><b>Closedown arrangements and project management</b></p> <p>The 2010/11 audit was completed two months later than the due date and required substantial inputs from both the finance and audit teams to complete, resulting in additional audit fees.</p> <p>Weak closedown arrangements and poor project management contributed to the delay. If corrective action is not taken quickly and closedown arrangements are not improved, there is a risk of a qualified opinion and additional fees on our 2011/12 audit.</p>	<p>The Council has taken action to address the recommendations in my 2010/11 Annual Governance Report. There has been a significant improvement to the Council's year end financial control and closure processes and I received a complete set of financial statements by the due date. I was provided with good documentation to support the entries in the statements and officers worked well with my audit team to ensure all audit queries were addressed. However, as the number of errors noted in this report indicates, there is scope for further improvements, which will be needed to permit an efficient audit and minimise the risk of additional fees in 2012/13.</p> <p>The preparation (and audit) of Brent's financial statements is a highly complex and technically demanding process. The Council continues to rely on a small number of finance staff who have experience in technical areas such as asset and Private Finance Initiative (PFI) accounting. The Council should be alert to this position and ensure it maintains sufficient capacity to facilitate the efficient preparation of future statements.</p>
<p><b>Valuation of Property, plant and equipment (PPE)</b></p> <p>The valuation of PPE is based on estimation techniques applied by professional valuers and therefore inherently subjective. The Council uses its internal valuer, with support from external valuers, to value PPE.</p> <p>The value of PPE is £1.247 billion and relatively small changes in the assumptions and variables informing the valuation will have a material impact on the financial statements. A small error in the mechanics of valuing</p>	<p>I reviewed management controls over establishing valuations, including arrangements for instructing your valuers.</p> <p>I carried out procedures to allow me to rely on the work of the valuers.</p> <p>I have tested accounting treatments employed within the financial statements.</p> <p>I am satisfied that PPE is fairly presented in the Council's financial statements.</p> <p>My sample testing identified a number of records in the asset register for assets where evidence of existence or ownership could not be found. Officers adjusted the financial statements for the items identified in my sample, however, by extrapolating the error</p>

## Risk

PPE will therefore present a risk of a material error in the financial statements.

## Finding

rate over the population, I estimate as much as £1.8 million of similar redundant records could remain within the register. The financial statements have not been amended in respect of this estimate and I do not intend to qualify the financial statements based on the extrapolation of my sample findings.

I recommend a review of the asset register is carried out before next year to correct for these anomalies.

### IAS19: Defined benefit pension liability

The defined benefit pension liability (IAS19) is a material item in the financial statements which is valued at fair value. The valuation is an estimate and therefore inherently subjective. The Council uses an actuary to determine fair values for IAS19 at year end.

The value of the Council's pension liability is £1.079 billion and relatively small changes in the assumptions and variables informing the actuarial assessment will have a material impact on the financial statements. A small error will therefore present a risk of a material error in the financial statements.

I reviewed management controls over establishing actuarial valuations, including arrangements for instructing your actuary.

I carried out procedures to allow me to rely on the work of the actuary.

I am satisfied that the defined pension liabilities reported in Note 48.2 to the financial statements of £982.3 million (funded) and £97.8million (unfunded) are fairly presented in the Council's financial statements.

### Housing Revenue Account (HRA) reform

The government has reformed local authority housing finance by adopting a self-financing model from 1 April 2012. The Council received a one-off settlement from central government on 28 March 2012 to mitigate its HRA debt. The complexity, magnitude and timing of the HRA reform presents a risk of error in the financial statements.

The Council received a one-off settlement of £198 million to repay HRA debt along with £74 million of associated early retirement costs.

I reviewed management's arrangements for accounting for the HRA self financing settlement payment, and agreed the accounting treatment to CIPFA guidance.

I agreed the settlement payment to the amount specified in the Settlement Payments Determination 2012.

I agreed details of the loan redemption to supporting documentation.

I am satisfied that the Council accounted for these transactions correctly.

## Risk

### Schools – treatment of assets

The governance arrangements in place for different classes of schools are the determining factors in whether they are accounted for within the Council's financial statements or not. This is a key area of judgement for the Council in preparing its financial statements, and recent accounting guidance indicates that Foundation Schools should be excluded from the Council's financial statements.

Given the material values involved and nature of judgements required to determine the accounting treatment, there is a risk of material misstatement.

### Heritage assets

The 2011/12 Code adopts the requirements of Financial Reporting Standard 30: Heritage Assets (FRS 30). As a result, where information on cost or value is available, heritage assets must be reported on the Balance Sheet. Disclosures are required for all heritage assets regardless of whether they are recognised on the Balance Sheet or not. These requirements are a change in accounting policy; consequently there is a risk that the Council may omit material disclosures.

## Finding

The Council reviewed the governance arrangements in accordance with the latest accounting guidance and no longer recognises Foundation Schools within its Balance Sheet. A value of £170 million has been removed from the Balance Sheet and previous year's financial statements adjusted as appropriate. Based on the audit work I have undertaken, I am satisfied that the Council has accounted for Foundation Schools correctly.

I evaluated management's arrangements to identify and account for heritage assets. I checked that the adjustments to the opening balances were completed in line with accounting standards and adequately disclosed in the financial statements.

I am satisfied that appropriate disclosures for heritage assets to the value of £498k have been made.

## Recommendations

- R1** Maintain sufficient capacity in the central finance team to enable the efficient preparation of the financial statements, particularly in technical areas such as asset and PFI accounting.
- R2** Review the asset register prior to the closure of the 2012/13 accounts to remove spurious assets with no evidence of existence or ownership.

## Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as auditor is to consider whether the Council has adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

In its Annual Report to the Audit Committee in July 2012, Internal Audit reported a number of control weaknesses in the Council's material accounting systems, including accounts payable and general ledger. Weaknesses in the financial management and controls of a significant number of schools were also reported. Overall, the report noted an increase in the number of areas where control weaknesses were found. The Council is taking action to address the weaknesses, however, close monitoring is required to ensure that Internal Audit recommendations are implemented on a timely basis and control weaknesses addressed.

I have not identified any other significant internal control weaknesses that that I wish to bring to your attention.

## Recommendation

- R3** Maintain close monitoring arrangements to ensure Internal Audit recommendations are implemented on a timely basis and internal controls are strengthened.

## Other matters

I am required to report significant findings from the audit and other matters that are relevant to your oversight of the Council's financial reporting process including the following:

- qualitative aspects of your accounting practices;
- matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- other audit matters of governance interest.

## Qualitative aspects of accounting practice

### Accounting Policies

The Council's Accounting Policies (paragraph 3.1.2) refer to the approach to component accounting, the concept of which was introduced by the adoption of international accounting standards in 2010/11. This was a prospective change and the Council's disclosed approach is to consider component accounting when buildings are valued or revalued or enhancement expenditure of £250k is spent on them. The Council did not comply with its policy in 2011/12, and while I have established that the financial statements are not materially misrepresented as a result of this omission, the Council should ensure that it complies with its accounting policy in future years.

### Related Parties Statement

The Council is required to disclose transactions with related parties in a note to the financial statements which is an important discipline to demonstrate the highest standards of governance and accountability. I performed a range of procedures to satisfy myself that related party disclosures are in line with the requirements of the Code. The Council's policies require all councillors and senior officers to complete an annual declaration of related party transactions. Declarations were not received from one councillor.

## Anti-fraud and corruption arrangements

The Council maintains a strong anti-fraud culture through internal management arrangements and internal audit. The Council's anti-fraud policy is a comprehensive and informative document detailing the approach to various aspects of fraud and corruption, but it has not been updated since 2008. The Council's stance against the perpetration of fraud or corruption would be reinforced if this document was brought up to date, including the Council's response to new legislation (for example, the Bribery Act 2010) and would gain some profile through being re-issued to all Brent's staff and contractors.

## Correspondence

During the course of the year I received correspondence from councillors and the local public regarding a variety of issues within the borough, including the following matters:

- the Library Transformation Project and its implications for certain libraries;
- planning matters; and
- the Brent Magazine.

I have investigated the issues brought to my attention from the perspective of my role as appointed auditor, which is principally concerned with allegations of fraud, illegality and implications for the Council's arrangements for achieving value for money. I have satisfied myself that the Council has appropriate governance arrangements in place and that these were observed in these areas and hence there is no cause for me to report further on the matters brought to my attention.

## Recommendations

**R4** Make arrangements to comply with the Council's policy on componentisation in future years.

**R5** Continue to improve compliance with accounting disclosure requirements.

**R6** Review and update the Council's Anti-Fraud and Corruption Policy.

## Whole of Government Accounts

Alongside my work on the financial statements, I review the Council's Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office. I am required to report my findings to the National Audit Office by 5 October 2012. My work is currently in progress.

## Exercise of Public Rights and Certification of the Financial Statements

I have not received any questions or objections in relation to the 2011/12 accounts and hence, pending the satisfactory completion of my remaining audit tasks, including the whole of government accounts, I will be able to certify the audit of the Council's financial statements for the year ended 31 March 2012 as closed.



# Value for money

**I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess the Council's arrangements against the two criteria specified by the Commission, as set out in Table 2 below. In my 2011/12 Audit Plan, I reported three significant risks that are relevant to my conclusion. These relate to:

- the challenging savings targets which underpin the Council's short and medium-term financial plans;
- the low level of the Council's General Fund Reserve; and
- the capital programme.

I set out below my conclusion on the two criteria, including the findings from my work addressing the three risks I identified and other matters that have arisen from the work. I make recommendations as appropriate.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion within the Auditor's Report at Appendix 1.

Table 2: Value for money conclusion criteria and my findings

Criteria	Findings
<b>1. Financial resilience</b> The organisation has proper arrangements in place to secure financial resilience. Risks: Building an adequate level of reserves	I assessed the Council's systems and processes for securing financial resilience. My work has in particular considered the Council's arrangements for: <ul style="list-style-type: none"><li>■ budget-monitoring and securing the planned financial outturn for 2011/12; and</li><li>■ budget-setting for 2012/13 and medium-term financial-planning.</li></ul> The Council successfully managed the financial pressures in 2011/12 to deliver its services within the budget and contribute £2.5 million to its General Fund reserve. The Council's overall financial management arrangements were sound. There were no significant departmental overspends and a

substantial savings programme delivered in response to reduced funding from central government.

Current progress against budget in 2012/13 indicates cost pressures of £2.2 million against a budget requirement of £263 million. The Director of Finance is confident that the overspends can be managed overall and is forecasting that the budget will be met.

For 2013/14 and beyond financial projections take into account the local impact of reforms to benefits funding and non-domestic rates. These developments set alongside forecasts of further population increases within Brent are expected to bring more financial pressure to the Council than has previously been experienced. The One Council Programme and other savings initiatives are crucial to the Council's plans to achieve financial balance, and Members should consider carefully the financial implications of any changes made during the 2013/14 budget preparation process.

#### **Reserves**

I reported last year that the Council's general fund reserve was the lowest in London based on CLG figures and the Council has recognised the need to address this in its budget strategy. The Council achieved its 2011/12 plan to increase general fund reserves by £2.5million to £10.2million. The medium term financial strategy shows the Council plans to further increase its reserves by £1m in both 2012/13 and 2013/14, and current projections provided by the Director of Finance indicate that the Council is on track to deliver these increments.

The Director of Finance's assessment of the adequacy of reserves is an important component of future financial decision-making, and the Council should be mindful of ensuring that reserves continue to be built to the levels recommended by that assessment.

#### **Overall assessment**

I am satisfied the Council has proper arrangements in place to secure financial resilience. Nevertheless, the Council needs to continue to respond to the increasing financial constraints and to deliver the planned savings that underpin its financial plans.

## 2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Risks:

Delivering a substantial savings programme

Delivering large capital projects

Other issues considered:

- procurement
- managing education demand
- risk management.

I have assessed the Council's arrangements for prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. My work has in particular considered the Council's arrangements for delivering its savings plans for 2011/12 and the medium term, as well as delivering its capital programme within budget.

### Savings

The Council delivered its savings target of £41.7 million in 2011/12. The One Council Programme (OCP) contributed £29.9 million of these savings, and the Council has revised upwards the savings targets for the OCP to address the financial regime facing local government over the next few years.

The OCP has expanded to 37 projects and the 2012/13 programme is reported to be largely on track (total target for OCP is £34.7million as part of a total savings target of £53.3million). The OCP continues to be closely managed by management and Members.

### Capital Projects

The Council has a significant capital programme with planned expenditure of £137m in 2011/12. Actual expenditure of £124.4 million was within budget. Large schemes such as the Civic Centre and South Kilburn are phased for delivery over a number of years.

Whilst expenditure on South Kilburn was within budget in 2011/12, the Civic Centre expenditure of £34 million required £5 million of expenditure budget to be rephased from 2012/13 to 2011/12, with officers reporting that the rephrasing was due to accelerated progress of scheme delivery. The Council should continue to monitor the delivery of its capital programme to ensure projects deliver value for money.

### Procurement

Last year I reported the need to embed improvements in the Council's procurement arrangements and I noted that this area has remained one of the few red risks within the One Council Programme. The Council has made progress in 2011/12 to improve procurement, by building capacity within its central procurement team. This has given rise to a number of important initiatives which will take time to become embedded, for example the greater use of e-procurement arrangements, improved access to market information and improvements in controls to counter the risk of inefficient procurement. The Council will need to maintain a corporate focus to embed changes in its procurement arrangements and the commitment to ensure the savings associated with improved procurement are realised.

### **Managing education demand**

Brent faces a significant challenge in meeting its statutory duty to ensure all children are educated. The rapid rise in demand for school places in recent years has not been met with a commensurate expansion in provision, with the shortfall felt most critically at reception class age. The Council is particularly vulnerable to pressures brought on by a rapidly rising population and evidence suggests there are also substantial and unpredictable inflows of population bringing demand changes over relatively short periods.

The Council has revisited its strategy regularly in recent years to cope with the increasing demands and is taking actions to address the situation, both short and long-term, through the provision of a range of temporary and permanent expansions (or 'bulge' classes), identifying and seeking funding for future capital outlay, reviewing its asset disposal policy, lobbying government, and building internal capacity to manage the demand.

The key risks of funding and future population projections remain, but taking an overall view, the Council has made progress to cope with the problem of the demand for school places. However, it is clear from recent reports that finding long term solutions will require the Council to consider all options for attracting funding and building educational capacity within the borough.

### **Risk management**

During 2012 the Council overhauled its risk management arrangements and revised and updated risk registers. Corporate and departmental risks were presented to the June Audit Committee. The next stage in implementing the new arrangements is to embed risk assessment within routine management across the Council.

### **Overall assessment**

Overall, I am satisfied that Brent has maintained proper arrangements for challenging how it secures economy, efficiency and effectiveness during 2011/12. The importance of the savings programme is paramount in delivering financial plans and the Council is taking steps to manage the increases in demand-led services emerging from population rises. Progress is being made on procurement and risk management, important corporate elements to securing value for money, and areas where recent advances should be embedded quickly in 2012/13.

## Recommendations

- R7** Continue to manage the financial position closely and build the level of the General Fund reserve.
- R8** Maintain a corporate focus to embed enhancements to its procurement arrangements and the commitment to ensure the savings associated with improved procurement are realised.
- R9** Continue to explore all options to meet the rising demand for school places in the borough.

# Fees

## I reported my planned audit fee in the 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 3: Fees

	Planned fee 2011/12	Expected fee 2011/12
Audit*	£439,200	£439,200
Claims and returns**	£85,000	£85,000
Non-audit work	£0	£0
<b>Total</b>	<b>£524,200</b>	<b>£524,200</b>

\* The fee above is the scale fee and excludes a rebate of £35,136 (8%) which the Audit Commission returned to audited bodies to reflect its own internal efficiency savings.

\*\* Claims certification work is in progress. Pending its completion, I have continued to report the expected fee in line with the planned fee.

# Appendix 1 – Draft independent auditor’s report

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## **Opinion on the Authority financial statements**

I have audited the financial statements of London Borough of Brent for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. 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 2011/12.

This report is made solely to the Members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

## **Respective responsibilities of the Director of Finance and Responsible Financial Officer and auditor**

As explained more fully in the Statement of Responsibilities for the Accounts, the Director of Finance and Responsible Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

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

statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Brent as at 31 March 2012 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 2011/12.

### **Opinion on other matters**

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

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

### **Opinion on the pension fund financial statements**

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.



This report is made solely to the Members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Director of Finance and Responsible Financial Officer and auditor**

As explained more fully in the Statement of Responsibilities for the Accounts, the Director of Finance and Responsible Financial Officer is responsible for the preparation of the Council'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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

### **Respective responsibilities of the Council and auditor**

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.

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

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

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

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

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

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

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

### **Conclusion**

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

## **Certificate**

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Andrea White  
District Auditor

1<sup>st</sup> Floor, Millbank Tower  
Millbank  
London  
SW1P 4HQ

28 September 2012

# Appendix 2 – Corrected errors

Officers amended the draft financial statements to correct for errors other than those matters considered trivial. The table below sets out the amendments of a material and non-trivial nature which affect the CIES and / or the Balance Sheet. The more significant errors in other accounts and disclosure notes are set out below the table. Less significant errors and amendments will be reported to officers in a separate report on completion of the financial accounts audit.

Item of account	Nature of error	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet (BS)	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
<b>Misclassification of income and expenditure in the Comprehensive Income and Expenditure Statement</b>					
Net cost of services: central services to the public	£84,331k of income and expenditure was erroneously coded to central services to the public rather than other housing services. This was due to mistakes made in mapping the general ledger to the accounts structure.	84,331	84,331		
Net cost of services: other housing services	No impact on the Council's financial position.	84,331	84,331		
<b>Misclassification of losses and gains on disposal in the Comprehensive Income and Expenditure Statement</b>					
Net loss on disposal of non-current assets attributed to cost of services (across a variety of service categories)	Gains and Losses on disposal of non-current assets incorrectly included in Net Cost of Services analysis of CIES. Error corrected by moving entries to 'Other Operating Expenditure' (see also Note 9) in CIES.		9,749		
Net loss on disposal of non-current assets attributed to 'Other Operating Expenditure'	No impact on the Council's financial position.		9,749		

Item of account	Nature of error	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet (BS)	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s

### Inconsistencies between the Comprehensive Income and Expenditure Statement and the Housing Revenue Account (HRA)

HRA income	Corresponding entries within Income and Expenditure between the CIES and the HRA were found to be inconsistent necessitating non-trivial amendments to the HRA in order that the two accounts reconcile correctly.	520*	6,184*		
HRA expenditure					
HRA share of operating I&E in CIES		4,918*			
Movement in the HRA statement (MiHRAS)	* Impact is on HRA only, not the CIES. No impact on the HRA's financial position.	746*			

### Errors in Private Finance Initiative (PFI) models

CIES: Other Housing Services	The Council misclassified the different elements of the payment made during the year to its Social Housing PFI operator.	1,404	486		
Financing and Investment Expenditure					
Long term creditors	No impact on the Council's financial position.				2,735
Short term creditors				2,103	
Other long term liabilities: deferred income					286
Movement in Reserves Statement: General Fund					918
Movement in Reserves Statement: Capital Adjustment Account				918	

Item of account	Nature of error	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet (BS)	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
<b>Adjustments relating to foundation school assets</b>					
Loss on disposal of fixed assets	The Council omitted five assets from their review when writing out foundation school assets from the Balance Sheet.	369			
Property, plant and equipment					369
Movement in Reserves Statement: General Fund	No impact on the Council's financial position.	369			
Movement in Reserves Statement: Capital Adjustment Account				369	
<b>Revaluation of investment properties</b>					
CIES: Other Housing Services	The Council accounted for revaluation losses on investment properties (note 14), but did not disclose movements correctly in note 10 (Financing and Investment Expenditure).		240		
Note 10: Financing and Investment Expenditure		240			
	No impact on the Council's financial position.				
<b>PFI: deferred income</b>					
CIES: Other Housing Services	Amortisation of deferred income from the Stonebridge PFI model was not accounted for.		205		
Other long term liabilities: deferred income	No impact on the Council's financial position.				205
Movement in Reserves Statement: General Fund		205			
Movement in Reserves Statement: Capital Adjustment Account					205

Item of account	Nature of error	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet (BS)	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
<b>Capitalisation of Civic Centre expenditure</b>					
Assets under construction	The Council did not capitalise all contract retentions relating to the Civic Centre project.			197	
Short term creditors	No impact on the Council's financial position.				197
<b>Misclassification of intangible assets</b>					
Intangible assets	Misclassification of two items of property, plant and equipment as intangible assets.				190
Property, plant and equipment	No impact on the Council's financial position.			190	
<b>Error in writing out capital grant receipt in advance</b>					
Short term creditors	Council recorded a capital grant receipt in advance in the 2010/11 financial statements. The grant was applied to fund the Council's capital programme during 2011/12, but was not written out of creditor balances.		152		152
Net Cost of Services: Education and Children's Services	This is favourable to the Council's financial position, adding to the General Fund Balance.				

## List of the more significant amendments to other accounts and disclosure notes

A number of amendments were made to other accounts and disclosure notes within the statement of accounts as a result of the audit. The more significant ones are set out below:

- total future payments to be made under PFI schemes were understated in note 43 by £34,458k, due to the incorrect model being used in calculations, and the impact of amendments to the Housing PFI model;
- corrections to Note 39 to add Section 106 contributions (£5,385k) and grants relating to foundation schools (£12,447k) and to remove four non-ring fenced grants (£25,568k) that were included in Note 11;
- amounts in the Council's financial instruments note 16 for current investments and current debtors were inconsistent with disclosures elsewhere in the statements;
- amendments within Note 23 were made to disclose more clearly amounts used in year (£2,324k) and additional provisions made (£3,089k) with respect to Compensation Claims; the overall movement in Provisions and year end balance remains unchanged;
- Note 12 (movements in balances: 2011/12 property, plant and equipment for council dwellings) has been revised to account for amendments in respect of accumulated depreciation (£36,946k);
- in-year movements in balances for non-operational HRA assets (including revaluations of £3,478k) were not reported in note 3a to the HRA;
- note 8a to the HRA on funding of HRA capital expenditure was revised due to errors in preparation. The largest error in the note was £312k on funding by external grants;
- note 8b to the HRA on HRA capital receipts was revised due to errors in preparation. Receipts revised downwards by £1,875k;
- exit package disclosure in note 36 did not include staff for housing. Amounts disclosed were amended from £3,738k to £4,366k;
- in note 22 (creditors), balances relating to local authorities were understated by £1,378k, and balances relating to other entities overstated by the same amount;
- a number of amendments have been made to note 29 (reconciliation to subjective analysis – 2010/11 comparative figures) as this note was inconsistent with the 2010/11 analysis between directorates, which was presented correctly; and
- the year end balance on PFI assets disclosed in note 12 was overstated by £190k. This error relates only to disclosure, and is carried forward from the prior year.

None of these issues had an impact on the Council's financial position.



# Appendix 3 – Draft letter of management representation

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## London Borough of Brent - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the London Borough of Brent, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012 and the associated financial statements of its pension fund.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

### **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware.

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

#### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

#### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For the accounting estimates included within the financial statements, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimates are complete and appropriate under the Code; and
- that no subsequent event requires the Council to adjust the accounting estimate and related disclosures included in the financial statements.

#### **Related party transactions**

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

**Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of the London Borough of Brent

I confirm that the this letter has been discussed and agreed by the Audit Committee on 27 September 2012

Signed.....

Signed.....

Signed.....

Name:

Name: Clive Heaphy

Name: Stephen Wood

Position: Chief Executive

Position: Section 151 Officer

Position: Chair of the Audit Committee

Date:.....

# Appendix 4 – Glossary

---

## **Annual Audit Letter**

Letter issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues the opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Council's systems of internal control that supports the achievement of policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Internal control**

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements. In the case of Brent we applied a materiality of £9.118 million.

### **Significance**

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Council. This term includes the Members of the Council and its Audit Committee.

### **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

# Appendix 5 – Action plan

**Note: Officers are preparing a complete Action Plan to be tabled at the Audit Committee on 27 September**

## Recommendations

### Recommendation 1

Maintain sufficient capacity in the central finance team to enable the efficient preparation of the financial statements, particularly in technical areas such as asset and PFI accounting.

#### Responsibility

Priority High

#### Date

#### Comments

### Recommendation 2

Review the asset register prior to the closure of the 2012/13 accounts to remove spurious assets with no evidence of existence or ownership.

#### Responsibility

Priority Medium

#### Date

#### Comments

**Recommendation 3**

Maintain close monitoring arrangements to ensure Internal Audit recommendations are implemented on a timely basis and internal controls are strengthened.

**Responsibility**

**Priority** Medium

**Date****Comments****Recommendation 4**

Make arrangements to comply with the Council's policy on componentisation in future years.

**Responsibility**

**Priority** Medium

**Date****Comments****Recommendation 5**

Continue to improve compliance with accounting disclosure requirements.

**Responsibility**

**Priority** Medium

**Date****Comments**



**Recommendation 6**

Review and update the Council's Anti-Fraud and Corruption Policy.

**Responsibility**

**Priority** Medium

**Date**

**Comments****Recommendation 7**

Continue to manage the financial position closely and build the level of the General Fund reserve.

**Responsibility**

**Priority** High

**Date**

**Comments****Recommendation 8**

Maintain a corporate focus to embed enhancements to its procurement arrangements and the commitment to ensure the savings associated with improved procurement are realised.

**Responsibility**

**Priority** High

**Date**

**Comments**

**Recommendation 9**

Continue to explore all options to meet the rising demand for school places in the borough.

**Responsibility**

**Priority** High

**Date**

**Comments****Recommendation 10**

Continue to embed the risk management arrangements, including undertaking regular reviews of departmental risk registers and relating mitigating actions to operational and financial plans.

**Responsibility**

**Priority** High

**Date**

**Comments**

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to Members and officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any Member or officer in their individual capacity; or
- any third party.



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# Annual governance

## report

Brent Pension Fund

Audit 2011/12



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# Key messages

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**This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.**

## **Financial statements**

Subject to the completion of my final review and closure procedures, as at 30 August 2012, I expect to issue an unqualified audit opinion on the Council's pension fund statements by 30 September 2012. The accounts were completed by the due date and were supported by good supporting working papers and audit trails. During the course of my audit I identified an internal control weakness over general ledger journals that I wish to bring to your attention. I have also identified that year end procedures could be strengthened to help mitigate against the knowledge of the pension fund being overly concentrated in one officer.

## **Annual Report**

I have reviewed the financial statements included in the annual report prepared by the Fund and confirm they are consistent with the pension fund statements I have audited. I expect to issue my report on the financial statements included in the Annual Report by 30 September 2012.

## **Closing remarks**

Despite the internal control issues identified, there were a limited number of errors and queries raised during the course in my audit which reflects a good standard of working papers supporting the accounts and a good working relationship between officers and my audit team. I would like to thank officers for their help and support throughout the audit.

# Before I give my opinion

---

**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me that I am required by auditing and ethical standards to report to you.

## **Next steps**

I ask the Audit Committee to approve the letter of representation (Appendix 2), for the Pension Fund before I issue my opinion.



# Financial statements

---

**The Pension Fund’s financial statements are an important means for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.**

## **Opinion on the financial statements**

My audit is substantially complete. I plan to issue my audit report, including an unqualified opinion on the pension fund financial statements by 30 September 2012. My opinion on the pension fund statements will be contained within my report and opinion on the Council’s main financial statements. I also plan to issue an unqualified opinion on the financial statements included within the Pension Fund Annual Report. Appendix 1 contains copies of my draft audit reports.

## **Errors in the draft financial statements**

During my audit I identified a few errors that management agreed to correct. These matters, individually and collectively, are not material and resulted in a change to the classification of debtors, and a change in the value of investments. These errors result in the net assets of the fund being reduced by £294,281, and the revenue position of the fund being increased by £2,800. This low level of errors shows a good quality accounts preparation. I identified no non-trivial errors that management declined to amend.

## **Significant risks and my findings**

I reported to you in my February 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In July 2012 I updated the Audit Committee on a further significant risk that arose during my continuing planning. In Table 1 below I report to you my findings against all of these risks.

Table 1: Risks and findings

Risk	Finding
<p><b>Fair value of unquoted investments</b></p> <p>The Pension Fund holds a material value of unquoted investments. Unquoted investments include private equity, hedge funds and fund of funds. Underlying investments can be complex or illiquid investments, and their valuation may include the use of estimates or a management expert. Given the volatility in financial markets valuing unquoted investments is a risk.</p>	<p>I reviewed the Fund's arrangements for gaining valuations for its unquoted investments.</p> <p>I received year-end reports from the investments' fund managers alongside audited accounts (where available) and reports prepared by the fund managers' external auditors on their internal controls (known as SAS70 reports).</p> <p>I carried out procedures to confirm that I was able to draw assurance from the work of other auditors.</p> <p>The audited accounts and control reports identified no significant weaknesses within the fund managers' operations.</p> <p>I am satisfied the Fund has fairly stated its unquoted investments and have no matters to report.</p>
<p><b>IAS19: Defined benefit pension liability</b></p> <p>The defined benefit pension liability (IAS19) is a material item in the financial statements. It is valued at fair value, represented by the obligation for future pensions offset by the value of investments held. The valuation is an estimate, therefore inherently subjective. An actuary is used to determine fair values for IAS19 at year end.</p> <p>Given the significant monetary values, even relatively modest changes in the assumptions and variables informing the valuation can have a material impact on the financial statements. Therefore, there is a risk of a material error due to the size and nature of the values presented for IAS19.</p>	<p>I reviewed the Fund's arrangements and controls over establishing the liability, including arrangements for instructing the actuary and providing relevant information.</p> <p>I reviewed the key assumptions made by the actuary in forming the liability valuation, in doing so relying on information provided by my own actuarial expert (PWC).</p> <p>I confirmed the report of the actuary to underlying data and the Fund's financial statements.</p> <p>Based on the work completed, I am satisfied the Fund has fairly stated its defined benefit pension liability and have no matters to report.</p>
<p><b>Transfer of pensions administrator during 2011/12</b></p> <p>The pension fund administrator changed in October 2011 from the London Pension Fund Authority (LPFA) to Capita. The pension fund</p>	<p>I reviewed and tested management arrangements and controls over the data transfer from LPFA to Capita. I received and reviewed a report by Capita's auditors on their internal controls (a SAS70 report). I carried out</p>

## Risk

administrator calculates the value of pension benefits and processes all pension contributions made. If this data did not transfer correctly from the LPFA to Capita, then there is a risk this could result in a material error in the benefits or contributions balances.

## Finding

procedures to confirm I could draw assurance from the work of Capita's auditor.  
I performed tests of detail on pension benefits and contributions.  
Based on the work completed, I am satisfied the Fund's data transferred accurately between administrators and have no matters to report.

## Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to oversee their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have identified one weaknesses in internal control that I wish to bring to your attention;

- Controls over journals were found to not be operating effectively throughout the full financial year. Out of a sample of 20 journals tested by Internal Audit during the year, 4 were both prepared and authorised by the same officer. This raises the risk that erroneous or unauthorised amounts can be input into the general ledger. This weakness was reported in an Internal Audit report to the Audit Committee on 27 June 2012. As a result, I carried out detailed testing on all material year end journals to obtain sufficient assurance over their validity.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to communicate to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

During the course of my audit it became apparent that the knowledge of the fund and its investments was largely concentrated in one key member of staff, the former Head of Exchequer who has now retired. Other pension fund staff lacked sufficient overall knowledge and understanding of the Council's investments and how they are reflected in the accounts to answer audit queries quickly and efficiently. Consequently, the completion of the audit took longer than anticipated.

**R1** Document year end procedures required to reflect investments in the Council's pension fund accounts.

I have no other matters I wish to report.

### **Pension Fund Annual Report**

The Pension Fund prepared its Annual Report in line with the accounts deadline. I have my reviewed this and can confirm financial statements within the Annual Report are consistent with the Statements that I have audited. I expect to report on the financial statements included in the Annual Report by 30 September 2012.

### **Fees**

I reported my planned audit fee of £35,000 in my February 2012 Audit Plan. The Audit Commission has paid the Council a rebate of £2,800 to reflect its internal efficiency savings, reducing the net amount payable to the Audit Commission to £32,200.

I will complete the audit within this planned fee.

# Appendix 1 – Draft independent auditor’s reports

---

## **Report on the Pension Fund financial statements included within the Authority’s statement of accounts**

### **Opinion on the pension fund financial statements**

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Director of Finance and Corporate Services and auditor**

As explained more fully in the Statement of the Director of Finance and Corporate Services’ Responsibilities, the Director of Finance and Corporate Services 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

accounting estimates made by the Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the pension fund's financial statements:

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

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Andrea White  
District Auditor

Audit Commission  
1<sup>st</sup> Floor, Millbank Tower  
Millbank  
London  
SW1P 4HQ

[XXDate]

## **Report on the Pension Fund financial statements published with the Pension Fund Annual Report**

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

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Director of Finance and Corporate Services and auditor**

As explained more fully in the Statement of the Director of Finance and Corporate Services' Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In my opinion the pension fund's financial statements:

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

### **Opinion on other matters**

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Andrea White  
District Auditor  
Audit Commission  
1<sup>st</sup> Floor, Millbank Tower  
Millbank  
London  
SW1P 4HQ  
[XXXDate]



# Appendix 2 – Draft letter of management representation

---

## **Brent Pension Fund - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and

- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of the Pension Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Brent Pension Fund

I confirm that the this letter has been discussed and agreed by the Audit Committee on XXXXDATE

Signed

Name

Position

Date

# Appendix 3 – Glossary

---

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Internal control**

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

## **Pension Fund Annual Report**

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

## **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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# LONDON BOROUGH OF BRENT

## STATEMENT OF ACCOUNTS

### 2011/12

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## INTRODUCTION BY THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

Brent's annual accounts show the financial performance of the Council for the year 2011/12. They present the financial position of the Council on 31<sup>st</sup> March 2012 and its income and expenditure for the year ending on that date.

It is intended that these accounts will provide a useful and important source of financial information for the community, Council Members and other interested parties. The Explanatory Foreword on the next few pages gives a brief summary of the Council's financial position in 2011/12.

I should also like to thank my staff and colleagues throughout the Council for their hard work and support during the year.

Date: .....

.....  
CLIVE HEAPHY

Director of Finance and Corporate Services



## EXPLANATORY FOREWORD

### 1. INTRODUCTION

The accounts for the year 2011/12 consist of:

**Statement of Accounting Policies** - This explains the basis of the figures in the accounts. The accounts can be properly appreciated only if the policies which have been followed in dealing with material items are explained.

#### CORE FINANCIAL STATEMENTS

**Movement in Reserves Statement (MiRS)** - This splits reserves into usable and unusable usable reserves including General fund balances.

**Comprehensive Income and Expenditure Statement** – This shows the accounting costs of providing services. This may be different to the amount raised from taxation in accordance with regulations. Differences are shown in the MiRS.

**Balance Sheet** - This is fundamental to the understanding of the Council's year-end financial position. It shows the balances and reserves at the Council's disposal and its long term indebtedness, the net current assets employed in its operations, and summarised information on the long term assets held. It excludes the Pension Fund.

**Cash Flow Statement** - This summarises the inflows and outflows of cash arising from transactions with third parties.

#### SUPPLEMENTARY FINANCIAL STATEMENTS

**Housing Revenue Account** - This reflects a statutory obligation to account separately for the Council's housing provision. It shows the major elements of housing expenditure and income.

**Collection Fund** - The Collection Fund accounts independently for income related to Council Tax and Non-Domestic Rates on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised.

**Group Accounts** - In line with accounting requirements, group accounts are shown for Brent and its subsidiary Brent Housing Partnership (BHP).

**Pension Fund** - The Pension Fund is separately managed by Brent and the Fund's accounts are separate from the Council's accounts.

The accounts have been produced in line with the requirements of the 2011 Accounts and Audit Regulations, the 2011/12 Code of Practice on Local Council Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Audit Commission Act 1998, except where specifically stated in the Statement of Accounting Policies.

## 2. GENERAL FUND REVENUE SPENDING IN 2011/12

The Council had an underspend of £241k on its 2011/12 revenue budget. The budget approved by the Council in February 2011 included £41.7 million of savings to keep within the lower spending allocations set by central government and deliver a freeze in Council tax.

The majority of savings were delivered through the One Council Programme, the Council's approach to improving services and efficiency. The medium term outlook for local government funding continues to be difficult and it is clear that the Council will need to continue to scrutinise how it provides services in the future to manage the challenge in a planned and structured manner.

The 2011/12 accounts include a significant one-off item relating to the establishment of self-financing of the Housing Revenue Account with effect from April 2012. In place of an annual subsidy the Government made a one-off repayment of debt £198 million on behalf of the Council on 28 March 2012 along with £74 million of associated early repayment costs.

### 2011/12 BUDGET COMPARED WITH OUTTURN

	Latest Budget £'000	Outturn £'000	Variance £'000
<b>Service Area Budgets</b>			
Adult Social Services	88,949	88,949	0
Children & Families	53,115	53,115	0
Environment & Neighbourhood Services	36,596	36,648	52
Regeneration & Major Projects			
Non Housing	13,919	12,168	(1,751)
Housing	20,077	20,921	844
<b>Corporate</b>			
Chief Executives	704	487	(217)
Customer & Community Engagement	3,611	3,578	(33)
Legal & Procurement	1,192	1,244	52
Strategy Partnership & Improvement	4,726	4,554	(172)
Finance & Corporate Services	21,125	21,150	25
<b>Service Total</b>	<b>244,014</b>	<b>242,814</b>	<b>(1,200)</b>
Central Budgets	21,375	22,334	959
<b>Net Cost of General Fund Services</b>	<b>265,389</b>	<b>265,148</b>	<b>(241)</b>
Contribution to/(from) General Fund Balances	2,500	2,741	241
<b>Budget Requirement</b>	<b>267,889</b>	<b>267,889</b>	<b>0</b>
<b>Financed By:</b>			
Formula Grant	165,911	165,911	0
Council Tax Income	102,984	102,984	0
Surplus/(Deficit) on Collection Fund	(1,006)	(1,006)	0
<b>Total</b>	<b>267,889</b>	<b>267,889</b>	<b>0</b>

## Explanation of Major Variances 2011/12

	(Under)/Overspending	
	£'000	£'000
<b>Adult Social Services</b>		
Learning Disability - Transitions	580	
Older Peoples - Homecare	795	
Older Peoples - NHS contributions to residential & nursing care	(611)	
Day Services - staff costs	238	
Day Services - transport and other recharges	899	
Client Services - staff underspend	(170)	
Client Services - HIV grant spend	(350)	
Mental Health Commissioning	(162)	
Use of PCT contributions to purchasing and JET monies	(1,125)	
Mental Health - NHS contributions to residential & nursing care	(311)	
Mental Health - loss of income Section 117 clients	200	
Physical Disabilities - Telecare contract pressures	241	
Physical Disabilities - supported and other accommodation costs	196	
Physical Disabilities - Homecare reduction hours	(171)	
Physical Disabilities - additional income drugs and alcohol services	(226)	
Other	(23)	
	0	0
<b>Children &amp; Families</b>		
Special Education Needs (SEN) - increases in statements	1,221	
SEN Assessment Service - additional recruitment income	(223)	
School Improvements Service - Standards Fund Income	(1,094)	
Social Care Legal Costs	184	
Social Care Management - running costs	(400)	
Purchasing/Placements/Safeguarding costs	770	
Placements Service	234	
Early Years Including Children's Centres	(969)	
Connexions & Youth Service	(262)	
Delayed Closure of Crawford Avenue	217	
Central Support - agency and consultants	137	
Social Care Locality Teams - monies earmarked to reserves	243	
Business Support - bad debt provision	272	
Children with Disabilities/Directors Office/Youth Offending Team/Partnership Budgets - various underspends	(255)	
Other	(75)	
	0	0

	<b>(Under)/Overspending</b>	
	<b>£'000</b>	<b>£'000</b>
<b>Environment &amp; Neighbourhood</b>		
Parks and Cemeteries	(183)	
Libraries, Arts and Heritage costs	416	
Transportation - staff vacancies and NRASWA income	(662)	
Sports & Community Facilities	(109)	
Emergency Planning	198	
Waste & Recycling	591	
Safer Streets	551	
Transport Services	(759)	
Business Support	(118)	
Directorate - Accommodation & staffing	82	
Other	45	
	<hr/>	52
<b>Regeneration &amp; Major Projects</b>		
<b>Housing</b>		
Housing Solutions - staff vacancies	(95)	
Supporting People - reduced contract costs	(170)	
General Fund contribution to landlord communal services	230	
Housing Resource Centre - Staff costs	(300)	
Temporary Accommodation - payments to Housing Associations	210	
Temporary Accommodation - monies earmarked for costs of benefit caps	1,000	
Other	(31)	
	<hr/>	844
<b>Non Housing</b>		
Directorate & Business Support - lower spend on Wembley Works	(736)	
Planning & Building Control - Shortfall in income and monies set aside for planning inquiries	248	
Major Projects - slippage in projects	(1,335)	
Other	72	
	<hr/>	(1,751)

	(Under)/Overspending	
	£'000	£'000
<b>Corporate</b>		
<b>Chief Executives Office</b>		
Underspend on performance fund	(200)	
Other	<u>(17)</u>	(217)
<b>Customer &amp; Community Engagement</b>		
Registration & Nationality Service	(106)	
Print Shop - Income Shortfall	93	
Other	<u>(21)</u>	(34)
<b>Legal &amp; Procurement</b>		
Procurement - staffing costs	166	
Legal & democratic services - additional income and staff costs	(110)	
Other	<u>(3)</u>	53
<b>Strategy, Partnerships &amp; Improvement</b>		
Programme Management Office - staffing	(99)	
Monies earmarked for projects - 2012/13	246	
Environment Policy - land charge income/grant income / staff costs	(267)	
Other	<u>(52)</u>	(172)
<b>Finance &amp; Corporate Services</b>		
Information Technology - termination of photocopier leases	668	
Customer Services - central item income	(280)	
Customer Services - operational savings following restructure	(459)	
Audit - staff vacancies	(123)	
People & Development - training, recruitment costs, staff costs and overachievement of school income	(500)	
Financial Services - write off of Council wide debt and balance sheet review	<u>719</u>	25

	<b>(Under)/Overspending</b>	
	<b>£'000</b>	<b>£'000</b>
<b>Central Items</b>		
Capital Financing & Other Charges	(2,055)	
One Council Programme - shortfall in procurement targets	641	
Remuneration Strategy	(229)	
Redundancy & Restructuring - capitalised costs	(2,047)	
Inflation Provision	(220)	
Centrally Held Cost Pressures - lower temporary accommodation costs	(500)	
Transformation enabling fund	2,702	
Employment Initiatives enabling fund	3,000	
PFI contract payments - Willesden Sports Centre	502	
Legal Costs	297	
Central bad debt	455	
Other provisions	272	
Community Safety - grant funding	(354)	
NNDR Revaluations	(488)	
Insurance - operational balances	(958)	
Other	(59)	
	<u>          </u>	959
<b>Total</b>		<b>(241)</b>

### 3. Capital Expenditure – Disclosure

The Councils in-year expenditure in 2011/12 was £124.423m (2010/11 £114.245m). The Expenditure was within the definition of capital expenditure within the Local Government and Housing Act 1989.

Capital expenditure has been financed from the following sources:

Funding Source	2011/12 £000
Borrowing	48,518
Grants	49,998
Capital Receipts	10,080
Major Repairs Reserve	3,575
General Fund Contributions	9,030
HRA Contributions	3,222
<b>Total</b>	<b>124,423</b>

Capital Projects and other significant capital expenditure in excess of £500k during the year were as follows:

Scheme	2011/12 £000
Council Housing	10,835
Housing Renovation Grants	4,169
Civic Centre	34,042
South Kilburn Regeneration	7,189
Roundwood Youth Centre	3,102
Devolved Formula	1,201
Academies Programme	6,149
Schools Asset Management Plan	1,310
Primary Capital Programme	4,103
School Expansions	17,871
SEN Schools	7,935
School's Capitalised Expenditure	3,377
Priority Backlog Repairs to Operational Buildings	917
Transportation	4,179
Access Corridors	593
Pavements and Roads	5,063
Purchase of Waste Caddies and Kerbside Containers	1,830
Contaminated Land	795
Sports Strategy	550
ICT Schemes	1,780
Redundancy	2,358

Capital Expenditure incurred by Service Departments in 2011/12 is summarised below:

Department	2011/12 Programme £000	2011/12 Out-turn £000	2011/12 Variation £000
Regeneration and Major Projects	119,335	90,059	(29,276)
Environment and Neighbourhoods	14,199	14,368	169
Adult Social Care	1,200	300	(900)
Housing	19,814	15,153	(4,661)
Corporate	1,926	4,545	2,619
<b>Total</b>	<b>156,474</b>	<b>124,425</b>	<b>(32,049)</b>

Outstanding capital commitments at 31<sup>st</sup> March 2012 amounted to £16.970m and are shown below:

Department	2011/12 £000
<b>Major Projects and Regeneration</b>	
Civic Centre	4,541
Schools	7,821
Youth and Children Centres	1,718
South Kilburn Regeneration	1,706
Corporate Property	328
<b>Environment and Neighbourhoods</b>	
Pavements and Roads	446
Parks and Cemeteries	6
<b>Adult Social Care</b>	
Upgrade work to dwellings	404
<b>Total</b>	<b>16,970</b>

In addition to the above, the Council has the following capital commitments to existing schemes that extend beyond the 2012/13 Financial Year:

Department	2012/13 and Future Years £000
Major Projects and Regeneration	
Civic Centre	59,370
South Kilburn Regeneration Area	55,327
Crest Academies	32,776
<b>Total</b>	<b>147,473</b>



## **Borrowing/Investments**

During 2011/12 the Council's net borrowing (gross borrowing less investments) fell by £210m. This was largely due to the repayment of £198m of housing debt by central government but also resulted from a combination of increased borrowing to fund the capital programme and repayment of debt by the Council. Reduced interest rates on recent borrowing meant that interest payable by the Council reduced from £29.734m in 2010/11 to £28.586m in 2011/12. Interest receivable by the Council fell from £0.974m in 2010/11 to £0.275m in 2011/12.

As set out in the Notes to the Balance Sheet (Note 16) £15m has been deposited with Icelandic banks that have gone into administration. It is anticipated that at least £13m will be recovered over the period to 2013.

The Council's borrowing is governed by a Prudential Code, under which the Council adopts a borrowing limit and restrictions on the types and pattern of debt in order to ensure that financing costs are sustainably affordable and the risk of unexpected costs is minimised. The limit was £850m for 2011/12 and the Council complied with this and the other limits established.

### **4. PENSION FUND DEFICIT**

The pension fund deficit is a long term liability payable over the next ninety years. It is planned that the deficit will be eliminated over the next 25 years through a combination of investment returns and additional payments by Brent Council. Further information is shown in Note 48 to the Core Financial Statements.

### **5. HOUSING REVENUE ACCOUNT (HRA)**

The Council originally budgeted for a carried forward surplus of £400k after a net transfer to earmarked reserves. It was reported to members, as part of the Housing Revenue Account (HRA) budget report for 2012/13 in February 2012 that the carried forward surplus for 2011/12 would be £696k, which is £296k more than the originally budgeted amount. The final accounts show a carried forward surplus of £2.268m, which is £1.572m more than the revised budgeted forward surplus for the year.

The main reasons were favourable variances on BHP's repairs and maintenance budget (£695k), rent and rates (£189k), capital interest charges (£237k) though this was partly offset by lower HRA subsidy (£76k), higher levels of income from commercial properties and telecom equipment (£153k), a one off reduction in provision for bad debts (£240k) and higher HRA balances brought forward from 2010/11 of £532k. This was offset by special service costs predominantly utility and communal costs (£377k).

**6. SIGNIFICANT CHANGES FROM LAST YEAR'S ACCOUNTS**

Financial Reporting Standard (FRS) 30 has changed requirements about heritage assets for the 2011/12 audited accounts. A tangible heritage asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets are recognised as a separate class of assets for the first time in the 2011/12 statement of accounts.

Latest advice from CIPFA and legislative changes has altered the treatment of Foundation Schools non-current assets. They are no longer shown on Brent's Balance Sheet at 31.03.12 and previous accounts have been amended as a prior period adjustment.

**7. FURTHER INFORMATION**

Further information on these accounts may be obtained by writing to the Director of Finance and Corporate Services, Room 114, Brent Town Hall, Wembley HA9 9HD or by e-mail from [abigail.hunt@brent.gov.uk](mailto:abigail.hunt@brent.gov.uk).

**8. GLOSSARY**

In the accounts which follow some technical accounting terms are used. Whenever possible, these are explained at the appropriate places in the accounts. However, if further information is needed please see the glossary of terms at the end of the accounts.

[TO FOLLOW]

**INDEPENDENT AUDITOR'S REPORT (Continued)**

**INDEPENDENT AUDITOR'S REPORT (Continued)**

**INDEPENDENT AUDITOR'S REPORT (Continued)**

**INDEPENDENT AUDITOR'S REPORT (Continued)**

Andrea White  
District Auditor  
Audit Commission  
1st Floor, Millbank Tower  
Millbank  
London  
SW1P 4HQ

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### THE COUNCIL'S RESPONSIBILITIES

The Council is required:

- ◆ to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance and Corporate Services;
- ◆ to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- ◆ to approve the Statement of Accounts.

### THE RESPONSIBILITIES OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

The Director of Finance and Corporate Services is responsible for the preparation of the Council's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Council Accounting in Great Britain ('the Code of Practice'), is required to present fairly the financial position of the Council at the Accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2012.

In preparing this statement of accounts, the Director of Finance and Corporate Services has:

- ◆ selected suitable accounting policies and then applied them consistently;
- ◆ made judgements and estimates that were reasonable and prudent;
- ◆ complied with the Code of Practice.
- ◆ kept proper accounting records which were up to date;
- ◆ taken reasonable steps for the prevention and detection of fraud and other irregularities.

Date: .....

.....  
CLIVE HEAPHY

Director of Finance and Corporate Services





## **STATEMENT OF ACCOUNTING POLICIES**

### **1. Code of Practice**

The general policies adopted in preparing these accounts are in accordance with the 2011-12 Code of Practice on Local Council Accounting in the United Kingdom issued by the Chartered Institute of Public Finance Accountants (CIPFA) - Statement of Recommended Practice (SORP), henceforth referred to as the "Code of Practice". This Code of Practice is based upon International Financial Reporting Standards (IFRS), with some adoptions from International Public Sector Accounting Standards (IPSAS).

### **2. Comprehensive Income and Expenditure Statement**

#### **2.1 Accruals of Expenditure and Income**

The Statement of Accounts is prepared on an accruals basis set out in the International Accounting Standards Board Framework, with the effects of transactions and other events are recognised when they occur, and recorded in the accounting records and reported in the financial statements of the periods to which they relate. This informs users of the accounts not only of past events, but of future obligation to transfer funds and future rights to receive income.

The exception to this is the Cash Flow Statement, which shows the Council's cash flow as required by the Code of Practice, using International Accounting Standard (IAS) 7.

#### **2.2 Revenue Recognition**

Revenue is recognised in line with the Code of Practice and IAS 18.

#### **2.3 VAT**

Income and expenditure accounts are VAT exclusive, unless VAT is irrecoverable, in which case it is included.

#### **2.4 Revenue Government and Non-Government Grants**

Grants are accounted for in line with the Code of Practice. Grants are immediately recognised where the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received.

#### **2.5 Charges to Revenue**

External interest payable and the provision for depreciation are charged to the surplus or deficit on provision of services section of the Comprehensive Income and Expenditure Statement. This results in a charge to the General Fund for depreciation for all fixed assets used in the provision of services. The charge is allocated to each individual service on the basis of the capital employed in its provision. Depreciation charges are reversed out of the General Fund in the Movement in Reserves Statement.

The charge made to the HRA is calculated on the basis determined by the Local Government and Housing Act 1989.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to earmarked reserves are disclosed in the Movement in Reserves Statement and the notes to this statement.

## **2.6 Council Tax and National Non Domestic Rates (NNDR)**

Council Tax included in the Income and Expenditure (I and E) account is Brent's accrued income for the year. The collection of Council Tax on behalf of the Greater London Council (GLA) is in substance an agency arrangement so these amounts are shown in the surplus or deficit on provision of services section of the Comprehensive Income and Expenditure Statement. There will be a debtor / creditor position between Brent and the GLA to be recognised in Brent's balance sheet if the net cash paid to the GLA is not exactly its share of cash collected from Council Taxpayers. In this case, Brent's accrued income will be shown in the taxation and non-specific grant section of the Comprehensive Income and Expenditure Statement. The 'Revenue Activities' section of the cash flow statement only includes Brent's share of Council Tax cash collected during the year.

Brent collects NNDR under what is in substance an agency arrangement with the Government. Consequently NNDR income is not recognised in the surplus or deficit on provision of services section of the Comprehensive Income and Expenditure Statement. Similarly NNDR debtor and creditor balances with taxpayers are not recognised in Brent's balance sheet. In addition cash collected from NNDR taxpayers by Brent is collected for the Government so is not included in Brent's cash flow statement. Brent's accrued income from the distribution of NNDR will be shown in the taxation and non-specific grant section of the Comprehensive Income and Expenditure Statement.

## **2.7 Area Based Grant**

Area Based Grant is a general grant allocated by central government directly to local authorities as additional revenue funding. Local authorities are free to use it as they see fit – it is not ring fenced. Area Based Grant is disclosed with the taxation and non-specific grant section of the Comprehensive Income and Expenditure Statement.

## **2.8 Overheads/Cost of Support Services**

The full costs of support services (also known as overheads) have been charged to services in the Comprehensive Income and Expenditure Statement in accordance with CIPFA's 'Service Reporting Code of Practice'. Charges have been made on a variety of bases. Appropriate statistics have been used, for example, Human Resources charges were based on staff numbers.

## **2.9 Foreign Currency Transactions**

Transactions in foreign currencies are accounted for in Sterling at the rate ruling on the date of the transactions. The Pension Fund accounting policies deal with the only foreign currency dominated assets disclosed on the balance sheet.

## **2.10 Accounting for the costs of the carbon reduction commitment scheme**

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

## **2.11 Exceptional items and prior period adjustments**

These will be disclosed in line with the Code of Practice.

## **2.12 Events after the balance sheet date**

These will be disclosed in line with the Code of Practice.

### **3. Balance sheet – Non Current Assets**

#### **3.1 Plant, Property and Equipment**

All expenditure on the acquisition, creation or enhancement of fixed assets above the Council's de minimus of £5,000 is capitalised on an accruals basis in the accounts. Repairs and maintenance expenditure is charged direct to service revenue accounts.

Fixed assets are valued on the basis required by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS) by the Council's In-house Valuer. Fixed assets are classified into the groupings required by the Code of Practice, with the exception of plant and furniture and equipment where two categories are combined due to the limited amount of plant held by the Council.

Individual categories of assets are valued on the following basis:

- Council dwellings are valued using a beacon principle (ie using sample dwellings) based on their Open Market Value (OMV) but adjusted to reflect their value as social housing in accordance with ACOP.
- Other Land and Buildings are included in the balance sheet at their OMV. The exceptions to this are school buildings and Social Services establishments that are included at their Depreciated Replacement Cost (DRC).
- Surplus assets are included in the balance sheet at their OMV.
- Assets held for sale are held at the lower of the asset's carrying value and fair value less costs to sell.
- Community assets are included in the balance sheet at depreciated historic cost where appropriate otherwise they are included at a nominal value.
- Infrastructure assets, vehicles, plant, furniture and equipment have been valued at depreciated historic cost. Heritage Assets are carried at valuation.
- Investment Properties are held at fair value and not depreciated.
- Assets under construction are held at their invoiced construction cost at year end.

Revaluations of fixed assets are planned on a five year cycle with a proportion of the asset base being revalued each year. Material changes to asset valuations resulting from works or similar investment outside of the agreed revaluation of assets cycle will be adjusted in the period as they occur.

At 1<sup>st</sup> April 2009 those land and building assets held at 1<sup>st</sup> April 2004 values were revalued completing that 5 year cycle. There has been subsequent revaluation of elements of the asset base at 1<sup>st</sup> April 2010 and 1<sup>st</sup> April 2011 in line with the five year cycle. Council dwellings have been revalued at 1<sup>st</sup> April 2011 in line with the separate 5 year cycle, and their values have been up-rated to 31<sup>st</sup> March 2012 using Land Registry indices to reflect changes in property values.

#### **3.1.1 DEPRECIATION AND AMORTISATION**

Depreciation is the measurement of the cost or revalued amount of the economic benefits of the tangible fixed assets that have been consumed during the financial year.

Consumption includes the wearing out, using up or other reduction in the useful economic life of a tangible fixed asset whether arising from use, passing of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

With the exception of HRA dwellings depreciation is calculated on all building assets using the straight line method as set out below. Land Assets are not depreciated.

Buildings	5 – 60 years as determined by the Valuer
Infrastructure	10 – 40 years
Plant, Vehicles, Equipment and Machinery	Up to 10 years

Housing Revenue Account dwellings are depreciated by an estimate of the consumption of economic benefits. The Major Repairs Allowance calculated by central government is used as the basis for this.

Where buildings assets are revalued, the accumulated depreciation at the beginning of the year is written down to the revaluation reserve.

### **3.1.2 COMPONENT ACCOUNTING**

The Code of Practice 2010-11 introduced component accounting for Plant, Property and Equipment. This is a prospective change, and local authorities are required to value the components of major assets, where the components are of material value and have a significantly different economic life to the asset itself.

Taking account of available guidance and reviews undertaken by CIPFA, componentisation will be undertaken where the value of the individual component is over £2 million and/or the value of that component is in excess of 20% of the total gross carrying value of the building.

Housing Revenue Account assets are not componentised, in accordance with valuation guidance published by central government.

Consideration of the requirement for componentisation will be undertaken when buildings are valued/re-valued, or enhancement expenditure of £250,000 is spent on them, which will trigger a revaluation.

### **3.2 Investment Properties**

Investment properties are properties held solely for capital appreciation or rental income. Investment properties are included in the balance sheet at OMV.

The Code of Practice requires that investment properties are not depreciated, but instead held at fair value, and their book value is adjusted annually where there has been a material change in value. The Council adjusts the book value of these assets when appropriate indices indicate that the property has changed in value by 15% or more since the last indexation or revaluation.

Investment properties have a full revaluation on the same five year cycle as Plant, Property and Equipment.

### **3.3 Heritage Assets**

The Code of Practice 2011-12 introduces Heritage Assets based on FRS 30. Heritage Assets are defined as:

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture, or an intangible asset with cultural, environmental or historical significance.

The tangible assets that meet the definition of a Heritage Asset held by the Council are the collections of the Museums and Archive and the Civic Regalia.

Heritage assets are carried at valuation rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon. The Council's valuation is as per an insurance valuation which is an approach in line with CIPFA advice. Revaluations will be carried out as and when the insurance valuation is updated.

### **3.4 Intangible Assets**

Intangible assets are identifiable non-monetary assets without physical substance. Expenditure on purchasing intangible fixed assets such as computer software has been capitalised at cost.

Amortisation is the equivalent of depreciation for intangible assets. It spreads the cost of buying or developing an intangible asset over the life of the intangible asset.

Amortisation is also calculated using the straight line method based on estimated economic life of between 5 to 7 years.

### **3.5 Impairment**

Impairment reviews on groups of assets are undertaken on an annual basis by the valuer. Impairment is recognised where the asset's carrying value is greater than its net recoverable value in use or through sale, and the loss is specific to the asset, or a small group of assets. Losses not specific to the asset or a small group of assets, such as a general fall in market prices will be treated as revaluation losses.

Impairment losses are recognised against historic cost, and revalued net book value (for revalued assets). Losses for revalued assets will be recognised against the revaluation reserve to the limit of the credit balance for that asset in the revaluation reserve, and thereafter in surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement.

The impairment review includes an annual assessment of whether there is indication that the recoverable value of any impaired assets has increased, reversing part or all of the impairment. If there is indication that the recoverable value has increased, the valuer will reassess the economic life of the asset for the purposes of determining depreciation. The impairment will be reversed to the extent that up to the carrying value of the asset had there been no impairment. This reversal will in the first instance be used to reverse any charge made to the surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement, and then to the revaluation reserve.

Impairment and reversal of impairment loss are not proper charges to the General Fund under legislation and the Code of Practice and will be reserved out of the General Fund in the Movement of Reserves Statement.

## **4. Balance sheet – Current Assets**

### **4.1 Inventories**

Inventories are valued at the lower of cost and net realisable value. The Council has no inventories obtained through non-exchange transactions.

### **4.2 Cash and Cash Equivalents**

IAS 7 defines cash and cash equivalents as cash, bank balances, and very short term investments used for cash management purposes. The Council uses bank overdrafts as part of its cash management strategy, therefore these are disclosed as part of cash and cash equivalents in line with IAS 7. Short term investments invested for three months or less with a known maturity value and date are included in cash and cash equivalents; the Council uses money market funds as an integral part of its cash management, so these investments are also disclosed as part of cash and cash equivalents.

#### **4.3 Work in Progress (Construction contracts)**

Under the Code of Practice, construction contracts undertaken by the Council for the Council's customers are accounted for as set out in IAS 11. This is separate from Assets under Construction where the Council is constructing assets for its own use. The Code of Practice requires use of the percentage completion method for calculating accounting entries for such contracts. Under the percentage of completion method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and surplus/deficit which can be attributed to the proportion of work completed. The percentage of completion is assessed based on costs incurred for work performed to date.

Until the point where outcome of the construction contract can be reliably estimated, revenue will only be recognised in line with construction costs to date. Once construction costs can be reliably measured, revenue will be recognised using the percentage completion method described above. Any expected losses will be immediately recognised as an expense.

### **5. Balance sheet - Liabilities**

#### **5.1 Debtors and Creditors**

The revenue accounts of the Council have been compiled on an accruals basis in accordance with IAS 18.

#### **5.2 Provisions, Contingent Liabilities, and Contingent Assets**

The Council makes a provision in compliance with IAS 37 where there is a present obligation as a result of a past event where it is probable that the Council will incur expenditure to settle the obligation and where a reasonable estimate can be made of the amount involved. In addition to the provisions listed in note 23 to the Core Financial Statements, there is a provision for unrecovered debts, this has been netted off against the debtors figure on the balance sheet (see note 19 to the Core Financial Statements).

The Code of Practice requires provisions to be split into current provisions (within a year) and long term provisions. The current provision for insurance is estimated by taking the moving average of insurance expense over the previous three years. All other current provisions are estimated by the officers of the Council in the relevant service area.

The provision for Council Tax debts is based on an assessment of the likely future collection of Council Tax arrears compared to the total level of arrears. Collection of arrears continues for several years after the original liability arises, and the provision is re-assessed each year based on collection trends and movements in amounts due. Debts are not actually written off until there is no realistic chance of collection, at which point the write-off reduces both the debtors and provision totals.

A contingent liability is disclosed in the notes to the accounts where there is either a possible obligation as a result of a past event where it is possible that the Council will incur expenditure to settle the obligation; or a present obligation as a result of a past event where it is either not probable that the Council will incur expenditure to settle the obligation, or where a reasonable estimate of the future obligation cannot be made.

A contingent asset is disclosed in the notes to the accounts where a possible asset arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

### **5.2.1 EMPLOYEE BENEFITS**

The Code of Practice requires that the Council recognises a provision for the entitlement of its employees to benefits within the reported financial year. This provision is estimated based on the entitlement of the Council's employees to leave as at the 1<sup>st</sup> April for the previous financial year.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010 prohibit Council tax payers from being charged for this provision, so any movement in this provision is transferred to the Accumulated Absences Account (note 25) as advised by CIPFA's IFRS transition guidance.

### **5.3 Reserves**

Reserves are divided into usable and unusable reserves in line with the Code of Practice. Within the usable reserves there are amounts set aside for earmarked purposes out of the balances on the Council's funds. One of the main financial statements details Movements in Reserves. Further details of Earmarked Reserves are given in Note 35 to the Core Financial Statements.

## **6 Balance Sheet - Financial Instruments**

### **6.1 Financial Assets**

Financial assets are classified into three types:

- Loans and receivables – assets that have fixed or determinable payments, but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments
- Fair value through income and expenditure

#### **6.1.1 LOANS AND RECEIVABLES**

Loans and Receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus interest outstanding, and interest credited to the financing and investment income and expenditure section of the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under a contract will not be made, the asset is written down and a charge made to the surplus or deficit on provision of services section of the Comprehensive Income and Expenditure Statement.

Any gains or losses that arise on the derecognition of the asset are credited/debited to the surplus or deficit on provision of services section of the Comprehensive Income and Expenditure Statement.

#### **6.1.2 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 section of the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the financing and investment income and expenditure section of the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations

Changes in fair value are balanced by an entry in the Available for Sale reserve and the gain/loss is recognised in the surplus or deficit on revaluation of available-for-sale financial assets line in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred – these are debited to the surplus or deficit on the provision of services section of the Comprehensive Income and Expenditure Statement, along with any net gain / loss for the asset accumulated in the Reserve.

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 asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains or losses that arise on the derecognition of the asset are credited/debited to the surplus or deficit on the provision of services section of the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the surplus or deficit on revaluation of available-for-sale financial assets line in the Comprehensive Income and Expenditure Statement.

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

### **6.1.3 Fair value through income and expenditure**

Investments where there is an active market (e.g. certificates of deposit or gilts). These are treated in the same manner as Loans and Receivables.

## **6.2 Premature Redemption of Debt**

The practice for the Comprehensive Income and Expenditure Statement, in accordance with the Code of Practice as amended by Regulations, is to amortise premia and discounts over a period which reflects the life of the loans with which they are refinanced determined as described below. This will not be followed in the following situations:

- Where it is permissible and advantageous to capitalise premia (in which case the question of amortisation will not arise)
- Where the loans redeemed are not refinanced (when premia and discounts will be taken directly to the Revenue Account)
- Where discounts and premia are amortised over a broadly similar period, for convenience they will be shown as a net figure.

The practice for the HRA is different because it is determined by the Housing Subsidy rules. In this case, discounts and premia are amortised, individually, over the remaining life of the loan repaid or ten years, whichever is the shorter.



The Council's policy on repayment of debt is as follows:

- For strategic financial reasons, the optimum level of borrowing for an Council in the position of Brent is usually to maintain gross borrowing at the Council's overall Capital Financing Requirement, unless the yield curve indicates very low short term rates. Unless borrowing required to fund the capital programme is less than the Minimum Revenue Provision, this will always involve refinancing debt redeemed prematurely with new borrowing. Borrowing to fund Brent's capital programme is likely to exceed Minimum Revenue Provision by a substantial margin for the foreseeable future. However, at present the yield curve indicates that interest rates are likely to remain low, so that borrowing for shorter periods or at variable rates may be prudent.
- Given the current pattern of rates, there is a significant penalty incurred in redeeming much of the Council's debt prematurely. However, the cost of maintaining a higher borrowing portfolio than is immediately required is particularly high at present, and the current risks to balances on deposit indicate that these should be kept to a minimum prudent level (to cover cash flow). In practice, this suggests a policy of seeking opportunities to redeem individual loans where this is economical.

### **6.3 Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to 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. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

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

Where premia and discounts have been charged to the surplus or deficit on the provision of services section in the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The Council has a policy of spreading the gain / loss over the term of the replacement loan, at present up to a maximum of thirty years. The reconciliation of amounts charged to the surplus or deficit on the provision of services section in the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account (note 25) in the Movement in Reserves Statement.

## **7 Capital Financing**

### **7.1 Capital Expenditure**

Capital expenditure on building assets is added to the value of the asset and depreciated over the remaining useful life.

Capital expenditure on HRA dwellings is added to the value of fixed assets.

Revenue expenditure funded from capital under statute (REFCUS) represents expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets owned by the

Council. Such revenue expenditure incurred during the year has been written off as expenditure to the relevant service revenue account in the year.

## **7.2 Capital Government Grants and Contributions**

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is recognised as income as soon as the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received. As central government has recently rescinded major capital grants prior to financial close, the Council will only recognise capital grants for specific projects in full at financial close of the specific project. Prior to financial close, income will be recognised as equal to expenditure on the project.

Where funds have been recognised, but not spent, they are transferred to the Capital Grants Unapplied Account within the usable reserves. Grants where conditions have not been met in full are credited to Capital Grants Receipts in Advance; once conditions have been met they will be transferred to the Capital Grants Unapplied Account. Upon expenditure funds are transferred to the Capital Adjustment Account.

## **7.3 Leasing**

The Council has acquired a number of assets, mainly vehicles, plant and computer equipment, by means of leases. The Council assesses whether or not leases have to be disclosed on balance sheet in line with IAS 17, using guidance from the Royal Institute of Chartered Surveyors as directed by the CIPFA. On balance sheet leases are described as finance leases, leases not reported on the balance sheet are known as operating leases.

Finance leases are initially recognised on the balance sheet with assets and liabilities equal to the net present value of the minimum lease payments. Where a contract does not detail an interest rate for a specific asset, or provide sufficient information for its calculation, the interest rate implicit in the lease will in the first instance be estimated based on interest rates for other assets within the lease. If there is no interest rate detailed in the lease then a suitable interest rate is applied.

Assets financed by finance leases are treated as having an economic life equal to the minimum length of the contract and are depreciated over this period.

Finance lease repayments and interest payments are calculated using the actuarial method (allocating interest to the period it relates to) and assumes that a single payment is made at the end of the contract year. Where a contract starts part way through a single financial year payments will be apportioned to that financial year based on the number of days of the contract year within the reported financial year.

In accordance with accounting convention, rentals payable under operating leases are charged to revenue in the year in which they are paid and no provision is made for outstanding lease commitments.

Two interpretations of the International Financial Reporting Standards apply to contracts and series of transactions where the substance of the contract or transactions may be a lease under International Financial Reporting Standards. In line with the Code of Practice, the Council first assesses whether or not contracts contain a service concession under IFRS Interpretations Committee (IFRIC) 12, and then whether or not there is an embedded lease under IFRIC 4. The disclosure of service concessions is complex and dealt with in further detail below. Embedded leases are disclosed as set out in IFRIC 4, accounting policies for major embedded finance leases are set out below.

### **7.3.1 SERVICE CONCESSIONS AND THE PRIVATE FINANCE INITIATIVE (PFI)**

Contracts and other arrangements that have been determined as “service concessions” are accounted for under IFRIC 12 and the Code of Practice. The Council has analysed its contracts and other arrangements and has determined the five arrangements below to be “*service concessions*”.

The Council has entered into three PFI projects which have generated assets to be used by the Council, these are:

In 1998/99 a 20 year project to provide and maintain street lights throughout the Borough;

In 2006/07 a 25 year project to provide and maintain a new sports centre and related facilities in Willesden.

In 2008/09 a 20 year project to provide and maintain social housing and replacement residential facilities for people with learning disabilities.

The Council has entered into two other contracts that meet the definition of a Service Concession:

In 2005/06 a 32 year agreement to provide and maintain social housing within Stonebridge.

In 2006/07 a 5 year agreement to refurbish a sports centre in Wembley.

Where this analysis has resulted in new assets being identified these assets are recognised at fair value being the relevant elements of the capital cost in the PFI operators' financial model, as recommended by the Code of Practice.

Where the PFI operator's right to third party income is recognised in reductions to the unitary payment, a proportion of the finance lease creditor is re-allocated to a deferred income balance based on the proportion of fixed payments (if any) from the Council and expected third party payments. The deferred income balance is amortised to the Comprehensive Income and Expenditure Statement on a straight line basis over the life of the PFI scheme.

The Council's ongoing liabilities for these service concessions are recognised on the balance sheet. This has been done by recognising a finance lease creditor calculated in line with the requirements of the Code of Practice and written down accordingly.

The assets acquired with these service concessions will be depreciated over the useful estimated economic life of the assets; with the exception of the assets generated by the Social Housing PFI. Legal title to the majority of assets from the Social Housing PFI will remain with the PFI operator, so these assets will be depreciated over the life of the contract, not their useful economic life.

Lifecycle costs will be capitalised in line with the directions of the Code of Practice on capitalising expenditure for these service concessions. All lifecycle costs for the Street lighting PFI are treated as revenue maintenance expenditure due to the nature of maintaining street lighting.

### **7.3.2 EMBEDDED FINANCE LEASES**

The Council has two major contracts with significant value of assets funded by embedded finance leases within the contract. Due to the complex nature of these contracts assets have been recognised on the basis appropriate to each contract:

- for the waste services contract, commenced in April 2007, assets have been recognised on the basis of an inventory provided by the contractor; and
- for the parking contract, commenced July 2005, assets have been recognised based on documentation supplied as part of the tender.

Accounting for these assets and the corresponding liabilities follows the policies set out for leases above.

#### 7.4 Minimum Revenue Provision

The Minimum Revenue Provision (MRP) included within the 2011/12 Accounts has been calculated on the basis of the 2010/11 outturn position, amended for the inclusion of PFI projects as per the requirements of the introduction of the International Financial Reporting Standards. In accordance with the revised regulations for the calculation of MRP issued in 2008 the Council adopted the following policy for non-HRA assets:

*For supported borrowing, the Council will continue with the existing method (Option 1). This option, 'the regulatory method', continues to use the calculations that were used under the system that existed from 2004/05 when the previous regulations came into effect. This means that the amount of non-housing Capital Financing Requirement (CFR), adjusted as set out in the original regulations (Adjustment A'), is used as the starting position for the MRP calculation in 2008/09 and adjusted thereafter for supported borrowing in each year.*

*For prudential borrowing, the Council will adopt Option 3, 'the asset life method', and an 'annuity' approach for calculating repayments. This option allows provision for repayment of principal to be made over the estimated life of the asset. The use of the 'annuity' method is akin to a mortgage where the combined sum of principal and interest are equalised over the life of the asset.*

*The proposed asset lives which will be applied to different classes of assets are as follows:*

- *Vehicles and equipment – 5 to 15 years;*
- *Capital repairs to roads and buildings – 15 to 25 years;*
- *Purchase of buildings – 30 to 40 years;*
- *New construction – 40 to 60 years;*
- *Purchase of land – 50 years (unless there is a structure on the land with an asset life of more than 50 years, in which case the land would have the same asset life as the structure).*

These policies do not apply to HRA assets.

The statutory guidance in the Guidance on Minimum Revenue Provision (second edition) from the Department of Communities and Local Government directs local authorities to make an MRP charge equal to the writing down of the finance lease liability upon transition to IFRS, and a charge equal to the writing down of the finance lease liability in subsequent years for operating leases reclassified as finance leases. It states that this is equivalent to one of the other options provided by the guidance for MRP in other circumstances. In order to ensure consistent treatment of all finance leases, an MRP charge equal to the writing down of the finance lease liability will be made for all finance leases.

In line with the statutory guidance on Minimum Revenue Provision (MRP), MRP has been charged for PFIs at a rate equal to the writing down of the finance lease liability. In addition, to ensure that all capital costs are captured by MRP, MRP includes a charge equal to any capital lifecycle additions within the scheme, and a charge equal to the release of any deferred income. Where finance lease liabilities increase in year, this is recognised by a credit to MRP equal to the increase in liability. The net effect of this policy is to maintain revenue balances at the same level under IFRS as under UK GAAP which is considered the prudent course of action within Guidance on Minimum Revenue Provision.

Minimum Revenue Provision is charged against the General Fund in the Movement in Reserves statement.

#### 7.5 Contributions from the Capital Adjustment Account

These represent expenditure which may properly be capitalised but which does not represent tangible fixed assets. Expenditure is included in the Comprehensive Income and Expenditure Statement and written off to the Capital Adjustment Account.

## **7.6 Income from the Sale of Fixed Assets**

Income from the disposal of fixed assets is known as capital receipts. Such income that is not reserved and has not been used to finance capital expenditure in the period is included in the balance sheet as capital receipts unapplied.

The treatment of capital receipts is determined by the Local Government Act 2003. Under this Act and its supporting regulations, the Council is required to pay to the Secretary of State any 'pooled' HRA receipts. The value of these 'pooled' receipts is calculated as 75% of HRA dwellings and 50% of HRA land. The remaining proportions and 100% of General Fund capital receipts can be used to finance capital expenditure.

## **7.7 Borrowing Costs**

The Council may borrow to meet capital costs that are attributable to the acquisition, construction or production of a qualifying asset that has a life of more than one year. It is the Council's policy to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Borrowing costs will be deemed as interest and other costs that the Council incurs in connection with the borrowing of funds, and a qualifying asset will be that which takes in excess of three years to get ready for intended use and has forecast expenditure in excess of £100 million. Cessation of capitalisation will occur when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

## **8 Group Accounts**

The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions of the Council and its subsidiary Brent Housing Partnership (BHP) Limited. BHP is an Arms Length Management Organisation (ALMO). The financial statements in the Group Accounts are prepared in accordance with the policies set out above.

### **8.1 Interest in Companies**

Brent Housing Partnership (BHP) is a subsidiary of the London Borough of Brent. It is the only organisation that meets the criteria for inclusion in Brent's group accounts. Group accounts are included in this document after Brent's single entity financial statements. BHP's accounting policies are based on UK Generally Accepted Accounting Practice. Their accounts have been amended prior to consolidation into the group accounts to reflect the Council's accounting policies.

**Clive Heaphy**  
**Director of Finance and Corporate Services**

## Movement in Reserves Statement

General Fund Balance £'000	Earmarked General Fund Reserves £'000		HRA Reserves £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
	£'000	£'000								
<b>22,614</b>	<b>41,405</b>	<b>2,174</b>	<b>4,119</b>	<b>140</b>	<b>4,198</b>	<b>19,496</b>	<b>94,146</b>	<b>(80,540)</b>	<b>16,606</b>	
102,449	(217,966)				0		(115,517)		(115,517)	
<b>102,449</b>	<b>0</b>	<b>(217,966)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(115,517)</b>	<b>(11,236)</b>	<b>(126,753)</b>	
(111,643)	217,992			12,509	(4,198)	15,660	130,320	(130,320)	0	
<b>(9,194)</b>	<b>0</b>	<b>26</b>	<b>0</b>	<b>12,509</b>	<b>(4,198)</b>	<b>15,660</b>	<b>14,803</b>	<b>(141,556)</b>	<b>(126,753)</b>	
(715)	715	(505)	505				0		0	
<b>(9,909)</b>	<b>715</b>	<b>(479)</b>	<b>505</b>	<b>12,509</b>	<b>(4,198)</b>	<b>15,660</b>	<b>14,803</b>	<b>(141,556)</b>	<b>(126,753)</b>	
<b>12,705</b>	<b>42,120</b>	<b>1,695</b>	<b>4,624</b>	<b>12,649</b>	<b>0</b>	<b>35,156</b>	<b>108,949</b>	<b>(222,096)</b>	<b>(113,147)</b>	
54,072	247,863						301,935	(30,673)	301,935	
<b>54,702</b>	<b>247,863</b>						<b>301,935</b>	<b>(30,673)</b>	<b>271,262</b>	
(30,182)	(247,966)			(3,631)	4,503	32,353	(244,923)	244,923	0	
<b>23,890</b>	<b>(103)</b>	<b>676</b>	<b>(645)</b>	<b>(3,361)</b>	<b>4,503</b>	<b>32,353</b>	<b>57,012</b>	<b>214,250</b>	<b>271,262</b>	
(12,092)	12,061									
<b>11,798</b>	<b>12,092</b>	<b>573</b>	<b>(645)</b>	<b>(3,631)</b>	<b>4,503</b>	<b>32,353</b>	<b>57,012</b>	<b>214,250</b>	<b>271,262</b>	
<b>24,503</b>	<b>54,181</b>	<b>2,268</b>	<b>3,979</b>	<b>9,018</b>	<b>4,503</b>	<b>67,509</b>	<b>165,961</b>	<b>(7,846)</b>	<b>158,115</b>	

Balance as at 31 March 2010

### Movement in reserves during 2010/11

Surplus or (deficit) on the provision of services  
Other comprehensive income & expenditure

### Total comprehensive income & expenditure

Adjustments between accounting basis & funding basis under regulations (note 7)

### Net increase/decrease before transfers to earmarked reserves

Transfers to/from earmarked reserves (note 8)

### Increase/decrease in 2010/11

### Balance as at 31 March 2011 carried forward

### Movement in reserves during 2011/12

Surplus or (deficit) on the provision of services  
Other comprehensive income & expenditure

### Total comprehensive income & expenditure

Adjustments between accounting basis & funding basis under regulations (note 7)

### Net increase/decrease before transfers to earmarked reserves

Transfers to/from earmarked reserves (note 8)

### Increase/decrease in 2011/12

Balance as at 31 March 2012

### Movement in Reserves Statement (Continued)

General fund balances include balances held by schools. The split between balances available to the Council to spend and balances for schools expenditure is shown on the right.

	Council balances £000	Schools balances £000	Total balances £000
31.3.10	8,963	13,651	22,614
31.3.11	5,641	7,063	12,704
31.3.12	10,316	14,187	24,503

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

Comprehensive Income & Expenditure Statement

	2010/11 Restated			2011/12		
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Central services to the public	50,289	(39,377)	10,912	59,163	(47,279)	11,884
Cultural and related services	19,360	(2,984)	16,376	20,579	(2,648)	17,931
Environmental and regulatory services	32,827	(5,351)	27,476	35,324	(5,055)	30,269
Planning	7,944	(3,331)	4,613	4,440	(2,466)	1,974
Children's social care	52,138	(4,288)	47,850	47,266	(3,895)	43,371
Education and children's services	398,322	(358,929)	39,393	354,959	(323,016)	31,943
Highways and transport services	26,144	(17,250)	8,894	34,078	(29,168)	4,910
Local authority housing (HRA)	34,015	(53,784)	(19,769)	36,915	(102,657)	(65,742)
Other housing services	364,916	(332,578)	32,338	402,450	(367,942)	34,508
Adult social care	122,235	(25,276)	96,959	118,077	(25,133)	92,944
Corporate and democratic core	6,470		6,470	8,609	(36)	8,573
Exceptional item - downward revaluation of assets	234,654		234,654			
Reduction in past service pension costs. See Note 48 & 50	(117,950)		(117,950)			
Non distributed costs	6,264	(9,603)	(3,339)	1,633		1,633
<b>Cost of Services</b>	<b>1,237,628</b>	<b>(852,751)</b>	<b>384,877</b>	<b>1,123,493</b>	<b>(909,295)</b>	<b>214,198</b>
Other operating expenditure (note 9)			32,403			9,190
Financing and investment income and expenditure (note 10)			62,898			43,532
Exceptional item – HRA settlement debt redemption costs (note 5)						74,213
Exceptional item – HRA settlement capital grant (note 5)						(272,213)
Taxation and non-specific grant income (note 11)			(364,661)			(370,855)
<b>(Surplus) or Deficit on Provision of Services</b>			<b>115,517</b>			<b>(301,935)</b>
(Surplus) or deficit on revaluation of Property, Plant and Equipment assets			(1,284)			(35,818)
(Surplus) or deficit on revaluation of available for sale financial assets						
Actuarial (gains)/losses on pension assets and liabilities			12,520			66,494
<b>Other Comprehensive Income and Expenditure</b>			<b>11,236</b>			<b>30,676</b>
<b>Total Comprehensive Income and Expenditure</b>			<b>126,753</b>			<b>(271,259)</b>



**Balance Sheet**

<b>Restated 1 April 2010 £'000</b>	<b>Restated 31 March 2011 £'000</b>		<b>Notes</b>	<b>31 March 2012 £'000</b>
1,301,586	1,112,022	Property, Plant & Equipment	12	1,246,961
		Heritage Assets	13	498
2,493	2,993	Investment Property	14	2,772
1,894	2,676	Intangible Assets	15	2,623
20,214	168	Long Term Investments	16	100
12,458	23,754	Long Term Debtors	16	44,780
<b>1,338,645</b>	<b>1,141,613</b>	<b>Long Term Assets</b>		<b>1,297,734</b>
44,628	41,895	Short Term Investments	16	31,715
2,799		Assets Held for Sale	21	
120	104	Inventories	17	138
72,347	65,657	Short Term Debtors	19	43,895
21,981	41,764	Cash and Cash Equivalents	20	44,435
<b>141,875</b>	<b>149,420</b>	<b>Current Assets</b>		<b>120,183</b>
	(6,271)	Cash and Cash Equivalents	20	(3,981)
(58,216)	(77,117)	Short Term Borrowing	16	(34,124)
(87,799)	(91,690)	Short Term Creditors	22	(81,784)
(3,307)	(5,104)	Provisions	23	(5,208)
		Deferred Income		(81)
<b>(149,322)</b>	<b>(180,182)</b>	<b>Current Liabilities</b>		<b>(125,178)</b>
(24,736)	(31,832)	Long Term Creditors	16	(38,275)
(2,968)	(3,251)	Provisions	23	(3,174)
(607,530)	(584,530)	Long Term Borrowing	16	(403,094)
(682,359)	(604,385)	Other Long Term Liabilities	16	(690,081)
<b>(1,317,593)</b>	<b>(1,223,998)</b>	<b>Long Term Liabilities</b>		<b>(1,131,889)</b>
<b>13,605</b>	<b>(113,147)</b>	<b>Net Assets</b>		<b>158,115</b>
94,146	108,948	Usable Reserves	24	165,961
(80,541)	(222,095)	Unusable Reserves	25	(7,846)
<b>13,605</b>	<b>(113,147)</b>	<b>Total Reserves</b>		<b>158,115</b>

## Cash Flow Statement

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

<b>2010/11</b> <b>Restated</b> <b>£'000</b>		<b>2011/12</b>  <b>£'000</b>
(115,517)	Net surplus or (deficit) on the provision of services	301,935
34,731	Adjustments for non-cash movements	(139,231)
93,739	Adjustments for investing and financing activities	89,416
<b>12,953</b>	<b>Net cash flows from Operating Activities (note 26)</b>	<b>252,120</b>
5,641	Investing activities (note 27)	(21,079)
(5,082)	Financing activities (note 28)	(226,080)
<b>13,512</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>4,961</b>
21,981	Cash and cash equivalents at the beginning of the reporting period	35,493
<b>35,493</b>	<b>Cash and cash equivalents at the end of the reporting period (note 20)</b>	<b>40,454</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Note 1 – Accounting Policies

Accounting policies are shown separately in the document.

### Note 2 – Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/2013 has introduced a change in accounting policy in relation to amendments to IFRS 7 Financial Instruments: Disclosures, which will need to be fully adopted by the Council in the 2012/2013 financial statements (i.e. it applies from 1 April 2012). The amendments are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the Council's position. An example of this is where an authority retains ownership of a financial asset but contracts with another party to reassign the cash flows generated by the instrument at the same time as substantially retaining the risks and rewards of ownership. This type of situation does not occur frequently in local authorities and does not apply to the Council, and will therefore not have a material impact on the Council's financial statements in 2012/2013.

### Note 3 - Key Judgements and Material Estimates.

In preparing the Statement of Accounts, the Council has had to make judgements, estimates and assumptions that affect the application of its policies and reported levels of assets, liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience, current trends and other relevant factors that are considered to be reasonable. These estimates and assumptions have been used to inform the basis for judgements about the carrying values of assets and liabilities, where these are not readily available from other sources. Future events may result in these estimates and assumptions being revised and could significantly change carrying balances in subsequent years' financial statements.

Estimates and underlying assumptions are regularly reviewed. Changes in basis of accounting estimates are adjustments of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with assets and liabilities. Changes in accounting estimates result from new information or new developments, and accordingly are not correction of errors. Changes to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The critical accounting judgements made and key sources of estimation uncertainty which have a significant effect on the financial statements are:

- Retirement Benefit Obligations – The Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirements of IAS 19 "Employee Benefits". The estimation of the net pension liability depends on a number of complex judgements and estimates 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 actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Changes in these assumptions can have a significant effect on the value of the Council's retirement benefit obligation. The key assumptions made are set out in note 48 (1)-(5).

- Provisions – The Council is required to exercise judgement in assessing whether a potential liability should be accounted for as a provision or contingent liability in accordance with accounting policies. In calculating the level of provisions the Council also exercises some judgement; they are measured at the Council's best estimate of the costs required to settle the obligation at the Balance Sheet date. The level of the Council's provisions and details of its contingent liabilities are set out in notes 22 and 48 respectively.

- Property, Plant and Equipment – Assets are depreciated over useful lives that are dependent on assumptions such as the level of repairs and maintenance that will be incurred in relation to individual type of asset, the expected length of service potential of the asset and the likelihood of the Council’s usage of the asset. The Council carries out an annual impairment review of its asset base which takes in to account such factors as the current economic climate.
- Future Levels of Government Funding and Levels of Reserves – the future levels of funding for local authorities has a high degree of uncertainty. The Council has set aside amounts in reserves which it believes are appropriate based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, other earmarked reserves and the Council’s track record in financial management. The Council’s budget strategy for 2011/12 was approved in February 2011.
- Treatment of PFI arrangements – The Council has entered into a number of PFI arrangements in respect of infrastructure. The Council has exercised judgement in the identification of service concessions and embedded leases within PFIs using such as arrangements that allow the Council to control residual value of PFI assets without legal title. Initial assets and liabilities for the PFIs are calculated using financial model based upon the contractual terms and conditions and the operator’s financial model; subsequent changes in the Council’s PFI liabilities are estimated using the same model. Subsequent changes in the Council’s PFI funded assets are measured in the same way as other non current assets. Details of the PFI and service concession type arrangements are set out in note 43.
- Deposits with Icelandic banks – The Council has deposited £15million with Icelandic banks which are in administration. Based on the latest information from the administrators an impairment of £2million has been recognised to cover reasonably expected losses relating to those deposits. Further information on deposits with Icelandic Banks is included in note 16 (3).
- The estimate of depreciation chargeable on dwellings within the Housing Revenue Account is based on the Government’s major repairs allowance. An external review of this has been undertaken to ensure this does not lead to a material misstatement in the accounts.

#### **Note 4 – Assumption made about the future and other major sources of estimation uncertainty**

The Council includes accounting estimates within the accounts; the significant accounting estimates relate to non current assets, impairment of financial assets. The Council’s accounting policies include details on the calculation of these accounting estimates.

The Council also carries out a review of all debtor balances, and uses past experience of debt collection rates across all categories to establish allowances for non-collection.

The appropriate level of non-earmarked reserves to be held by the Council is based on an assessment of financial risks facing the Council. These risks include future funding levels, delivery of planned savings and future demands on services.

#### **Note 5 – Material items of Income and Expenses**

The 2011/12 accounts include a significant one-off item relating to the establishment of self-financing of the Housing Revenue Account with effect from April 2012. In place of an annual subsidy the Government made a one-off repayment of debt £198 million of behalf of the Council on 28 March 2012 along with £74 million of associated early repayment costs.

#### **Note 6 – Events After the Balance Sheet Date**

None identified

**Note 7 - Adjustments Between Accounting Basis and Funding Basis under Regulations**

2011/12	Useable Reserves				Movement in Unusable Reserves £'000
	General Fund + HRA Balance £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Charges for depreciation and impairment of non-current assets	28,732				(28,732)
Revaluation losses on Property Plant and Equipment	(22,999)				22,999
Movements in the market value of Investment Properties	240				(240)
Amortisation of intangible assets	519				(519)
Capital grants and contributions applied					
Movement in the Donated Assets Account					
Revenue expenditure funded from capital under statute	21,474				(21,474)
HRA Settlement	(198,000)				198,000
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	13,607				(13,607)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory provision for the financing of capital investment	(14,096)				14,096
Capital expenditure charged against the General Fund and HRA balances	(12,318)				12,318
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(61,137)			61,137	
Application of grants to capital financing transferred to the Capital Adjustment Account	(21,148)			(28,785)	49,933
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(7,243)	7,243			
Use of the Capital Receipts Reserve to finance new capital expenditure		(10,192)			10,192
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	58	(58)			

**Note 7 - Adjustments Between Accounting Basis and Funding Basis under Regulations (Continued)**

2011/12	Useable Reserves				Movement in Unusable Reserves
	General Fund + HRA Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£'000	£'000	£'000	£'000	
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	624	(624)			
Transfer from Deferred Capital Receipts Reserve upon receipt of cash					
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>					
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement					
<b>Adjustment primarily involving the Major Repairs Reserve:</b>					
Reversal of Major Repairs Allowance credited to the HRA	(8,078)		8,078		
Use of the Major Repairs Reserve to finance new capital expenditure			(3,575)		3,575
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(5,463)				5,463
<b>Adjustments primarily involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (note 47)	40,146				(40,146)
Employer's pensions contributions and direct payments to pensioners payable in the year	(29,819)				29,819
<b>Adjustment primarily involving the Accumulated Absences Account:</b>					
Amount by which officer remuneration charges to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(3,248)				3,248
<b>Total Adjustments</b>	<b>(278,149)</b>	<b>(3,631)</b>	<b>4,503</b>	<b>32,352</b>	<b>244,925</b>

## Note 7 - Adjustments Between Accounting Basis and Funding Basis under Regulations

2010/11 Comparative Figures	Useable Reserves				Movement in Unusable Reserves £'000
	General Fund + HRA Balance £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Charges for depreciation and impairment of non-current assets	30,025				(30,025)
Revaluation losses on Property Plant and Equipment	233,515				(233,515)
Movements in the market value of Investment Properties	501				(501)
Amortisation of intangible assets	378				(378)
Capital grants and contributions applied					
Movement in the Donated Assets Account Revenue expenditure funded from capital under statute	21,331				(21,331)
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	42,475				(42,475)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory provision for the financing of capital investment	(11,681)				11,681
Capital expenditure charged against the General Fund and HRA balances	(4,724)				4,724
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(15,660)			15,660	
Application of grants to capital financing transferred to the Capital Adjustment Account	(57,348)				57,348
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(21,006)	21,006			
Use of the Capital Receipts Reserve to finance new capital expenditure		(7,777)			7,777
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	50	(50)			

**Note 7 - Adjustments Between Accounting Basis and Funding Basis under Regulations (Continued)**

2010/11 Comparative Figures	Useable Reserves				Movement in Unusable Reserves £'000
	General Fund + HRA Balance £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
	Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	670	(670)		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash					
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>					
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement					
<b>Adjustment primarily involving the Major Repairs Reserve:</b>					
Reversal of Major Repairs Allowance credited to the HRA	(2,363)		2,363		
Use of the Major Repairs Reserve to finance new capital expenditure			(6,561)		6,561
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(2,352)				2,352
<b>Adjustments primarily involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (note 47)	(73,270)				73,270
Employer's pensions contributions and direct payments to pensioners payable in the year	(31,450)				31,450
<b>Adjustment primarily involving the Accumulated Absences Account:</b>					
Amount by which officer remuneration charges to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,742)				2,742
<b>Total Adjustments</b>	<b>106,349</b>	<b>12,509</b>	<b>(4,198)</b>	<b>15,660</b>	<b>(130,320)</b>



**Note 8 - Transfers to/from Earmarked Reserves**

	Balance at 31 March 2011 £'000	Transfers in 2011/12 £'000	Transfers out 2011/12 £'000	Balance at 31 March 2012 £'000
<b>General Fund</b>				
2Yr Old additional Funding	0	397		397
Affordable Housing PFI	3,365	2,203		5,568
Area Child Protection (Local S B)	132	19		151
Avenue School	0	108		108
BACES	0	210		210
Brent NHS Trust Settlement	391	3,281		3,672
Brent Performance Fund	110	0		110
Capital Funding	605	0		605
Care of the Elderly	260	0		260
Chalkhill Community Building	1,870	0	(17)	1,853
CLG Funding Secondment Officer	135	100	(107)	128
Crest Academy/Surveys	0	176		176
Destination Wembley	189			189
Discretionary Housing Payment Grant	0	346		346
DWP LHA 2012/13	0	522		522
DWP Transitional Funding	0	109		109
Employment Initiatives	0	3,000		3,000
Financial Skills Systems	197			197
Homeless Strategy	100	164	(10)	254
JFS School PFI	2,354	139		2,493
Legal Dispute Costs	132			132
Local Development Framework (LDF)	103		(103)	0
Local Elections	0	100		100
Local Housing Allowance	288	0		288
Long Term Sickness	142	223		365

**Note 8 - Transfers to/from Earmarked Reserves (Continued)**

	Balance at 31 March 2011 £'000	Transfers in 2011/12 £'000	Transfers out 2011/12 £'000	Balance at 31 March 2012 £'000
<b>General Fund</b>				
New Homes Bonus	0	226		226
New Initiatives	0	350		350
Nurseries	532	0	(532)	0
Planning Service Major Cases	0	140		140
Positive Activities for Young People	0	101		101
Preventing Homelessness	400	0	(50)	350
Property & Civic Centre	4,502	1,868		6,370
Pupil Premium	0	132		132
Redundancy & Restructuring	0	2,000		2,000
Remuneration Strategy (single Status)	735	0	0	735
S106 and Commuted Car Parking	12,580	5,756	(4,259)	14,077
Service Pressures	0	2,860	(1,500)	1,360
Single Regeneration Budget	381	0	(381)	0
South Kilburn	0	219		219
SP&I Grants paid In advance	0	237		237
SP&I Project	0	246		246
Sports & Health Projects	0	168		168
Standards Fund	5,805	0	(5,805)	0
Transformation	2,802	0	(100)	2,702
Wembley Youth and Community	250			250
Willesden Sports Centre PFI	1,714	14	0	1,728
Working Neighbourhood Fund	1,290	0	(990)	300
Miscellaneous	756	971	(470)	1,257
<b>Total</b>	<b>42,120</b>	<b>26,385</b>	<b>(14,324)</b>	<b>54,181</b>
<b>HRA</b>				
Housing Revenue Account	4,624	0	(645)	3,979
<b>Total</b>	<b>4,624</b>	<b>0</b>	<b>(645)</b>	<b>3,979</b>

**2Yr Old additional Funding** - To fund 2 Year Old Places in Private & Voluntary Sector.

**Affordable Housing PFI** - Monies set aside for affordable housing PFI.

**Area Child Protection** - Money received from Brent Local Safeguarding Children's Board for children's services to promote the welfare of children.

**Avenue School** - Income from closure of the Avenue Bank Account. Funds to be paid to Islamia School in 2012/13

**BACES** - Grant funded expenditure carried forward by way of an earmarked reserve.

**Brent NHS Trust Settlement** - Brent NHS Trust indicated that a number of patients that it funded for care should transfer to the local Council. The Council did not accept the legal basis for many of these changes. However, the majority of cases have now been resolved between the two bodies. Part of this settlement requires the Council to earmark £1.4m in this reserve. It will be utilised to fund joint initiatives between the Council and Brent NHS which will be agreed by both parties.

**Brent Performance Fund** - The fund is used to pay for various service improvements across the Council.

**Capital Funding** - This represents revenue contributions set aside to meet commitments included in the capital programme. This only relates to the General Fund. There are no contributions from the HRA in this reserve.

**Care of the Elderly** - Monies bequeathed by a former resident to be utilised for providing services for the elderly within the borough.

**Chalkhill Community Building** - **MONIES** earmarked for the development of a new community building on the Chalkhill estate.

**CLG Funding Secondment Officer** – Funding for work on Social Investment and Youth Homelessness Prevention.

**Crest Academy/Surveys** - The reserve is required to meet future revenue cost that is attached to the construction process. Failure could result in the delays in the construction process and impacting the delivery date.

**Destination Wembley** - Monies carried forward to meet commitments in Wembley Regeneration area.

**Discretionary Housing Payment Grant - Balance** of DHP grant received in 2011/12 allowed to be carried forward to 2012/13 by DWP due to delayed implementation of new HB caps.

**DWP LHA 2012/13** - This funding is to assist in mitigating the impact of LHA caps and has to be separately accounted for

**DWP Transitional Funding** - **DWP** funding for transitional help for claimants adversely affected by LHA caps. Money advisor team has been set up and salaries will be paid monthly throughout 12/13.

**Employment Initiatives** - **Monies** set aside centrally for employment initiatives.

**Financial Skills & Systems** - Monies set aside for financial systems and training across the Council.

**Homeless Strategy** - Additional grant received for Homelessness Strategy Project.

**Housing Revenue Account** - Monies earmarked to spend on various Housing Revenue Account projects.

**JFS School PFI** - Grant relating to the setting up of JFS. (A secondary school in the Borough). The PFI agreement means that government funding exceeds contract payments in earlier years but tapers off in later years. The reserve was set up to take account of the funding profile.

**Legal Discipline Disputes - Trading Standards** - The Reserve is intended to be used as a contingency for unexpected legal costs that may arise as a result of the complex prosecutions that are undertaken on behalf of both Brent & Harrow Councils. In addition to this the reserve has included incentivisation monies received from the Home Office under the Proceeds of Crime Act, which can only be used for Trading Standards purposes. Both Councils have received under this scheme will be used as part of the ongoing enforcement and prosecution activities undertaken by the Service.

**Local Development Framework (LDF)** – Costs set aside for cost of inquiry.

**Local Elections - Monies** set aside to meet the costs of the local election in 2014.

**Local Housing Allowance** - Reserve for on-going implementation costs of the new Local Housing Allowance commencing in April 2008 – costs for staff training, software development, publicity, start-up activities.

**Long Term Sickness** - Monies expected to be required to pay for long term sickness in schools funded by contributions from schools.

**New Homes Bonus** - Monies received in advance for 2012/13.

**New Initiatives** - The £100k Wembley projects involve completing various Environmental Initiatives.

**Nurseries** - Monies earmarked for the education of nursery school children in the borough.

**Planning Service Major Cases** - To meet future significant expenditure that relates to anticipated changes to the planning process as part of the government review. Some of these changes include the introduction of the Community Infrastructure Levy and the proposal for decentralisation of planning fees by central government. There has been significant increase in the number of planning reviews in the past years and it is anticipated that these changes would further increase the numbers of reviews to unprecedented levels. The reserve is required to meet future expenditure that relates to these reviews.

**Positive Activities for Young People** - Monies set aside for planning activities for Youth Service.

**Preventing Homelessness** – Monies to manage the effects of Local Housing Allowance changes.

**Property and Civic Centre** - Monies earmarked to be spent on repairs, maintenance and dilapidations to Council freehold and leasehold buildings and costs associated with the move to the Civic Centre. This will support more efficient use of office accommodation and new ways of working.

**Pupil Premium** - Grant received from DfE in advance of payments due to Brent schools

**Redundancy & Restructuring** - Monies set aside to meet the future costs of restructuring.

**Remuneration Strategy** (single status) - Monies for the development and the implementation of the single status agreement for employees and other recruitment and retention initiatives.

**Section 106 and Commuted Car Parking** - Amounts received under Section 106 of the Town and Country Planning Act 1990 which are earmarked for particular purposes arising from the related developments.

**Service Pressures** - a centrally held fund which was created for service pressures

**Single Regeneration Budget (SRB)** - Monies set aside to cover the set up/closure costs of SRB schemes.

**South Kilburn** – Monies held centrally for delivering various regeneration projects- e.g. independent advice for residents and other general office administration costs associated with delivering the programme.

**Strategy, Partnerships & Improvement Grants paid In advance** - Various grants received in advance.

**Strategy, Partnerships & Improvement Project** - Monies set aside for various projects e.g. Young Offenders & Young drinkers (CST), and Social Mobility Commission (Policy).

**Sports and Health Project** - Various Sports and Health projects for Multi Use Parks and Voucher Scheme.

**Standards Fund** - Unspent Standards Fund balances may be carried forward into the following financial year to be spent by 31<sup>st</sup> August.

**Transformation** - Reserve is to provide monies for financial, HR and IT transformation as well as for Spend to Save initiatives.

**Wembley Youth and Community** - Monies provided for the renovation of the Wembley Youth and Community Centre.

**Willesden Sports Centre PFI** - The new Willesden Sports Centre opened during 2006/07 is financed through a 25 year PFI agreement. This involves an arrangement whereby funds received from the Council's own budget and from Government PFI credits are used to cover payments to the contractor. At the start of the project surplus funds are paid into a reserve which will be utilised over the life of the project.

**Working Neighbourhood Fund** - Programme of employment and skills provision through Brent into work.

**Miscellaneous** - This comprises of a variety of miscellaneous small reserves each totalling below £100,000. Some of these small reserves have relevance to more than one Service Area.

### Note 9 - Other Operating Expenditure

2010/11 £'000		2011/12 £'000
10,265	Levies	2,203
669	Payments to the Government Housing Capital Receipts Pool	624
21,469	Gains/losses on the disposal of non-current assets	6,363
<b>32,403</b>	<b>Total</b>	<b>9,190</b>

### Note 10 - Financing and Investment Income and Expenditure

2010/11 £'000		2011/12 £'000
41,732	Interest payable and similar charges	25,319
22,920	Pensions interest cost and expected return on pensions assets	18,721
(973)	Interest receivable and similar income	(375)
(501)	Income and expenditure in relation to investment properties and changes in their fair value	240
(280)	(Surplus)/Deficit on Trading Accounts	(373)
	Other Investment Income	
<b>62,898</b>	<b>Total</b>	<b>43,532</b>

### Note 11 - Taxation and non-Specific Grant Incomes

2010/11 £'000		2011/12 £'000
(100,982)	Council tax income	(101,978)
(143,632)	Non domestic properties	(126,736)
(47,315)	Non-ringfenced government grants	(66,919)
(72,732)	Capital grants and contributions	(75,222)
<b>(364,661)</b>	<b>Total</b>	<b>(370,855)</b>

Note 12 - Property, Plant and Equipment - Movements on Balances

Movements in 2011/12	Council Dwellings £'000	Other Land and Buildings £'000	Infrastructure Assets £'000	Plant Vehicle & Equipment £'000	Community Assets £'000	Surplus Assets £'000	Assets under Construction £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Cost or valuation</b>									
<b>At 1 April 2011</b>	<b>537,440</b>	<b>439,319</b>	<b>181,342</b>	<b>63,335</b>	<b>0</b>	<b>9,711</b>	<b>22,697</b>	<b>1,253,844</b>	<b>65,012</b>
Additions	10,984	43,292	10,600	6,728	0	0	50,426	122,030	16,769
Donations	0	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	31,558	0	0	0	134	0	31,692	560
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	43,130	(14,502)	0	0	0	0	0	28,628	0
Derecognition - disposals	(737)	(7,305)	(3,657)	(6,847)	0	(4,294)	0	(22,840)	(3,655)
Derecognition - other Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Reclassifications	0	1,404	(44)	252	0	(1,294)	(317)	1	0
Other movements in cost or valuation	(36,946)	(21,476)	2,957	1,410	0	(137)	0	(54,192)	(191)
<b>At 31 March 2012</b>	<b>553,871</b>	<b>472,290</b>	<b>191,198</b>	<b>64,878</b>	<b>0</b>	<b>4,120</b>	<b>72,806</b>	<b>1,359,163</b>	<b>78,495</b>

**Note 12 - Property, Plant and Equipment - Movements on Balances (Continued)**

	Council Dwellings £'000	Other Land and Buildings £'000	Infrastructure Assets £'000	Plant Vehicle & Equipment £'000	Community Assets £'000	Surplus Assets £'000	Assets under Construction £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Movements in 2011/12</b>									
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1 April 2011</b>	<b>(36,946)</b>	<b>(33,979)</b>	<b>(33,494)</b>	<b>(37,175)</b>	<b>0</b>	<b>(228)</b>	<b>0</b>	<b>(141,822)</b>	<b>(4,705)</b>
Depreciation charge	(8,078)	(10,476)	(3,646)	(6,575)	0	(22)	0	(28,797)	(2,528)
Depreciation written out to the Revaluation Reserve	0	(5,630)	0	0	0	0	0	(5,630)	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	254	0	0	0	0	0	254	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
Derecognition - disposals	0	727	3,657	4,965	0	0	0	9,349	121
Derecognition - other	0	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment	36,946	21,294	(2,957)	(976)	0	137	0	54,444	0
<b>At 31 March 2012</b>	<b>(8,078)</b>	<b>(27,810)</b>	<b>(36,440)</b>	<b>(39,761)</b>	<b>0</b>	<b>(113)</b>	<b>0</b>	<b>(112,202)</b>	<b>(7,112)</b>
<b>Net Book Value</b>									
<b>At 31 March 2012</b>	<b>545,793</b>	<b>444,480</b>	<b>154,758</b>	<b>25,117</b>	<b>0</b>	<b>4,007</b>	<b>72,609</b>	<b>1,246,961</b>	<b>71,383</b>
<b>At 31 March 2011</b>	<b>500,494</b>	<b>405,340</b>	<b>147,848</b>	<b>26,160</b>	<b>0</b>	<b>9,483</b>	<b>22,697</b>	<b>1,112,022</b>	<b>60,307</b>



Note 12 - Property, Plant and Equipment - Movements on Balances (Continued)

	Council Dwellings £'000	Other Land and Buildings £'000	Infrastructure Assets £'000	Plant Vehicle & Equipment £'000	Community Assets £'000	Surplus Assets £'000	Assets under Construction £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Movements in 2010/11</b>									
<b>Cost or valuation</b>									
<b>At 1 April 2010</b>	<b>747,060</b>	<b>408,513</b>	<b>170,731</b>	<b>57,189</b>	<b>0</b>	<b>8,019</b>	<b>24,301</b>	<b>1,415,813</b>	<b>52,881</b>
Additions	14,493	37,521	10,611	6,146	0	0	37,784	106,555	19,898
Donations	0	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	5,247	0	0	0	0	0	5,247	(7,615)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(223,184)	(10,118)	0	0	0	0	0	(233,302)	0
Derecognition - disposals	(929)	(152)	0	0	0	0	(39,388)	(40,469)	(152)
Derecognition - other	0	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Reclassifications	0	(1,692)	0	0	0	1,692	0	0	0
Other movements in cost or valuation	0	0	0	0	0	0	0	0	0
<b>At 31 March 2011</b>	<b>537,440</b>	<b>439,319</b>	<b>181,342</b>	<b>64,373</b>	<b>0</b>	<b>9,711</b>	<b>22,697</b>	<b>1,253,844</b>	<b>65,012</b>

**Note 12 - Property, Plant and Equipment - Movements on Balances (Continued)**

	Council Dwellings £'000	Other Land and Buildings £'000	Infrastructure Assets £'000	Plant Vehicle & Equipment £'000	Community Assets £'000	Surplus Assets £'000	Assets under Construction £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Movements in 2010/11</b>									
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1 April 2010</b>	<b>(29,183)</b>	<b>(24,530)</b>	<b>(29,641)</b>	<b>(30,468)</b>	<b>0</b>	<b>(139)</b>	<b>(267)</b>	<b>(114,228)</b>	<b>(4,111)</b>
Depreciation charge	(7,763)	(12,619)	(3,853)	(6,707)	0	(89)	0	(31,031)	(594)
Depreciation written out to the Revaluation Reserve	0	3,283	0	0	0	0	0	3,283	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	(116)	0	0	0	0	0	(116)	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
Derecognition - disposals	0	3	0	0	0	0	267	270	0
Derecognition - other	0	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment	0	0	0	0	0	0	0	0	0
<b>At 31 March 2011</b>	<b>(36,946)</b>	<b>(33,979)</b>	<b>(33,494)</b>	<b>(37,175)</b>	<b>0</b>	<b>(228)</b>	<b>0</b>	<b>(141,822)</b>	<b>(4,705)</b>
<b>Net Book Value</b>									
<b>At 31 March 2011</b>	<b>500,494</b>	<b>405,340</b>	<b>147,848</b>	<b>26,160</b>	<b>0</b>	<b>9,483</b>	<b>22,697</b>	<b>1,112,022</b>	<b>60,307</b>
<b>At 31 March 2010</b>	<b>717,877</b>	<b>383,983</b>	<b>141,090</b>	<b>26,721</b>	<b>0</b>	<b>7,880</b>	<b>24,034</b>	<b>1,301,585</b>	<b>48,770</b>

**Note 13 - Heritage Assets**

	Civic Regalia £000	Museum Collection £000	Total Assets £000
<b>Cost or Valuation</b>			
1 April 2010	0	0	0
Additions			0
Disposals			0
Revaluations			0
Impairment Losses/ (reversals) recognised in the Revaluation Reserve			0
Impairment Losses/ (reversals) recognised Surplus/Deficit on Provision of Services			0
Depreciation			0
<b>31-Mar-11</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cost or Valuation</b>			
1 April 2011			0
Additions			0
Disposals			0
Revaluations	231	267	498
Impairment Losses/ (reversals) recognised in the Revaluation Reserve			0
Impairment Losses/ (reversals) recognised Surplus/Deficit on Provision of Services			0
Depreciation			0
<b>31-Mar-12</b>	<b>231</b>	<b>267</b>	<b>498</b>

**Note 14 - Investment Properties**

	2011/12 £'000	2010/11 £'000
Rental income from investment property	58	39
Direct operating expenses arising from investment property	0	0
<b>Net gain/(loss)</b>	<b>58</b>	<b>39</b>
<b>Balance at start of the year</b>	<b>2,993</b>	<b>2,493</b>
Additions		
Purchases		0
Construction		0
Subsequent expenditure	19	133
Disposals		(134)
Net gains/losses from fair value adjustments	(240)	501
Transfers		
to/from inventories		0
to/from Property, Plant and Equipment		0
Other changes		0
<b>Balance at end of the year</b>	<b>2,772</b>	<b>2,993</b>

**Note 15 - Intangible Assets**

	2011/12			2010/11		
	Internally Generated Assets £'000	Other Assets £'000	Total £'000	Internally Generated Assets £'000	Other Assets £'000	Total £'000
<b>Balance at start of the year</b>						
Gross carrying amounts	2,370	721	3,091	1,301	629	1,930
Accumulated amortisation	(269)	(145)	(414)	(36)	0	(36)
<b>Net carrying amount at start of year</b>	<b>2,101</b>	<b>576</b>	<b>2,677</b>	<b>1,265</b>	<b>629</b>	<b>1,894</b>
Additions:						
Internal development	280	0	280	1,069	0	1,069
Purchases	604	0	604	0	92	92
Acquired through business combinations	0	0	0	0	0	0
Assets reclassified as held for sale	0	0	0	0	0	0
Other disposals	0	(258)	(258)	0	0	0
Revaluation increases or decreases	0	0	0	0	0	0
Impairment losses recognised or reversed directly in the Revaluation Reserve	0	0	0	0	0	0
Impairment losses recognised in the surplus/deficit on the Provision of Services	0	0	0	0	0	0
Reversals of past impairment losses written back to the surplus/deficit on the Provision of Services	0	0	0	0	0	0
Amortisation for the period	(825)	0	(825)	(233)	(145)	(378)
Depreciation & Impairment Derecognition - Disposal	0	145	145	0	0	0
<b>Net carrying amount at end of year</b>	<b>2,160</b>	<b>463</b>	<b>2,623</b>	<b>2,101</b>	<b>576</b>	<b>2,677</b>
<b>Comprising</b>						
Gross carrying amounts	3,254	463	3,717	2,370	721	3,091
Accumulated amortisation	(1,094)	0	(1,094)	(269)	(145)	(414)
	<b>2,160</b>	<b>463</b>	<b>2,623</b>	<b>2,101</b>	<b>576</b>	<b>2,677</b>

The total amortisation stated in the above table is categorised as follows:

<b>Department</b>	<b>2011/12 £'000</b>	<b>2010/11 £'000</b>
Corporate	(716)	(284)
Education	(23)	(11)
Social Services	(83)	(83)
Environment	(3)	
<b>Total</b>	<b>(825)</b>	<b>(378)</b>

#### **Note 16 - Financial Instruments Categories**

The following categories of financial instrument are carried in the Balance Sheet. In addition cash and cash equivalents are disclosed in note 20.

	<b>Long Term</b>			<b>Current</b>		
	<b>31 March 2012 £'000</b>	<b>31 March 2011 £'000</b>	<b>31 March 2010 £'000</b>	<b>31 March 2012 £'000</b>	<b>31 March 2011 £'000</b>	<b>31 March 2010 £'000</b>
<b>Investments</b>						
Loans and receivables	0	0	19,950	31,715	41,895	44,628
Unquoted equity investment at cost	100	168	264			
Financial assets at fair value through profit and loss						
<b>Total investments</b>	<b>100</b>	<b>168</b>	<b>20,214</b>	<b>31,715</b>	<b>41,895</b>	<b>44,628</b>
<b>Debtors</b>						
Loans and receivables	44,780	23,754	12,458			
Financial assets carried at contract amounts				22,392	43,253	38,560
<b>Total Debtors</b>	<b>45,820</b>	<b>23,754</b>	<b>12,458</b>	<b>22,392</b>	<b>43,253</b>	<b>38,560</b>
<b>Borrowings</b>						
Financial liabilities at amortised cost	403,089	584,530	607,530	34,124	77,117	58,216
<b>Total Borrowings</b>	<b>403,089</b>	<b>584,530</b>	<b>607,530</b>	<b>34,124</b>	<b>77,117</b>	<b>58,216</b>
<b>Other Long Term Liabilities</b>						
PFI and finance lease liabilities	38,275	31,832	24,736			
<b>Total other long term liabilities</b>	<b>38,275</b>	<b>31,832</b>	<b>24,736</b>			
<b>Creditors</b>						
Financial liabilities carried at contract amounts				68,514	73,675	72,948
<b>Total Creditors</b>				<b>68,514</b>	<b>73,914</b>	<b>72,948</b>

**Note 16 - Financial Instruments - Income, Expense, Gains and Losses**

2011/12

	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Financial Assets: Available for sale £'000	Assets and Liabilities at fair value through profit and loss £'000	Total £'000
Interest expense	28,586				28,586
Losses on derecognition					
Reductions in fair value					
Impairment losses					
Fee expense					
<b>Total expense in surplus or deficit on the provision of services</b>	<b>28,586</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>28,586</b>
Interest income		(275)			(275)
Interest income accrued on impaired financial assets					
Increases in fair value					
Gains on derecognition					
Fee income					
<b>Total income in surplus or deficit on the provision of services</b>	<b>0</b>	<b>(275)</b>	<b>0</b>	<b>0</b>	<b>(275)</b>
Gains on revaluation					
Losses on revaluation					
Amounts recycled to the surplus or deficit on provision of services after impairment					
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure					
<b>Net gain/(loss) for the year</b>	<b>28,586</b>	<b>(275)</b>	<b>0</b>	<b>0</b>	<b>28,301</b>

**Note 16 - Financial Instruments - Income, Expense, Gains and Losses (Continued)**

2010/11

	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Financial Assets: Available for sale £'000	Assets and Liabilities at fair value through profit and loss £'000	Total £'000
Interest expense	29,734				29,734
Losses on derecognition					0
Reductions in fair value					0
Impairment losses					0
Fee expense					0
<b>Total expense in surplus or deficit on the provision of services</b>	<b>29,734</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>29,734</b>
Interest income		(974)			(974)
Interest income accrued on impaired financial assets					0
Increases in fair value					0
Gains on derecognition					0
Fee income					0
<b>Total income in surplus or deficit on the provision of services</b>	<b>0</b>	<b>(974)</b>	<b>0</b>	<b>0</b>	<b>(974)</b>
Gains on revaluation					0
Losses on revaluation					0
Amounts recycled to the surplus or deficit on provision of services after impairment					0
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure					0
<b>Net gain/(loss) for the year</b>	<b>29,734</b>	<b>(974)</b>	<b>0</b>	<b>0</b>	<b>28,760</b>

## Note 16 - Fair Values of Assets and Liabilities

The Council's long term financial assets and financial liabilities are carried in the Balance Sheet at amortised cost. The portion of borrowings and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under short term borrowings or short term investments. This includes accrued interest for long term investments and borrowings, as well as accrued interest for cash and cash equivalents.

The Council's long term borrowing at 31 March 2011 and 31 March 2012 consisted of loans from the Public Works Loan Board (PWLB) and market loans. The PWLB has provided the Council with Fair Value amounts in relation to its debt portfolio, assessed by calculating the amounts the Council would have had to pay to extinguish the loans on these dates. In the case of market loans, the Council's Treasury Adviser has calculated the fair value based on equivalent swap rates at the Balance Sheet date. The carrying amount of short term borrowing is considered to be at fair value.

The Council's investments consisted almost entirely of term deposits with Banks and public sector bodies. The maturity dates of these investments were within 12 months of the Balance Sheet date. The contracts of term deposits do not permit premature redemption. None of the investments were impaired (i.e. at risk of default), apart from the deposits with Icelandic banks referred to below.

	31 March 2012		31 March 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>				
Short Term Borrowing	34,124	34,124	77,117	77,117
Long Term Borrowing	403,089	550,082	584,530	682,859
Long Term Creditors	35,540	35,540	31,832	31,832

The fair value of long term borrowing is higher than the carrying amount because the Council'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.

### **Financial Assets**

Loans and Receivables	41,820	41,820	41,895	41,895
Long Term Debtors	44,780	44,780	23,754	23,754

The amortised value of investments is felt to be a good estimate of the Fair Value.

### **Impairment of Deposits with Icelandic Banks**

The details of the original deposits were:

	Amount	Interest Rate	Maturity
	£m	%	
Heritable	10	5.85	13.11.08
Glitnir	5	5.85	12.12.08



All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Council will be determined by the administrators/receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the Council considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators/receivers, it is likely that further adjustments will be made to the accounts in future years.

### Heritable Bank

Heritable bank is a UK registered bank under Scottish law. The company was placed in administration on 7<sup>th</sup> October 2008. The creditor progress report issued by the administrators Ernst and Young indicate that the Council is likely to recover between 86p and 90p in the pound. The Council has therefore decided to recognise an impairment of £2m in order to cover any reasonably expected loss. As at 31<sup>st</sup> March 2012, the Council had recovered £6.79m. It is anticipated that there will be some front loading of these repayments and that a final sale of assets will take place after the books have been run down to the end of 2013. The Council has made the following assumptions re timing of future repayments:

April 2012 -	3.79%
July 2012 -	3.5%
October 2012 -	3.5%
January 2013 -	3.5%
April 2013 -	5.81%

Recoveries are expressed as a percentage of the Council's claim in the administration, which includes interest accrued up to 6<sup>th</sup> October 2008.

### Glitnir Bank hf

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs was made to creditors on 6th February 2009 and can be viewed on its website. Court action in Iceland has confirmed that the Council is a preferential creditor and £4m (of £5m) has been repaid to the Council. The balance is being held in an escrow account in Icelandic krone. Recovery of the remaining balance is subject to the impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the Council's claim, which may be denominated wholly or partly in currencies other than sterling.

### Note 17 - Inventories

	Consumable Stores	
	2011/12	2010/11
	£'000	£'000
<b>Balance outstanding at start of year</b>	<b>104</b>	<b>120</b>
Purchases		
Recognised as an expense in the year	34	(16)
Written off balances		
Reversals of write-offs in previous years		
<b>Balance outstanding at year end</b>	<b>138</b>	<b>104</b>

## Note 18 - Construction Contracts

At 31 March 2012 the Council had a single construction contract in progress, for the construction of the Crest Academies (previously known as the John Kelly Schools) on behalf of the Academy Partnership utilizing grant monies provided by the Department of Education. Upon completion of the scheme the buildings will be passed over to the Academy Partnership at nil consideration to the Council. The value of work completed at 31 March 2012 is as per the Council's Financial Information System as maintained by the scheme's Project Manager and based on consultants reports. The amount due from the Department of Education at 31 March 2012 is as follows:

	<b>CREST Academies £000</b>
Costs Incurred to date	5,149
Revenue recognized:	
• Before 1 April 2011	0
• During 2011/12	8,399
Profit/(Loss)	0
Advances Received	3,250
Gross Amount Due	0
Comprising:	
• Amounts not billed	0
• Retentions	0

## Note 19 - Debtors

	<b>31-Mar-12 £'000</b>	<b>31-Mar-11 £'000</b>	<b>31-Mar-10 £'000</b>
Central government bodies	12,023	13,861	21,800
Other local authorities	7,621	5,902	7,988
NHS bodies	1,854	2,505	3,999
Public corporations and trading funds	5	136	0
Other entities and individuals	22,392	43,253	38,560
<b>Total</b>	<b>43,895</b>	<b>65,657</b>	<b>72,347</b>

## Note 20 - Cash and Cash Equivalents

	<b>31-Mar-12 £'000</b>	<b>31-Mar-11 £'000</b>	<b>31-Mar-10 £'000</b>
Cash held by the Council	0	48	137
Bank current accounts	12,559	16,674	17,844
Short-term deposits	31,876	25,042	4,000
<b>Total</b>	<b>44,435</b>	<b>41,764</b>	<b>21,981</b>
Schools overdrawn accounts	<b>(3,981)</b>	<b>(6,271)</b>	

**Note 21 - Assets Held for Sale**

	Current		Non-Current	
	2011/12	2010/11	2011/12	2010/11
	£'000	£'000	£'000	£'000
<b>Balance outstanding at start of the year</b>	<b>0</b>	<b>2,799</b>	<b>0</b>	<b>0</b>
Assets newly classified as held for sale:				
Property, Plant and Equipment		2,799	0	0
Intangible Assets		0	0	0
Other assets/liabilities in disposal groups		0	0	0
Revaluation losses		0	0	0
Revaluation gains		0	0	0
Impairment losses		0	0	0
Assets declassified as held for sale:				
Property, Plant and Equipment		0	0	0
Intangible Assets		0	0	0
Other assets/liabilities in disposal groups		0	0	0
Assets sold		(2,817)	0	0
Transfers from non-current to current		0	0	0
Other movements		18	0	0
<b>Balance outstanding at year end</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Note 22 - Creditors**

	31-Mar-12	31-Mar-11	31-Mar-10
	£'000	£'000	£'000
Central government bodies	6,462	9,139	7,700
Other local authorities	6,597	6,592	6,196
NHS bodies	114	818	556
Public corporations and trading funds	97	1,466	399
Other entities and individuals	68,514	73,675	72,948
<b>Total</b>	<b>81,784</b>	<b>91,690</b>	<b>87,799</b>

## Note 23 - Provisions

	<b>Outstanding Legal Cases £'000</b>	<b>Compensation Claims £'000</b>	<b>Other Provisions £'000</b>	<b>Total £'000</b>
<b>SHORT TERM PROVISIONS</b>				
<b>Balance at 1 April 2011</b>	<b>1,000</b>	<b>2,044</b>	<b>2,060</b>	<b>5,104</b>
Movement from long-term	46			46
Additional provisions made in 2011/12	272	3,089	993	4,354
Amounts used in 2011/12		(2,324)	(1,972)	(4,296)
Unused amounts reversed in 2011/12				
Unwinding of discounting in 2011/12				0
<b>Balance at 31 March 2012</b>	<b>1,318</b>	<b>2,809</b>	<b>1,081</b>	<b>5,208</b>
<b>LONG TERM PROVISIONS</b>				
<b>Balance at 1 April 2011</b>	<b>367</b>	<b>2,702</b>	<b>182</b>	<b>3,251</b>
Movement from short term	(46)			(46)
Additional provisions made in 2011/12			528	528
Amounts used in 2011/12	(167)	(304)	(88)	(559)
Unused amounts reversed in 2011/12				0
Unwinding of discounting in 2011/12				0
<b>Balance at 31 March 2012</b>	<b>154</b>	<b>2,398</b>	<b>622</b>	<b>3,174</b>

The information set out below provides a general indication of the potential claims on the Council to protect the Council's financial position.

### Outstanding legal claims

**Disrepair Cases** - Estimated compensation due to Council tenants for disrepair cases.

**Housing Repairs** - To meet legal liabilities to repair leased properties.

**Quinton Street S106** - Ongoing legal dispute.

**Compulsory Purchase Order** – relating to Wembley Estate access road.

**London Lets** - Legal costs relating to outstanding rents, interest and legal costs taken by London Lets Ltd on disputed agreement relating to financial commitment to house 2 bed households in 3 bed properties.

### **Compensation Claims**

**Uninsured Losses** - The Council meets a proportion of its insurance liabilities and claims from the Uninsured Losses provision. The level of the provision is reviewed annually on the basis of information from the Council's advisers.

### **Other Provisions**

**Redundancy** - Provision for redundancies arising from restructuring of services announced in 2011/12.

**Finance lease liability - provision** for onerous lease.

**Carbon Reduction Commitment** – provision to cover 2011/12 costs of scheme.

### **Note 24 - Usable Reserves**

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Note 8 to the accounts.

**Note 25 - Unusable Reserves – Summary**

31 March 2010 £'000	31 March 2011 £'000		31 March 2012 £'000
137,385	134,577	Revaluation Reserve	161,178
503,352	267,311	Capital Adjustment Account	523,069
(36,316)	(33,964)	Financial Instruments Adjustment Account	(28,501)
1,250	1,250	Deferred Capital Receipts Reserve	1,250
(673,880)	(581,680)	Pensions Reserve	(658,501)
(12,331)	(9,589)	Accumulated Absences Account	(6,341)
<b>(80,540)</b>	<b>(222,095)</b>	<b>Total Unusable Reserves</b>	<b>(7,846)</b>

**Note 25 - Unusable Reserves - Movements in year**

**Revaluation Reserve**

2010/11 £'000		2011/12 £'000
137,385	<b>Balance at 1 April</b>	134,577
1,624	Upward revaluation of assets	36,158
(340)	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the Provision of Services	(340)
1,284	Surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the Provision of Services	35,818
(2,574)	Difference between fair value depreciation and historical cost depreciation	(8,122)
(1,518)	Accumulated gains on assets sold or scrapped	(1,095)
(4,092)	Amount written off to the Capital Adjustment Account	(9,217)
<b>134,577</b>	<b>Balance at 31 March</b>	<b>161,178</b>

## Capital Adjustment Account

2010/11 £'000		2011/12 £'000
503,352	<b>Balance at 1 April</b>	267,311
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>	
(30,938)	Charges for depreciation and impairment of non-current assets	(28,732)
(233,514)	Revaluation losses on Property, Plant and Equipment	22,999
(378)	Amortisation of intangible assets	(519)
(21,331)	Revenue expenditure funded from capital under statute	(21,474)
(42,475)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(13,607)
(328,636)		(41,333)
5,005	Adjusting amounts written out of the Revaluation Reserve	9,217
(323,631)	Net written out amount of the cost of non-current assets consumed in the year	(32,116)
	<b>Capital Financing applied in the year:</b>	
7,777	Use of the Capital Receipts Reserve to finance new capital expenditure	10,192
6,561	Use of the Major Repairs Reserve to finance new capital expenditure	3,575
57,348	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	49,932
0	Application of grants to capital financing from the Capital Grants Unapplied Account	0
	Capital Grant applied to HRA debt repayment	198,000
11,681	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	14,809
4,724	Capital expenditure charged against the General Fund and HRA balances	12,319
88,091		288,114
(501)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(240)
0	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	0
<b>267,311</b>	<b>Balance at 31 March</b>	<b>523,069</b>

## Financial Instruments Adjustment Account

2010/11 £'000		2011/12 £'000
(36,316)	<b>Balance at 1 April</b>	(33,964)
(5,033)	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0
5,486	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	5,463
1,899	Impairment of deposits with Icelandic Banks	0
<b>(33,964)</b>	<b>Balance at 31 March</b>	<b>(28,501)</b>

## Pensions Reserve

2010/11 £'000		2011/12 £'000
(673,880)	<b>Balance at 1 April</b>	(581,680)
(12,520)	Actuarial gains or losses on pensions assets and liabilities	(66,494)
73,270	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	(40,146)
31,450	Employer's pensions contributions and direct payments to pensioners payable in the year	29,819
<b>(581,680)</b>	<b>Balance at 31 March</b>	<b>(658,501)</b>

## Deferred Capital Receipts Reserve

2010/11 £'000		2011/12 £'000
1,250	<b>Balance at 1 April</b>	1,250
0	Transfer of Deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	
0	Transfer to the Capital Receipts Reserve upon receipt of cash	
<b>1,250</b>	<b>Balance at 31 March</b>	<b>1,250</b>



### Accumulated Absences Account

2010/11 £'000		2011/12 £'000
(12,331)	<b>Balance at 1 April</b>	(9,589)
12,331	Settlement or cancellation of accrual made at the end of the preceding year	9,589
(9,589)	Amounts accrued at the end of the current year	(6,341)
2,742	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	3,248
<b>(9,589)</b>	<b>Balance at 31 March</b>	<b>(6,341)</b>

### Note 26 - Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2010/11 £'000		2011/12 £'000
2,344	Interest received	1,893
(29,528)	Interest paid	(28,150)

### Note 27 -Cash Flow Statement - Investing Activities

2010/11 £'000		2011/12 £'000
(110,877)	Purchase of property, plant and equipment, investment property and intangible assets	(120,743)
22,779	Net decrease in short-term and long-term investments	10,248
	Other payments for investing activities	
21,006	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	7,131
72,733	Capital grants received	82,285
<b>5,641</b>	<b>Net cash flows from investing activities</b>	<b>(21,079)</b>

## Note 28 - Cash Flow Statement - Financing Activities

2010/11 £'000		2011/12 £'000
(4,099)	Net decrease in short-term and long-term borrowing	(224,429)
(983)	Cashflows relating to PFI schemes	(1,651)
<b>(5,082)</b>	<b>Net cash flows from financing activities</b>	<b>(226,080)</b>

## Note 29 - Amounts Reported for Resource Allocation Decisions / Directorate Income and Expenditure

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting *Code of Practice*.

However, decisions about resource allocation are taken by the Council's Executive on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used in the financial statements.

In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to departments.

**Note 29 - Directorate Income and Expenditure**

2011/12	Environment and Neighbourhood Services					Total £'000
	Children and Families £'000	Adult Social Services £'000	Regeneration & Major Projects £'000	Central Units £'000	Total £'000	
Fees, charges and other service income Government grants and Contributions	(37,089) (271,837)	(40,672) (3,729)	(16,933) (10,367)	(86,930) (9,480)	(28,154) (369,730)	(209,778) (665,143)
<b>Total Income</b>	<b>(308,926)</b>	<b>(44,401)</b>	<b>(27,300)</b>	<b>(96,410)</b>	<b>(397,884)</b>	<b>(874,921)</b>
Employee expenses	224,054	21,842	18,114	14,649	34,676	313,335
Other service expenses	113,068	49,317	93,144	108,111	373,959	737,599
Support service recharges	23,284	9,410	2,414	5,678	18,454	59,240
<b>Total Expenditure</b>	<b>360,406</b>	<b>80,569</b>	<b>113,672</b>	<b>128,438</b>	<b>427,089</b>	<b>1,110,174</b>
<b>Net Expenditure</b>	<b>51,480</b>	<b>36,168</b>	<b>86,372</b>	<b>32,030</b>	<b>29,205</b>	<b>235,253</b>

**2010/11 Comparative Figures**

2010/11	Environment and Neighbourhood Services				Total £'000
	Children and Families £'000	Environment and Culture £'000	Housing and Community Care - Housing £'000	Housing and Community Care - Adults £'000	
Fees, charges and other service income Government grants	(74,873) (292,693)	(28,843) (3,475)	(14,009) (9,908)	(12,770) (12,506)	(174,323) (659,826)
<b>Total Income</b>	<b>(367,566)</b>	<b>(32,318)</b>	<b>(23,917)</b>	<b>(25,276)</b>	<b>(834,149)</b>
Employee expenses	237,693	27,217	8,356	21,763	331,213
Other service expenses	131,439	43,492	35,991	93,471	669,947
Support service recharges	58,315	6,430	3,537	1,599	82,100
<b>Total Expenditure</b>	<b>427,447</b>	<b>77,139</b>	<b>47,884</b>	<b>116,833</b>	<b>1,083,260</b>
<b>Net Expenditure</b>	<b>59,881</b>	<b>44,821</b>	<b>23,967</b>	<b>91,557</b>	<b>249,111</b>

## Reconciliation to the Comprehensive Income and Expenditure Statements

2010/11 £'000		2011/12 £'000
<b>249,111</b>	<b>Net expenditure in the Directorate analysis</b>	<b>235,253</b>
(9,939)	Net expenditure of services and support services not included in the analysis	16,893
145,425	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	(38,321)
280	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	373
<b>384,877</b>	<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>214,198</b>

## Reconciliation to Subjective Analysis

	Directorate Analysis £'000	Services and support services not in analysis £'000	Amounts not reported to management for decision making £'000	Amounts not included in Income & Expenditure £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
2011/12								
Fees, charges and other income	(209,778)	(20,064)	26,189			(203,653)		(203,653)
Surplus or deficit on associates and joint ventures							(748)	(748)
Interest and investment income							(101,978)	(101,978)
Income from Council tax							(272,213)	(272,213)
HRA settlement grant	(665,143)	(4,304)	(13,515)			(682,962)	(268,877)	(951,839)
Government grants and contributions								
<b>Total Income</b>	<b>(874,921)</b>	<b>(24,368)</b>	<b>12,674</b>			<b>(886,615)</b>	<b>(643,816)</b>	<b>(1,530,431)</b>
Employee expenses	313,335	8,759	(38,895)			283,199		283,199
Other service expenses	737,599	26,322	(79,540)	373		685,838		685,838
Support service recharges	59,240	6,180	66,500			131,920		131,920
Depreciation, amortisation and impairment			28,732			28,732		28,732
Interest payments							44,526	44,526
Precepts and levies							2,203	2,203
Payments to Housing capital receipts pool							624	624
HRA redemption costs							74,213	74,213
Gain or loss on disposal of fixed assets							6,117	(22,759)
<b>Total expenditure</b>	<b>1,110,174</b>	<b>41,261</b>	<b>(50,995)</b>	<b>373</b>		<b>1,100,813</b>	<b>127,683</b>	<b>1,228,496</b>
<b>Surplus or deficit on the provision of services</b>	<b>235,253</b>	<b>16,893</b>	<b>(38,321)</b>	<b>373</b>		<b>214,198</b>	<b>(516,133)</b>	<b>(301,935)</b>

Reconciliation to Subjective Analysis (Continued)

	Directorate Analysis £'000	Services and support services not in analysis £'000	Amounts not reported to management for decision making £'000	Amounts not included in Income & Expenditure £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
<b>2010/11 comparative figures</b>								
Fees, charges and other income	(174,323)	(5,351)	(48,186)			(227,860)		(227,860)
Surplus or deficit on associates and joint ventures						0		0
Interest and investment income						0	(973)	(973)
Income from Council tax	(659,826)	(4,588)	(10,670)			0	(100,982)	(100,982)
Government grants and contributions						(675,084)	(263,679)	(938,763)
<b>Total Income</b>	<b>(834,149)</b>	<b>(9,939)</b>	<b>(58,856)</b>	<b>0</b>	<b>0</b>	<b>(902,944)</b>	<b>(365,634)</b>	<b>(1,268,578)</b>
Employee expenses	331,213		8,686			339,899		339,899
Other service expenses	669,947		167,565	280		837,792	(781)	837,011
Support service recharges	82,100		3,437			85,537		85,537
Depreciation, amortisation and impairment			24,452			24,452		24,452
Interest payments						0	64,793	64,793
Precepts and levies						0	10,265	10,265
Payments to Housing capital receipts pool							669	669
Gain or loss on disposal of fixed assets							21,469	21,469
<b>Total expenditure</b>	<b>1,083,260</b>	<b>0</b>	<b>204,140</b>	<b>280</b>	<b>0</b>	<b>1,287,680</b>	<b>96,415</b>	<b>1,384,095</b>
<b>Surplus or deficit on the provision of services</b>	<b>249,111</b>	<b>(9,939)</b>	<b>145,284</b>	<b>280</b>	<b>0</b>	<b>384,736</b>	<b>(269,219)</b>	<b>115,517</b>

### Note 30 – Acquired and Discontinued Operations

The Council has no transactions to disclose.

### Note 31- Trading Operations Accounts

	2010/11 £'000	2011/12 £'000
<b>Trading Operation - Brent Transport Services</b>		
Turnover	(6,723)	(6,253)
Expenditure	6,165	5,681
(Surplus)/Deficit	(558)	(572)
<b>Trading Operation - Grounds Maintenance</b>		
Turnover	(171)	(530)
Expenditure	351	335
(Surplus)/Deficit	180	(195)
Net (surplus)/deficit on trading operations	<b>(378)</b>	<b>(767)</b>
Net (surplus)/deficit on trading operations	(378)	<b>(767)</b>
Services to the public included in the Expenditure of Continuing Operations		
Support services recharged to Expenditure of Continuing Operations	98	394
Net (surplus) credited to Other Operating Expenditure	<b>(280)</b>	<b>(373)</b>

Brent Transport Service provides transport to schools and social care establishments.

Grounds Maintenance relates to work undertaken on behalf of the Council by the ex-DLO function of the Parks Service

### Note 32 – Agency Services

The Council has no transactions to disclose.

### Note 33 – Road Charging Schemes Under the Transport Act 2000 (or Transport (Scotland) Act 2001)

The Council has no transactions to disclose.

### Note 34 - Pooled Budgets

The Council entered into partnership agreements under Section 31 of the Health Act 1999 with Brent NHS Trust for pooled budget arrangements of the Senior Management Teams and related expenditure of the Learning Disability Partnership Board and the Integrated Community Equipment Service Partnership Board. The London Borough of Brent was the host partner for Learning Disabilities until 31.3.11 and is still the host partner for Occupational Therapy equipment. Funding for Occupational Therapy equipment is split 40% London Borough of Brent and 60% NHS Brent. There is also a Section 31 arrangement with the Central and North West London NHS Foundation Trust (CNWLNFT) which is the host partner for Mental Health.

The Partnerships' income and expenditure for 2011/12 was:

	<b>Mental Health £'000</b>	<b>Occupational Therapy £'000</b>
Funding: London Borough of Brent	(566)	(450)
Brent NHS Trust	-	(675)
CNWLNFT	(1261)	-
<b>Total Funding</b>	<b>(1827)</b>	<b>(1125)</b>
<b>Expenditure</b>	<b>1827</b>	<b>1094</b>
<b>Net Overspend/(Underspend)</b>	<b>0</b>	<b>(31)</b>
<b>2010/11 Net Overspend/(Underspend)</b>	<b>(12)</b>	<b>(56)</b>

#### **Note 35 - Members Allowances**

Total payments including National Insurance costs in 2011/12 were £943,000 (£940,000 in 2010/11). Details of the Members' Allowances scheme are available on Brent's website ([www.brent.gov.uk](http://www.brent.gov.uk)).



### Note 36 - Senior Employees' Remuneration

Senior employees are Brent's Chief Executive and his direct reports (other than administration staff). This includes statutory chief officers.

Postholder	Note	2010/11				2011/12					
		Salary (including fees and allowances) £	Compensation for loss of office £	Total remuneration excluding pension contributions £	Employers pension contributions £	Total remuneration including pension contributions £	Salary (including fees and allowances) £	Compensation for loss of office £	Total remuneration excluding pension contributions £	Employers pension contributions £	Total remuneration including pension contributions £
Chief Executive – G Daniel	1	203,853	-	203,853	28,793	232,646	205,783	-	205,783	26,070	231,853
Director of Environment & Culture (until 15.10.10)	2	107,951	111,155	219,106	11,236	230,342	0	-	0	0	0
Director of Environment & Neighbourhood Services (from 18.10.10)	2	54,013	-	54,013	7,994	62,007	121,348	-	121,348	16,261	137,609
Director of Housing & Community Care	8	140,508	-	140,508	20,795	161,303	11,871	-	11,871	1,591	13,462
Director of Children & Families (from 20.9.10)	3	63,079	-	63,079	9,336	72,415	122,040	-	122,040	16,353	138,393
Director of Children & Families (until 6.9.10)	3	60,887	-	60,887	9,011	69,898	-	-	0	0	0
Director of Finance & Corporate Resources (until 13.10.10)	4	75,164	-	75,164	11,124	86,288	-	-	0	0	0
Director of Finance & Corporate Services (from 23.9.10)	4	67,732	-	67,732	10,024	77,756	132,623	-	132,623	17,771	150,394

**Note 36 - Senior Employees' Remuneration Continued)**

Postholder	Note	2010/11				2011/12					
		Salary (including fees and allowances) £	Compensation for loss of office £	Total remuneration excluding pension contributions £	Employers pension contributions £	Total remuneration including pension contributions £	Salary (including fees and allowances) £	Compensation for loss of office £	Total remuneration excluding pension contributions £	Employers pension contributions £	Total remuneration including pension contributions £
Director of Strategy, Partnerships and Improvement (formerly Director of Policy & Regeneration)		140,508	-	140,508	20,795	161,303	140,508	-	140,508	18,828	159,336
Director of Business Transformation (until 11.08.10)	5	95,536	-	95,536	14,139	109,675	-	0	-	0	0
Director of Customer & Community Engagement (formerly Director of Communications and Diversity)		108,084	-	108,084	15,996	124,080	108,084	-	108,084	14,483	122,567
Director of Legal and Procurement (from 4.5.10)	6	90840		90,840	13,444	104,284		103,858		13,917	117,775
Director of Adult Social Services (from April 2011)	8				7,994	62,007		108,084		14,483	122,567
Director of Regeneration and Major Projects (from 18.10.10)	7, 8	54013		54,013				121,348		16,261	137,609
<b>Total</b>		<b>1,262,168</b>	<b>111,155</b>	<b>1,373,323</b>	<b>180,683</b>	<b>1,554,006</b>	<b>1,175,547</b>	<b>0</b>	<b>1,175,547</b>	<b>156,018</b>	<b>1,331,565</b>

- Note 1: The Chief Executive's salary in 2010/11 included £7,975 for his duties as returning officer for the General and Council elections paid by the Government plus £947 for a Council by-election as well as £381 for travel mileage. The Chief Executive's salary in 2011/12 included £9,504 for acting as counting officer for the May 2011 referendum paid by the Government and £1,452 for returning officer duties in Council by-elections paid by the Council as well as £277 for travel mileage. The Chief Executive's salary, excluding returning officer duties and travel mileage, was £194,550 in 2010/11 and 2011/12.
- Note 2: The former Director of Environment and Culture left on 15.10.10. His annualised salary was £140,508. The Director of Environment and Neighbourhood Services had an annualised salary of £118,893 in 2010/11.
- Note 3: The former Director of Children and Families worked until 6.9.10. His annualised salary was £140,508. The current Director's annualised salary was £118,893 in 2010/11.
- Note 4: The former Director of Finance and Corporate Resources left on 13.10.10. His annualised salary was £140,508. The department was renamed Finance and Corporate Services and the new Director started on 23.9.10. His annualised salary was £129,699 in 2010/11.
- Note 5: The Director of Business Transformation left on 11.8.10. His annualised salary for 2010/11 was £135,105. His areas of responsibility went to other Directors.
- Note 6: Brent paid £18,441 for interim services in 2010/11. This included an introduction fee when the interim officer was appointed to the post of Director of Legal and Procurement on a permanent basis. The annualised salary in 2010/11 was £99,978.
- Note 7: The post of Director of Regeneration and Major Projects was created after a reorganisation in 2010/11. The annualised salary in 2010/11 was £118,893.
- Note 8: The former Director of Housing and Community Care retired in April 2011. The department was re-organised. Some of the former duties are undertaken by the Director of Regeneration and Major Projects. In addition the post of Director of Adult Social Services was created incorporating the statutory responsibility for adult social services.

**Note 36 - Officers' Remuneration**

The number of employees whose remuneration in 2011/12 and 2010/11, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:-

Remuneration band £'s	2011/12			2010/11		
	Schools Staff	Officers	Total	Schools Staff	Officers	Total
50,000 - 54,999	281	63	344	268	75	343
55,000 - 59,999	105	39	144	114	43	157
60,000 - 64,999	61	12	73	65	19	84
65,000 - 69,999	41	20	61	39	31	70
70,000 - 74,999	23	13	36	27	6	33
75,000 - 79,999	17	1	18	13	6	19
80,000 - 84,999	9	2	11	15	7	22
85,000 - 89,999	13	5	18	8	8	16
90,000 - 94,999	1	4	5	5	4	9
95,000 - 99,999	3	3	6	2	3	5
100,000 - 104,999	8	2	10	5	6	11
105,000 - 109,999	0	6	6	3	6	9
110,000 - 114,999	1	3	4	3	2	5
115,000 - 119,999	0	0	0	0	1	1
120,000 - 124,999	1	3	4	1	1	2
125,000 - 129,999		0	0	1	0	1
130,000 - 134,999		1	1	0	1	1
135,000 - 139,999	1	0	1	1	0	1
140,000 - 144,999		1	1	0	2	2
190,000 - 194,999		1	1	0	1	1
215,000 - 219,999		0	0	0	1	1
<b>Total</b>	<b>565</b>	<b>179</b>	<b>744</b>	<b>570</b>	<b>223</b>	<b>793</b>

The table above includes senior employees. Further details concerning senior employees are shown in a separate note.

Bands over £145,000 are not shown above where there are no staff who earn within particular bands of £5,000.

**Note 36 - Exit Packages**

Exit Package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other other departures		Total number of exit packages by by cost band (b) + (c)		Total cost of exit exit packages in each band £k	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
	£0 - £20,000	53	63	74	115	127	178	1,121
£20,001 - £40,000	12	17	36	48	48	65	1,310	1,774
£40,001 - £60,000	5	1	13	11	18	12	874	612
£60,001 - £150,000	2	1		4	2	5	197	383
<b>TOTAL</b>	<b>72</b>	<b>82</b>	<b>123</b>	<b>178</b>	<b>195</b>	<b>260</b>	<b>3,502</b>	<b>4,366</b>

In addition to the numbers and costs shown above, a provision of £1,939k was also made for redundancy costs in 2010/11. This could not be shown in the figures above because of uncertainty about the numbers who would have been receiving termination benefits at 31.3.11.

**Note 37 - External Audit Costs**

	2010/11 £'000	2011/12 £'000
Fees payable to the Audit Commission with regard to external audit services carried out for the year	461	454
Fees payable to the Audit Commission in respect of statutory inspections		
Fees payable to the Audit Commission for the certification of grant claims and returns for the year	78	85
Fees payable in respect of other services provide by the Audit Commission during the year		
<b>Total</b>	<b>539</b>	<b>539</b>

**Note 38 - Deployment of Dedicated Schools Grant**

The Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families (DCSF), the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on a Council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately. The Council is able to supplement the Schools Budget from its own resource.

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

	<b><u>Schools Budget Funded by Dedicated Schools Grant</u></b>		
	<b>Central Expenditure £000</b>	<b>Individual Schools Budget £000</b>	<b>Total £000</b>
Original grant allocation to Schools Budget for the current year in the Council's budget	32,838	198,038	230,876
Adjustment to finalised grant allocation	0	0	0
DSG receivable for the year	32,838	198,038	230,876
Actual expenditure for the year	32,835	198,038	230,873
(Over)/underspend for the year	3	-	3
Brought Forward from 2010/11	(5,738)	0	(5,738)
<b>(Over)/underspend carried forward to 2012/13</b>	<b>(5,735)</b>	<b>-</b>	<b>(5,735)</b>

## Note 39 - Grant Income

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

	2011/12 £'000	2010/11 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<u>Grants:</u>		
ASC Single capital pot	0	311
Basic Safety Needs	43,939	14,766
Big Lottery Fund	0	206
City Learning Centres	0	300
Co-Location	0	609
Cooking in the classroom	0	300
Devolved Formula	602	1,910
Extended Schools	0	127
Fair Playbuilder	0	276
Football Foundation	219	0
Framework Academies	8,399	16,920
Growth Fund Housing	0	1,457
Harnessing Technology	0	470
Loft Conversion Grant	0	400
My Place	3,062	276
Primary Capital Programme	0	7,033
SKNDC	0	2,219
Surestart	76	3,285
TCF 14-19 Diploma SEN	0	5,342
TCF Kitchens	0	746
Transport for London	4,170	4,154
Other Grants	591	697
LA Capital Maintenance	4,219	0
Short Breaks	170	0
ASC Adult Personal Social Services	652	0
ASC Capital Teaching PCT	450	0
Roundwood & JBRC	41	0
London Marathon Grant	90	0
Targeted Capital Fund	2,825	0
Outer London Funding	332	0
<u>Contributions:</u>		
Partner Contributions	0	443
Schools	0	1,075
HRA	0	4,541
S106	5,385	2,645
Capital Funding Reserve	0	1,425
Telecom Reserve	0	527
Other Contributions	0	272
<b>Total</b>	<b>75,222</b>	<b>72,732</b>

<b>Credited to Services</b>	<b>2011/12 £'000</b>	<b>2010/11 £'000</b>
Adult and Community Learning from Learning and Skills Council (LSC)	4,421	4,244
AIDS Support	0	377
Aiming High	0	251
Council Tax Benefit	35,117	34,665
Dedicated Schools Grant (DSG)	232,116	198,934
Diploma Grants 14-19 year olds	0	218
Discretionary Housing Payments	512	226
Highways Asset management	346	0
Homelessness Strategy Grant	164	806
Housing Benefit and Council Tax Benefit Administration	3,813	4,028
Private Finance Initiative Housing Non HRA	3,418	2,789
Housing Benefit Transition Funding	753	0
Housing Subsidy	7,931	6,018
Private Finance Initiative Jewish Free School	884	884
LDA Childcare Affordability Grant	0	475
London Pay Addition	0	1,028
Mandatory Rent Allowances: subsidy	286,381	261,395
Mandatory Rent Rebates outside HRA: subsidy	13,004	10,994
Mental Health Supporting People Team	0	472
New Deal for Communities (NDC)	0	916
Preventing Homelessness	1,675	600
Private Finance Initiative Public Lighting	787	787
Private Finance Initiative Willesden Sports Cent - PFI Res	1,242	1,242
Pupil Premium Grant	4,603	0
Rent Rebates Granted to HRA Tenants: subsidy	29,669	28,320
Schools Standards Grant	0	8,609
Sixth forms funding from Learning and Skills Council (LSC)	16,955	23,386
Social Care Reform	0	1,329
Standards Fund (excluding elements now in ABG now part of DSG)	3,219	27,673
Sure Start, Early Years and Childcare Grant	0	11,565
Think Family Grant	0	474
Training and Development Agency for Schools	0	348
Unaccompanied Asylum Seeking Children (UASC) Grant	996	1,733
Other Grants	1,182	2,335
<b>Total</b>	<b>649,188</b>	<b>637,121</b>



## Capital Grants Receipts in Advance

The Council has received the following grant that is yet to be recognised as income due to the conditions attached to the grant. The balance at year end is:

	<b>31 March 2012 £'000</b>	<b>31 March 2011 £'000</b>
Aiming high for Disabled Children	nil	152

## Note 40 - 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.

Central Government provides grant income for the Council which is shown in the Notes 39 and 11 to the Core Financial Statements.

Councillors and Chief Officers complete related party transactions forms each year. Only 1 Councillor out of 63 has failed to reply for 2011/12. A number of voluntary organisations which received grants from the London Borough of Brent in 2011/12 have Brent Members as Directors, Trustees or employees. The following information has been obtained from Members' 2011/12 Declarations of Related Party Transactions:

	<b>£'000</b>
Brent Association of Disabled People	159
Brent Irish Advisory Service	22

London Borough of Brent Pension Fund - administrative support is provided to the Fund. UK equities are managed in-house. The Pension Fund's accounts are shown separately in this document. The Council charged the Pension Fund £1.027M for administering the fund in 2011/12 (£1.141M in 2010/11).

Pooled Budgets - Details of partnerships with Brent tPCT and the North West London Mental Health Trust are shown in Note 34 to the Core Financial Statements.

Subsidiary Company - Brent has one subsidiary, Brent Housing Partnership (BHP) Limited. The Council paid a management fee to BHP of £8.703M in 2011/12 (£8.758M 2010/11). Further details are provided in the Group Accounts later in this document which combine Brent and BHP's accounts.

At the 31 March 2012 the Council owed £5k to the Brent Irish Advisory Service and £3k to the PCT. At that date the Council was owed £965k but the PCT. There was no provision for bad debt relating to this figure.

## Note 41 - Capital Expenditure and Capital Financing

	2011/12 £'000	2010/11 £'000
<b>Capital Investment</b>		
Property, Plant and Equipment	102,187	101,363
Investment Properties	19	133
Intangible Assets	743	1,161
Assets Held for Sale	0	18
Revenue Expenditure Funded from Capital under Statute	21,474	8,841
Total Expenditure	124,423	111,516
<b>Sources of Finance</b>		
Capital Receipts	(10,080)	(7,777)
Government Grants and other Contributions	(62,604)	(64,092)
Direct revenue contributions	(3,222)	(4,541)
Borrowing	(48,517)	(35,106)
Total Resources	(124,423)	(111,516)
<b>Net Balance</b>	<b>0</b>	<b>0</b>
<b>Calculation of Capital Financing Requirement</b>		
Fixed Assets	1,250,213	1,115,015
Intangible Assets	2,813	2,676
Long term Debtors relating to Capital Transactions	0	0
Investments treated as Capital Expenditure	0	0
Revaluation Reserve	(161,178)	(134,577)
Capital Adjustment Account	(524,151)	(267,311)
Deferred Income	(30,197)	(21,145)
<b>Capital Financing Requirement</b>	<b>537,500</b>	<b>694,658</b>

## Note 42: Leases

### Council as Lessee

#### Finance Leases

Brent Council leases some of its IT equipment and Vehicles under finance leases. The assets acquired are included in Plant, Property and Equipment in the balance sheet as part of Plant, Furniture, Vehicles and Equipment in the notes at the following net amounts:

	31-Mar-12 £'000	31-Mar-11 £'000
Plant, Furniture, Vehicles and Equipment	1,296	2,143

The Council is committed to making minimum payments comprising of repaying the outstanding liability for the capital purchase, and interest upon the outstanding liabilities. The minimum lease payments are made of the following amounts:

	31-Mar-12	31-Mar-11
	£'000	£'000
Finance lease liabilities		
Current	848	1,183
Non-current	845	1,711
Finance costs payable in future years	227	384
Minimum lease payments	1,921	3,278

These minimum lease payments are payable over the following periods:

	Total Minimum Lease Payments		Present Value of Minimum Lease Payments Repayable Minimum Lease Payments Repayable	
	2011-12	2010-11	2011-12	2010-11
	£'000	£'000	£'000	£'000
Not Later than one year	1,020	1,376	848	1,183
Later than one year and not later than five years	900	1,902	845	1,619
Later than five years	0	0	0	2
	1,921	3,278	1,694	2,802

### Operating Leases

Brent Council leases Land & Buildings, Office Equipment, vehicles, and telecommunications Equipment in order to provide its services.

The Future Minimum payments under these leases in future years are:

	2011-12	2010-11
	£'000	£'000
Not later than one year	2,838	2,645
Later than one year and not later than five years	6,377	5,386
Later than five years	7,253	7,202
	16,468	15,233

The Council sub-leases office accommodation and sports grounds. The future minimum sub lease payments to the Council for these sub leases are:

	2011-12 £'000	2010-11 £'000
Future Minimum Sublease Payments Receivable	154	283

The expenditure charged to Comprehensive Income and Expenditure Statement for these leases is detailed below:

	2011-12 £'000	2010-11 £'000
Minimum Lease payments	4,460	4,378
(Sublease payments receivable)	(146)	(129)
	4,314	4,249

The Council is required to disclose embedded leases in line with the principles of IFRIC 4. IFRIC 4 requires disclosure of the total payment required where payments cannot be separated in separate payments for services and for assets. Lease elements of contracts for Waste Services and Parking Enforcement have been separated and are disclosed above in the finance and operating lease sections.

The following payments are for an adult Social care contract where payments cannot be separated, so are disclosed separately:

	2011-12 £'000	2012-11 £'000
Minimum Lease payments	1,517	1,653

Future payments under this contract are:

	2011-12 £'000	2010-11 £'000
Not later than one year	1,517	1,694
Later than one year and not later than five years	0	1,517
	1,517	3,211

## Council as Lessor

### Finance Leases

Brent Council leases Northwick golf course to a commercial operator on a finance lease with a remaining term of 93 years.

The Council has a gross investment in the property which is the present value of future lease payments receivable under the contract. The gross investment is made up of the following amounts:

	2011-12 £'000	2010-11 £'000
Finance lease debtor		
Current	0	0
Non Current	1,250	1,250
Gross Investment in Lease	1,250	1,250

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Present Value of Minimum Lease Payments	
	2010-12 £'000	2010-11 £'000	2011-12 £'000	2010-11 £'000
Not Later than one year	0	0	0	0
Later than one year and not later than five years	0	0	0	0
Later than five years	1,249	1,249	1,249	1,249
	1,249	1,249	1,249	1,249

The Council receives additional contingent rent based on the turnover of the golf course. For 2011-12, it is estimated that £36,000 of contingent rent will be receivable.

### Operating Leases

The Council leases out a number of its properties both for commercial use and service provision. It also leases a small number of vehicles to Brent Housing Partnership.

Future minimum lease payments expected under these contracts are:

	2011-12 £'000	2010-11 £'000
Not later than one year	965	970
Later than one year and not later than five years	1,617	2,079
Later than five years	7,174	6,100
	9,137	9,149

The Council receives additional contingent rent for one of its properties based on the turnover of the lessee's business. In 2011-12, £37,178 contingent rent was receivable.

## NOTE 43 - PRIVATE FINANCE INITIATIVE (PFI) AND SERVICE CONCESSIONS

The accounting rules that the Council has to use for these PFI projects changed in the 2010/11 financial year to use International Finance Reporting Standards. IFRIC 12 sets out the detailed criteria for determining if a PFI is on balance sheet. A detailed assessment of the Council's contract has been carried out, as a result of this assessment the PFI projects detailed below are accounted for as Service Concessions under IFRIC 12.

The Council has entered into three PFI projects which have generated assets to be used by the Council, these are:

- In 1998/99 a 20 year project to provide and maintain street lights throughout the Borough, legal title to these street lights transfers to Brent at the end of the contract. The contract pays for the maintenance and operation of the streetlights throughout the contract period.
- In 2006/07 a 25 year project to provide, operate and maintain a new sports centre and related facilities in Willesden; legal title to this sports centre transfers to Brent at the end of the contract.
- In 2008/09 the Council entered into phase 1 of a 20 year project to provide and maintain social housing, and replacement residential facilities for people with learning disabilities. Phase 2 of this contract was signed in 2010-11 Legal title to the residential facilities for people with learning disabilities transfers to Brent. Brent controls the residual value of 158 units of the housing stock at the end of the contract by a combination of restrictions on the sale and use of the social housing built and guaranteed nomination rights to 158 of the properties built. The complexities of this contract are further detailed below.

In addition, IFRIC 12 and Code of Practice require the Council to assess its other contracts to see if they are service concessions. The Council has reviewed its contracts and identified the following agreements that meet the definition of a Service Concession:

- In 2005/06 a 32 year agreement was made to provide and maintain social housing within Stonebridge. Whether or not a block of flats or house paid for by this contract appears on Brent's balance sheet was determined by a tenant's vote at the start of the contract. The PFI operator manages and maintains these properties on behalf of Brent.
- In 2006/07 a 5 year agreement was made to refurbish a sports centre in Wembley. This Sports Centre is on balance sheet, and the value of these refurbishments is controlled by Brent Council when the contract ends.

The assets that have been recognised on the balance sheet funded by PFIs and service concessions are shown in Note 12 on Plant, Property, and Equipment.

These assets are funded by the following liabilities which are repaid over the course of the contract to recompense the PFI operator for the capital expenditure they have carried out.

	2011-12	2010-11
	£'000	£'000
Balance outstanding at start of year	33,844	25,817
Payments during the year	(2,909)	(679)
Additional liabilities	5,810	8,706
Balance outstanding at end of year	36,745	33,844

The following future payments are expected to be made on the PFIs and Service Concessions:

	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Payable in 2012/13	2,734	1,854	3,843	8,431
Payable with two to five years	12,199	10,774	14,220	37,193
Payable within 6 to 10 years	13,479	12,357	14,383	40,219
Payable within 11 to 15 years	9,673	15,029	11,553	36,255
Payable within 16 to 20 years	8,656	14,803	8,677	32,137
Payable within 21 to 25 years	2,056	8,894	6,223	17,173
Payable within 25 to 30 years	0	0	0	0
Total	48,797	63,711	58,899	171,408

Where a PFI asset is paid for by third party payments, the statement of recommended practice requires recognition of deferred income, recognising the expected future third party payments. The following deferred income balance has been recognised in line with the Code of Practice:

	2011-12 £'000	2010-11 £'000
Deferred Income opening balance	(21,145)	(6,877)
Additions	(10,680)	(14,540)
Amortisation	1,546	272
Deferred Income closing balance	(30,279)	(21,145)

Further details of the Housing and Adult Social Care PFI: assessed under IFRS this contract has three distinct elements:

1. Residential facilities for people with learning disabilities Legal title to 20 units residential facilities for people with learning disabilities transfers to Brent. This element of the PFI is accounted for using the service concession rules for IFRIC 12
2. Residential social housing with guaranteed nomination rights Brent controls the residual value of this Social Housing stock at the end of the contract by a combination of restrictions on the sale and use of the social housing built and nomination rights to some of the properties built. Brent will be granted at least 158 nomination rights. This element of the PFI is accounted for using the service concession rules for IFRIC 12.
3. Residential social housing without guaranteed nomination rights This residual stock after Brent is granted at least 158 nomination rights. This will be at most 206 units. These units can be sold by the PFI Operator to other Registered Social Landlords under the conditions of the contract. This element is therefore considered to be temporary housing stock, and is accounted for using the embedded lease rules for IFRIC 4.

The Assets and Liabilities for element 2 of the PFI have been calculated using the ratio of 158:364, which is the ratio of guaranteed nomination rights to total social housing properties.

The payments for element 3 are the residual payments once elements 2 and 3 are accounted for.

There are a number of uncertainties about this contract where the Council's assets and liabilities may be affected by uncertain future events:

- The number of nomination rights is governed by House Price inflation: the higher house price inflation is the greater the number of nomination rights.
- The PFI Operator is allowed to sell a number of properties to equal in value to the principal amount of senior debt for the PFI. The principal amount of senior debt will be affected by future social housing rents. It is also possible that refinancing of the contract could lower the principal amount of senior debt.
- At this stage, it is not possible to state to which 158 properties the Council will get permanent nomination rights. This will be determined over the course of the contract by the granted of long term tenancies to residents of the properties. This may result in the Council's assets and liabilities being higher or lower than currently projected.

These features of the contract are an important part of the Council's risk control for this contract. The contract is fixed in price; it is the apportionment of this fixed payment between the permanent and temporary elements which is uncertain. In substance, the risks principally affect the future benefits the Council will receive at the end of the contract in the form of nomination rights.

**Note 44 – Impairment Losses**

No impairment losses have been incurred.

**Note 45 – Capitalisation of Borrowing Costs**

As per International Financial Reporting Standards and International Accounting Standard 23 – Borrowing Costs, from 2010/11 the London Borough of Brent has adopted an accounting policy of capitalising borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset which takes in excess of three years to get ready for intended use and has forecast expenditure in excess of £100 million. The Civic Centre scheme is currently the Council's only qualifying asset.

Amount of Borrowing Costs Capitalised

	<b>2011/12</b>	<b>2010/11</b>
<b>Total Borrowing Costs Capitalised</b>	<b>1,530,946</b>	<b>825,544</b>

Capitalisation Rate used to determine borrowing costs eligible for capitalisation

	<b>2011/12</b>	<b>2010/11</b>
Annual Borrowing Rate at Year End	4.79%	4.92%%



## **Note 46 - Termination Benefits**

Information on termination benefits is included within the exit packages note (Note 36)

## **Note 47 - Pension Schemes Accounted for as Defined Contribution Schemes**

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. In 2011/12, the Council paid £13.3m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/11 were £13.9m and 14.1%. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 48.

## **Note 48.1 - Defined Benefit Pension Schemes**

### **Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. The Council participates in two post employment schemes:

(1) The Local Government Pension Scheme – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

(2) Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

### **Transactions Relating to Post-employment Benefits**

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Statement</b>				
<i>Cost of Services:</i>				
Current service cost	20,026	21,760		
Past service costs	58	(109,830)		(8,120)
Settlements and curtailments	1,341			
<i>Financing and investment Income and Expenditure:</i>				
Interest cost	48,987	49,040	4,902	4,980
Expected return on scheme assets	(35,168)	(31,100)		
<b>Total PostEmployment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>35,244</b>	<b>(70,130)</b>	<b>4,902</b>	<b>(3,140)</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>				
Actuarial gains and losses	60,212	12,220	6,282	300
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>95,456</b>	<b>(57,910)</b>	<b>11,184</b>	<b>(2,840)</b>
<b>Movement in Reserves Statement</b>				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(35,244)	70,130	4,902	3,140
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>				
Employers' contributions payable to the scheme	<b>24,895</b>	<b>26,710</b>		
Retirement benefits payable to pensioners			<b>4,924</b>	<b>4,740</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £ 239.022 million.

**Note 48.2 - Assets and Liabilities in Relation to Post Employment Benefits**

Reconciliation of present value of the scheme liabilities

	<b>Funded Liabilities: Local Government Pension Scheme</b>		<b>Unfunded Liabilities: Discretionary Benefits Arrangements</b>	
	<b>31 March 2012</b>	<b>31 March 2011</b>	<b>31 March 2012</b>	<b>31 March 2011</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Opening Balance at 1 April</b>	<b>908,400</b>	<b>977,480</b>	<b>91,520</b>	<b>99,100</b>
Current service cost	20,026	21,760		
Interest cost	48,987	49,040	4,902	4,980
Contributions by scheme participants	6,570	6,990		
Actuarial gains and losses	27,428	(6,120)	6,282	300
Benefits paid	(30,481)	(30,920)	(4,924)	(4,740)
Past service costs	58	(109,830)		(8,120)
Entity combinations				
Curtailments	1,341			
Settlements				
Expected return on scheme assets				
<b>Closing Balance at 31 March</b>	<b>982,329</b>	<b>908,400</b>	<b>97,780</b>	<b>91,520</b>

Reconciliation of fair value of the scheme assets

	<b>Local Government Pension Scheme</b>	
	<b>31 March 2012</b>	<b>31 March 2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Opening Balance at 1 April</b>	<b>418,240</b>	<b>402,700</b>
Expected return on assets	35,168	31,100
Actuarial gains and losses	(32,784)	(18,340)
Employer contributions	24,895	26,710
Contributions by scheme participants	6,570	6,990
Benefits paid	(30,481)	(30,920)
Entity combinations		
Settlements		
<b>Closing Balance at 31 March</b>	<b>421,608</b>	<b>418,240</b>

### Note 48.3 -Scheme History

	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000
<b>Present Value of Liabilities:</b>			
Local Government Pension Scheme	982,329	908,400	977,480
Discretionary Benefits	97,780	91,520	99,100
<b>Fair Value of Assets in the Local Government Pension Scheme</b>	421,608	418,240	402,700
<b>Surplus/(Deficit) in the Scheme:</b>			
Local Government Pension Scheme	(560,721)	(490,160)	(574,780)
Discretionary Benefits	(97,780)	(91,520)	(99,100)
<b>Total</b>	<b>(658,501)</b>	<b>(581,680)</b>	<b>(673,880)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £1,080.109m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall net liability of £658.501m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

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

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £25.658m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2013 is £5.0m.

### Note 48.4 - Basis for Estimating Assets and Liabilities

The latest actuarial valuation of the London Borough of Brent's liabilities took place as at 31 March 2010. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund and assessing discretionary benefit liabilities are set out below:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2011-12 £'000	2010-11 £'000	2011-12 £'000	2010-11 £'000
<b>Long-Term Expected Rate of Return on Assets in the Scheme</b>				
Equity Investments	6.3%	8.4%		
Private Equity / Infrastructure	10.0%	13.4%		

Hedge Funds	6.3%	8.2%		
Property	4.4%	7.9%		
Government Bonds	4.0%	4.4%		
Corporate Bonds	4.0%	5.1%		
Cash	3.5%	1.5%		
Other		8.4%		
<b>Mortality Assumptions:</b>				
Longevity at 65 for current pensioners:				
Men	23.8	23.8	23.8	23.8
Women	26.6	26.6	26.6	26.6
Longevity at 65 for future pensioners:				
Men	25.6	25.6		
Women	28.6	28.6		
Rate of inflation - RPI		3.7%		3.6%
Rate of Inflation - CPI	2.5%	2.8%	2.7%	2.7%
Rate of increase in salaries	4.8%	5.2%		
Rate of increase in pensions	2.5%	2.8%	2.7%	2.7%
Rate for discounting scheme liabilities	4.8%	5.4%	5.5%	5.5%
Take-up of option to convert annual pension into retirement lump sum	25.0%	25%		

The Discretionary Benefits arrangements have no assets to cover the liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	<b>31/03/2012</b>	<b>31/03/2011</b>
Equity Investments	60.0%	51.1%
Private Equity / Infrastructure	16.0%	10.1%
Hedge Funds		8.7%
Property	7.0%	6.9%
Bonds	15.0%	5.3%
Corporate Bonds		4.9%
Cash	2.0%	1.9%
Other		11.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

#### **Note 48.5 - History of Experience Gains and Losses**

The actuarial gains identified as movements on the Pensions Reserve can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March each year:

	<b>2011-12</b>	<b>2010-11</b>	<b>2009-10</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<b><u>Local Government Pension Scheme</u></b>			
Differences between the expected and actual return on assets	(7.8)	(4.4)	17.5
Experience gains and losses on liabilities	(1.3)	(2.1)	0.8
<b><u>Discretionary Benefit Arrangements</u></b>			
Experience gains and losses on liabilities	(2.4)	0.7	3.0

## **Note 49 - Contingent Liabilities**

The Council has a number of contingent liabilities listed below. The potential maximum liability for all the issues could be in the region of £1.3m. Figures are not shown against contingent liabilities where there are legal proceedings or the disclosure would adversely affect the outcome.

Brent Teaching Primary Care Trust (tPCT) has indicated that a number of patients that it is currently responsible for to provide and fund care should transfer to the local Council as they do not meet health care criteria. The Council does not accept the legal basis of many of these funding changes and it cannot properly assess responsibility in individual cases without a proper assessment process having been undertaken. These uncertainties have resulted in the Council being unable to quantify any liability and the Council will deal with claims as they arise. At this stage, there is a judicial review pending between the Brent PCT and two neighbouring boroughs relating to alleged failure to comply with their statutory duty to ten persons in need of community care. The Council is an interested party to the judicial review proceedings and the outcome could have a financial impact on the Council.

The Council has received a claim from a company that owns a piece of land, in which it bought from the Council, stating that the Council is liable to decontaminate the land. The Council is resisting the claim and is making no specific provision.

A number of claims to Employment Tribunals have been made against the Council. The Council is disputing these claims.

## **Note 50 - Exceptional Items**

There were 2 exceptional items in 2010/11:

1. With effect from 1st April 2011, increases in local government pensions in payment and deferred pensions will be linked to annual increases in the CPI (Consumer Prices Index), rather than the Retail Prices Index (RPI). Since, over the long term CPI increases are expected to be lower than RPI increases, this gives rise to a reduction in the defined benefit obligation on the balance sheet. The change also reduces this (and future) periods' current service cost and interest cost. The actuary has allowed for the impact of the change as a benefit change and therefore recognised this as a (negative) past service cost reflecting the reduction in the constructive obligation. The impact of the change is around £110m for funded benefits, and £8m for unfunded benefits.
2. Government regulations have changed the factor used to discount social housing from 37% to 25%. This has resulted in a reduction in the value of Council dwellings of £242M.

In addition there is one exceptional item in the 2011/12 accounts. The Localism Act 2011 ended the HRA subsidy system with effect from 1 April 2012. In preparation for the new arrangements, under which each Council's HRA would need to be self-financing, the government repaid £198m of the Council's long term borrowing and £74m of associated early repayment costs

## **Note 51 - Nature and extent of risks arising from Financial Instruments**

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

- Market risk - the possibility that financial loss might arise for the Council as a result of interest rate movements or other market changes.

The Council'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 set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- The Council's overall borrowing;
- Its maximum and minimum exposures to fixed and variable rates;
- Its maximum and minimum exposures the maturity structure of its debt;
- Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These items are required to be reported and approved as part of the Council's annual Council Tax setting budget. They are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

These policies are implemented by a central treasury team. The Council 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 Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the Approved List for Investments, which governs lending to banks and financial institutions, including building societies, government authorities and supranational institutions. The Council combines long-term, short-term and individual ratings to reduce the risk of default.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on the Council's experience of its default levels.

	Amount at 31 March 2012	Historical experience of default	Estimated maximum exposure to default
	£'000 (a)	% (b)	£'000
Deposits with banks and financial institutions	2,000		2,000
Building societies			
Certificates of deposit			
<b>Total short term investments</b>	<b>2,000</b>		<b>2,000</b>
Trade debtors	73,252	69.4%	50,860
	<u><u>75,252</u></u>		<u><u>52,860</u></u>

The short term investments are loans and receivables and shown at amortised cost.



On a small number of occasions, the upper lending and term limits have been waived to allow the Council to take advantage of attractive lending opportunities with sound counterparties. The Council expects some losses from non-performance by its Icelandic counterparties in relation to deposits, and has allowed for this in the impairment calculation. The Council does not expect any losses from non-performance by other counterparties.

Trade debtors are general debtors to the Council, and do not include government departments, other local authorities or housing rents.

The Council does not generally allow credit for its trade debtors. During the reporting period the Council held no collateral as security.

Historical experience of default has been used to determine the bad debt provision for trade debtors.

### **Liquidity risk**

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the Public Works Loans Board (PWLB) provides access to longer term funds, it also acts as a lender of last resort to Councils. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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

### **Refinancing and Maturity Risk**

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

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

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

The maturity analysis of borrowing is as follows:

	<b>£'000</b>
Less than one year	34,124
Between one and two years	2,441
Between two and five years	7,323
Between five and ten years	18,918

Between ten and twenty years	0
Between 20 and 30 years	18,308
Between 30 and 40 years	61,872
Between 40 and 50 years	233,727
More than 50 years	60,500
	437,213

The maturity analysis of investments is as follows:

	<b>£'000</b>
Less than one year	31,715
Between one and two years	
Between two and three years	
More than three years	
	31,715

**Market risk** – The variation in interest paid is 1% on the principal sum except for fixed rate long term loans. The variation in fair value is a pro rata figure assessed by comparing current rates with the average rate paid on current debt and adjusting the difference between fair value and nominal value to 1%. The figure is highly approximate as the actual figure will be sensitive to the detail pattern of rates at the time of assessment, the commercial circumstances of the parties to the loan, the detailed maturity profile, the proposed details of refinancing and the direction of movement of rates.

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

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

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments affect Income and Expenditure Account and the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The treasury team monitors market and forecast interest rates within the year and adjusts exposures appropriately. During periods of falling interest rates, and where economic circumstances

make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns. The risk of interest rate loss is partially mitigated by Government grant payable on financing costs for the Housing Revenue Account.

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

	<b>£'000</b>
Increase in interest payable on variable rate borrowings	
Increase in interest receivable on variable rate investments	0.8
Impact on Income and Expenditure Account	(0.8)
Increase in Government grant receivable for financing costs	-
Share of overall impact debited to the HRA	
Decrease in fair value of fixed rate investment assets	
Impact	0
Decrease in fair value of fixed rate borrowings liabilities	91,000

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

**Price risk** - The Council, excluding the pension fund, does not invest in equity shares.

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

#### **Fair Value**

The Council follows the CIPFA Treasury Code, and only invests in very high quality institutions so that the risk of capital loss is minimised. The in-house team makes cash deposits for periods up to three years. The external manager (Aberdeen Asset Management) is allowed to invest in a wider range of instruments (cash, gilts, supranational bonds, certificates of deposit) with institutions that are named on the Council's lending list. The manager has invested in cash and certificates of deposit (CDs) with less than one year to maturity. As CDs are more volatile than cash, the Council has accounted for them at market value as at 31<sup>st</sup> March 2012.

#### **Note 52 - Heritage Assets: 5 Year summary of transactions**

(information not given for periods before 1.4.10 as not practicable)

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Cost of Acquisitions		
Civic Regalia	267	267
Grange Museum CollectiOn	231	231
<b>TOTAL</b>	<b>498</b>	<b>498</b>

#### **Note 53 - Heritage Assets: Further information**

Heritage assets comprise:-

1. Civic regalia - items associated with the Mayor and other borough functions.

2. Grange museum collection - historic documents relating to Brent including display cabinets.

**Brent Museum's** collections reflect working and domestic life in the London Borough of Brent from the mid-nineteenth century to the present day.

The collection is comprised over 10,000 artefacts relating to the borough, and also includes video and oral history recordings.

#### **Note 54-Change in accounting policy required by the Code of Practice for Local Authority Accounting in the United Kingdom**

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Council.

As set out in our summary of significant accounting policies, the Council now requires heritage assets to be carried in the balance sheet at valuation.

#### **Heritage Assets**

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

#### **Note 55 – Locata**

Brent, in partnership with other London boroughs and Housing Associations, is operating a joint lettings scheme for housing tenants. A company called Locata (Housing Services) Limited has been set up for this purpose. Locata's turnover was £2,199k in 2011/12 (£2,379k 2010/11). Locata's net assets were £443k in 2011/12 (£462k 2010/11).

Brent is liable to contribute to the debts and liabilities of Locata up to £10, if it was wound up.

Locata's accounts have not been consolidated into Brent's group accounts because the sums involved are not material to the Council's accounts and because Brent has limited influence on the company (less than 20% voting rights).

A copy of Locata's accounts can be obtained from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ or from [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk).

## Note 56 – Removal of Foundation Schools from the Balance Sheet

The Council has reviewed the position of foundation schools on its balance sheet in the light of recent publications by CIPFA (including LAAP 93), and the impact of recent legislative changes. The Council's review found that foundation schools are not the Council's assets.

The movements below show the changes made to the published 2010-11 accounts to remove foundation schools from the balance sheet.

### Changes to the Balance Sheet as at 1.4.10

	£'000
<b>Non Current Assets</b>	
Land & Buildings	(156,796)
Plant / Vehicles / Equipment	(977)
<b>Liabilities</b>	
Non current Liabilities	770
Current Liabilities	221
<b>Reserves</b>	
Capital Adjustment Account	109,506
Revaluation Reserve	47,275

### Changes to the year 2010-11

#### Comprehensive Income & Expenditure Statement 2010-11

Education and Children's services	6,281
Comprehensive I&E Statement - Interest payable	(141)

#### Balance Sheet as at 1.4.11

##### Non-current Assets

Land & Buildings	(13,568)
Plant / Vehicles / Equipment	351

##### Liabilities

Non Current Liabilities	(186)
Current Liabilities	17

Movement in Reserve Statement - General Fund (6,141)

Revaluation Reserve	6,332
Capital Adjustment Account	7,054

## HOUSING REVENUE ACCOUNT – 2011/2012

### HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31st MARCH 2012

	2011/2012 £'000	2010/2011 £'000
<b><u>Income</u></b>		
Dwelling Rents	(44,506)	(41,878)
Non Dwelling Rents(Gross)	(496)	(553)
Tenants Charges for Services and Facilities	(2,992)	(2,911)
Contribution Towards Expenditure	(466)	(179)
Leaseholders' charge for services and Facilities	(3,067)	(2,593)
Upward revaluation of assets	(43,130)	
HRA Subsidy Receivable	(8,000)	(5,670)
<b>Total Income</b>	<b>(102,657)</b>	<b>(53,784)</b>
<b><u>Expenditure</u></b>		
Repairs and Maintenance	7,797	7,318
Supervision and Management	13,278	12,418
Special Services	5,319	4,042
Rent and Rates and Other Charges	1,459	963
Depreciation of Fixed Assets	8,104	7,830
Bad or Doubtful Debts	736	1,140
Debt Management Expenses	222	150
<b>Total Expenditure</b>	<b>36,915</b>	<b>33,861</b>
<b>Net Cost of Services included in the Council's Income and Expenditure Account</b>	<b>(65,742)</b>	<b>(19,923)</b>
Exceptional items - downward revaluation of assets		223,183
HRA share of NDC		(116)
HRA share of Corporate and Democratic Core	368	270
<b>Net Cost of HRA Services</b>	<b>(65,374)</b>	<b>203,414</b>
<b>HRA share of the operating income and expenditure included in the Council's income and expenditure</b>		
Payments to capital receipts pool	624	
( Gain) or Loss on Sale of HRA fixed Assets	540	(676)
Interest payable and similar charges	14,860	15,049
Exceptional item – HRA settlement debt redemption costs	74,213	
Exceptional item – HRA settlement capital grant	(272,213)	
HRA Investment Income/Mortgage Interest	(145)	(98)
Pension interest and expected return on pension assets	121	277
<b>(Surplus)or Deficit for the Year on HRA Services</b>	<b>(247,374)</b>	<b>217,966</b>

<b>Movement on the HRA Statement</b>	<b>2011/2012 £'000</b>	<b>2010/2011 £'000</b>
<b>Housing Revenue Account brought forward</b>	<b>(1,695)</b>	<b>(2,174)</b>
(Surplus) or deficit on the provision of services	(247,374)	217,966
Other comprehensive income & expenditure		
<b>Total comprehensive income &amp; expenditure</b>	<b>(247,374)</b>	<b>217,966</b>
Adjustment between accounting basis and funding basis under regulations	247,477	(217,992)
<b>Net increase/decrease before transfers to earmarked reserves</b>	<b>103</b>	<b>(26)</b>
Transfers to/(from) earmarked reserves	(676)	505
<b>(Increase)/decrease in HRA balance</b>	<b>(573)</b>	<b>479</b>
<b>Balance as at 31 March carried forward</b>	<b>(2,268)</b>	<b>(1,695)</b>

**HRA adjustments between accounting basis and funding basis under regulations**

	<b>2011/12 £000</b>	<b>2010/11 £000</b>
Gain / (Loss) on sale of HRA non-current assets	(540)	676
Capital expenditure funded by HRA	3,222	5,069
Amortised payment and discount	4,862	4,932
Exceptional items - downward revaluation of assets		(223,183)
Upward revaluation of assets	43,130	
Exceptional items – HRA settlement	198,000	
Payments to the capital receipts pool	(624)	
Pooled capital receipts – contribution to administration costs	(58)	
Pension interest cost and expected return on pension assets	(121)	
HRA share of CDC	(368)	
Transfers to / from Major Repairs Reserve	(26)	(5,467)
Transfers to / from Capital Adjustment Account	0	(19)
<b>TOTAL adjustments between accounting basis and funding basis under regulations</b>	<b>247,477</b>	<b>(217,992)</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### Note 1: HOUSING STOCK

The Council's stock of dwellings reduced during the year from 9,017 to 9,000, a net reduction of 17 Dwellings. These reductions resulted from Right to Buy sales, sales to the Council ALMO at market value, demolition of dwellings as a result of the ongoing regeneration work at South Kilburn, transfers to Housing Associations on Short Term Leases, and transfers to the Council General Fund to be used for Temporary Accommodation for Homelessness households. Included in Housing stock units of 9017, are 30 properties sold on an equity basis.

The stock at the end of the year was made up as follows:

	<b>31st March 2012</b>	<b>31st March 2011</b>
Leasehold	297	211
Freehold	8,703	8,806
<b>Total</b>	<b>9,000</b>	<b>9,017</b>

### Note 2: RENT ARREARS

The level of rent arrears at 31st March 2012 was £2.609m. Movement on the arrears and related provisions are shown below.

	<b>Arrears</b>	<b>Provision</b>	<b>Net Arrears</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balances at 31 March 2011	2,118	2,024	94
Reclassification of Travellers Sites rent arrears transferred to General Fund	(96)		(96)
Net amounts debt/provision written back relating to previous years	107	107	0
Amounts written off and rent arrears movement during the year	(196)	(196)	0
(Decrease)/Increase in Arrears during the year	676	75	601
(Decrease)/Increase in Provision in year	0	599	(599)
<b>Balances at 31 March 2012</b>	<b>2,609</b>	<b>2,609</b>	<b>0</b>

### Note 2A: Other HRA Debtors-RTB Leaseholders

	<b>Arrears</b>	<b>Provision</b>	<b>Net Arrears</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balances at 31 March 2011	5,228	3,018	2,210
Decrease/Increase during arrears	(303)		(303)
Amounts written off and rent arrears movement during the year	(243)	(243)	0
Decrease/Increase in provision during arrears		136	(136)
<b>Balances at 31 March 2012</b>	<b>4,682</b>	<b>2,911</b>	<b>1,771</b>



**Note 3: FIXED ASSETS**

	<b>Council Dwellings</b>	<b>Non- Operational</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Gross Book Value at 1 April 2011	537,440	6,295	543,735
Revaluation in 2011/12	6,184	3,478	6,184
Impairment (Note 5)	0	0	0
Expenditure during the Year	10,984	0	10,984
Disposals	(737)	0	(737)
<b>Gross Book Value at 31st March 2012</b>	<b>553,871</b>	<b>9,773</b>	<b>560,166</b>
Accumulated Depreciation B/fwd	(36,946)	(254)	(37,200)
Write out of Accumulated Depreciation	36,946	0	37,200
Depreciation/adjustment for current year	(8,078)	(26)	(8,104)
<b>Net Book Value at 31st March 2012</b>	<b>545,793</b>	<b>9,493</b>	<b>552,062</b>

**Note 3A: FIXED ASSETS**

The Gross Book Value of the Council HRA Dwellings at 1 April 2011 was £537m. In 2011/12 Council undertook external revaluation of the Council HRA Dwellings. The revaluation resulted in the new the vacant possession value of £2.062 billion. The new vacant possession value of £2.062 billion was then reduced to a Gross Book Value of £515m, by applying a social housing discount factor of 25 per cent. In order to provide consistency with the 2010/11 audited financial statements, the carrying value of the HRA Council Dwellings Gross Book Value at 1 April 2011 in Note 3 above has been stated at £537m. However, the subsequent movements include the required adjustments to account for the impact of the Revaluation exercise in the Gross Book Value of the HRA Council Dwellings at 31 March 2012.

**Note 4: Vacant Possession Value of HRA Dwellings**

The vacant possession value of dwellings within the HRA at 1st April 2011 was £2.062 billion. The difference between vacant possession value of the HRA dwellings and balance sheet value within the HRA shows the economic cost to the government of providing Council housing at less than open market value. During the year the Council appointed a firm of Chartered Surveyors and Town Planners to revalue the Council's HRA Dwellings. The new valuation figures has been reflected in the above £2.062billion vacant possession value at 1 April 2011

**Note 5: IMPAIRMENT CHARGE.**

During the financial year 2011-12 the Council undertook an impairment review of the HRA Assets and found that there were no factors that necessitated an impairment charge to the HRA Account.

**Note 6: Major Repairs Reserve**

	<b>2011/12 £000`s</b>	<b>2010/11 £000`s</b>
Balance at 1st April	0	4,198
Transfer to Major Repairs Reserve	8,104	7,823
Transfer from Major Repairs Reserve	(26)	(60)
Major Repairs Allowance 2010-11 b/fwd	0	(5,400)
Capital expenditure finance from Major Repairs Reserve	(3,575)	(6,561)

Balances at 31st March 2012/(2011)

4,503

0

**Note 7:HRA SUBSIDY**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000`s</b>	<b>£000`s</b>
Management Allowance	7,813	7,432
Maintenance Allowance	12,953	12,239
Major Repairs Allowance	8,078	7,763
Major Repairs Allowance 2010-11 b/fwd	0	-5,400
ALMO Allowance	0	4,320
Capital Charges	22,852	20,750
Interest On Receipt	(8)	-10
Other Reckonable Expenditure	118	118
Interest Adjustment( HRA Self Finance Debt Settlement)	(104)	0
	<b>51,702</b>	<b>47,212</b>
Guideline Rent Income	(43,771)	(41,542)
Housing Subsidy Due	<b>7,931</b>	<b>5,670</b>
Housing Subsidy Audit Adjustment	69	0
	<b>8,000</b>	<b>5,670</b>

The HRA Subsidy figures are calculated in accordance with the HRA Subsidy Determinations issued by the central government department, DCLG for the relevant Financial Year. The HRA Subsidy analysis above includes an interest adjustment of £104k. The interest adjustment relates to the HRA Debt Settlement by DCLG on 28 March 2012, as part of the implementation of the HRA Self Finance from 1 April 2012.

**Note 8(A):HRA CAPITAL EXPENDITURE FUNDING IN 2011/12**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000`s</b>	<b>£000`s</b>
Borrowing	3,726	2,864
External Grants and Contributions	311	0
Earmarked Reserves	0	527
Revenue Contribution	3,222	4,541
Major Repairs Reserve	3,575	6,561
<b>Total</b>	<b>10,834</b>	<b>14,493</b>

**NOTE 8:(B) HRA CAPITAL RECEIPTS IN 2011/12**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000`s</b>	<b>£000`s</b>
Land	65	15,803
Houses	6,218	978
Other Properties	147	3,492
<b>Total</b>	<b>6,430</b>	<b>20,273</b>

## NOTE 9: DEPRECIATION

	2011/12 £000's	2010/11 £000's
Operational Assets		
-Dwellings	8,078	7,763
-Other land and Buildings	0	0
Non Operational Assets	26	67
<b>Total</b>	<b>8,104</b>	<b>7,830</b>

## Note 10: NET INTEREST CHARGED TO THE HRA

The net interest charge to the HRA is calculated in accordance with government regulation.

	2011/12 £000's	2010/11 £000's
Interest on HRA mid year Capital Financing Requirement	14,891	15,049
Audit adjustment	(31)	0
	<b>14,860</b>	<b>15,049</b>

## Note 11: Brent Housing Partnership

In October 2002, the Council formed Brent Housing Partnership Limited, an arms length management organisation. Brent Housing Partnership Limited is responsible for the provision of services associated with the Council's Housing stock (repairs, lighting, cleaning). The housing stock remains in the ownership of the Council and the rents is collected by Brent Housing Partnership Limited. The Council has entered into a contract with Brent Housing Partnership Limited to provide these services. The income and expenditure arising from these activities are shown in the Council's accounts in accordance with requirement of the current CIPFA Code of Practice and legislation. Brent Housing Partnership Limited is required by law to prepare a set of accounts which shows its management and administrative cost.

## Note 12: Revaluation of HRA Dwellings in 2011/12

HRA dwellings are valued at Existing Use Value. During the year the Council undertook a revaluation of the Council's HRA Dwellings (Operational) and Non Operational Assets. The HRA Operational Assets (Council dwellings) were by a firm of Chartered Valuers and Town Planners. The HRA Non Operational Assets was revalued by the Council's Internal Valuers. The revaluation values have been incorporated is not the 2011/12 Account.

## Note 13: Housing Self Finance-Debt Settlement

The housing Subsidy System is being abolished from 1 April 2012 and will be replaced by a new HRA Self financing System from 2012-13. As part of the introduction of the new HRA Self Finance regime, Brent Council received £198m on the 28 March 2012 as part of a one off debt redistribution. In accordance with CIPFA guidance, £198m has been shown on the face of the Housing Revenue Income and Expenditure Account, and then reversed below the line in the Movement of HRA Statement. The debt settlement has a neutral impact on the HRA outturn.

## COLLECTION FUND

These statements represent the transactions of the Collection Fund. This is a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non-Domestic Rates on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised. Administration costs are borne by the General Fund.

### COLLECTION FUND ACCOUNT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2012

Notes	2011/12 £000	2010/11 £000
<b>Income</b>		
1	101,450	101,000
	Transfers from General Fund	
	- Council Tax Benefits	34,227
4	1,300	1,500
	Collection Fund Deficit	
2	91,111	89,882
	<b>228,447</b>	<b>226,609</b>
<b>Expenditure</b>		
3	133,115	132,026
	Precepts and Demands	
2	Non-Domestic Rates:-	
	- Payment to National Pool	89,456
	- Cost of Collection Allowance	426
	Bad and Doubtful Debts:	
1	14,253	1,598
	- Write-offs made in year	
1	(10,032)	3,103
	- Provisions for uncollectable amounts	
	<b>228,447</b>	<b>226,609</b>
	<b>0</b>	<b>0</b>
	<b>Deficit/Surplus for Year</b>	
<b>Collection Fund Account Reserves</b>		
	(1,500)	(1,500)
	Fund Balance Brought Forward	
	200	0
	Increase/(Decrease) in Fund Balance	
	(1,300)	(1,500)
	Fund Balance Carried Forward	

## NOTES TO THE COLLECTION FUND

### NOTE 1: COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1<sup>st</sup> April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the precepting authorities and the Council for the forthcoming year and dividing this by the Council Tax Base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts) which was 97,252 for 2011/12. This basic amount of Council Tax for a Band D property £1,368.76 for 2011/12 is multiplied by the proportion specified for the particular band to give an individual amount due.

Council Tax bills were based on the following proportions and property numbers for Bands A to H:

Proportion of Band D Charge		Number of Band D Equivalent Properties	
Band A	0.67	1,265	
Band B	0.78	7,769	
Band C	0.89	24,972	
Band D	1.00	27,784	
Band E	1.22	24,185	
Band F	1.44	8,301	
Band G	1.67	5,057	
Band H	2.00	<u>412</u>	
		<u>99,745</u>	x 97.5% Collection Rate = 97,252

The final income of £137,336m for 2011/12 (including adjustments to debits during the year) was receivable from the following sources:

	£000
Billed to Council Tax Payers	102,750
Council Tax Benefits	34,586
	<b>137,336</b>

This total includes the adjustment required for the collection fund deficit of £1,300,000 (see Note 4).

### NOTE 2: NATIONAL NON-DOMESTIC RATES (NDR)

Non Domestic Rates are organised on a national basis. The Government specified a rate of 43.3p in the £ for 2011/12 (42.6p for small businesses having a rateable value of below £25,000) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. There was a nation-wide re-valuation of all properties which took effect from 1<sup>st</sup> April 2010. The Council is responsible for collecting rates due from the ratepayers in the area with a total non-domestic rateable value of £269,454,701 at 31<sup>st</sup> March 2012, but pays the proceeds into a national NDR Pool administered by the Government. The Government redistributes the sums paid into the Pool back to local authorities on the basis of a Formula Grant calculation. The amounts collected from the ratepayers on behalf of the Government and paid into the Pool can be analysed as follows:

	<b>2011/12</b> <b>£000</b>	<b>2010/11</b> <b>£000</b>
Gross Debit	114,796	109,310
Transitional Relief	(3,146)	(2,388)
Charitable Relief	(5,981)	(5,508)
Provision for Uncollectable Amounts	(3,738)	(2,370)
Other Adjustments	(6,601)	(2,706)
Empty/Void Relief	(4,219)	(6,456)
Net NNDR Income	91,111	89,882
Cost of Collection Allowance Payable to General Fund	(422)	(426)
<b>Amount Payable to NNDR Pool</b>	<b>90,689</b>	<b>89,456</b>

The increase in other adjustments between 2010/11 and 2011/12 largely relates to backdated rateable valuation reductions for earlier years.

In addition to the above, properties with a rateable value of over £55,000 pay an additional business rates supplement of 2.0p in the £ to the Greater London Authority, to pay towards the costs of the Crossrail project. This supplement began on 1<sup>st</sup> April 2010, and for 2011/12 £2.979m was paid over to the GLA.

**NOTE 3: PRECEPTS**

	<b>2011/12</b> <b>£000</b>	<b>2010/11</b> <b>£000</b>
London Borough of Brent	102,985	102,142
Greater London Authority	30,130	29,884
	<b>133,115</b>	<b>132,026</b>

The Greater London Authority (GLA) functions include London's policing, fire and emergency planning services, and transport.

**NOTE 4: ESTIMATED SURPLUS AND DEFICIT**

An adjustment is also made for each authority paying a precept to the Greater London Authority in respect of the estimated surplus or deficit for the previous year on the Collection Fund.

	<b>2011/12</b> <b>£000</b>	<b>2010/11</b> <b>£000</b>
London Borough of Brent	1,006	1,160
Greater London Authority	294	340
<b>Deficit</b>	<b>1,300</b>	<b>1,500</b>

## GROUP ACCOUNTS

Local authorities are required to produce group accounts which include interests in subsidiaries, associates and joint ventures.

Brent has one subsidiary, Brent Housing Partnership (BHP) Limited. This is an arms length management organisation (ALMO) which was set up in October 2002 to manage Council properties on behalf of Brent.

BHP is a limited company. It is limited by a guarantee with no share capital. It is fully owned by the London Borough of Brent. The London Borough of Brent has an obligation to meet BHP's pension fund liabilities. BHP's accounts may be obtained from their financial controller, Ian Warner at Chancel House, Neasden Lane, London, NW10 2UF, e-mail address [ian.warner@bhphousing.co.uk](mailto:ian.warner@bhphousing.co.uk).

Thorough investigations confirmed that, as in previous years, there are no other bodies to be included in the group accounts.

BHP's accounts have been consolidated as a subsidiary using the acquisition basis of combination.

The following group financial statements have been prepared:

- Group Income and Expenditure Account
- Reconciliation of the Single Entity Surplus or Deficit for the Year to the Group Surplus or Deficit
- Group Statement of Total Recognised Gains and Losses
- Group Balance Sheet
- Group Cash Flow Statement

A significant amount of information in these statements is identical to Brent's accounts on the preceding pages of this document. Information has not been reproduced in the group accounts where it can be readily seen in Brent's accounting statements.

This includes accounting policies. The accounting policies for the group accounts are the same as for Brent's single entity accounts and are shown earlier in this document.

## Group Movement in Reserves Statement

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	HRA £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
<b>Balance as at 31 March 2010</b>	<b>24,064</b>	<b>41,405</b>	<b>2,174</b>	<b>4,119</b>	<b>140</b>	<b>4,198</b>	<b>19,496</b>	<b>95,596</b>	<b>(93,610)</b>	<b>1,986</b>
<b>Movement in reserves during 2010/11</b>										
Surplus or (deficit) on the provision of services	106,899	(217,966)	0	0	(111,067)	0	0	(111,067)	(10,142)	(111,067)
Other comprehensive income & expenditure								0	(10,142)	(10,142)
<b>Total comprehensive income &amp; expenditure</b>	<b>106,899</b>	<b>0</b>	<b>(217,966)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(111,067)</b>	<b>(10,142)</b>	<b>(121,209)</b>
Adjustments between accounting basis & funding basis under regulations (note 7)	(110,559)	217,992		12,509	(4,198)	15,660	131,404	(131,404)		0
<b>Net increase/decrease before transfers to earmarked reserves</b>	<b>(3,661)</b>	<b>0</b>	<b>26</b>	<b>0</b>	<b>12,509</b>	<b>(4,198)</b>	<b>15,660</b>	<b>20,336</b>	<b>(141,546)</b>	<b>(121,209)</b>
Transfers to/from earmarked reserves (note 8)	(715)	715	(505)	505						0
<b>Increase/decrease in 2010/11</b>	<b>(4,376)</b>	<b>715</b>	<b>(479)</b>	<b>505</b>	<b>12,509</b>	<b>(4,198)</b>	<b>15,660</b>	<b>20,336</b>	<b>(141,546)</b>	<b>(121,209)</b>
<b>Balance as at 31 March 2011 carried forward</b>	<b>19,688</b>	<b>42,120</b>	<b>1,695</b>	<b>4,624</b>	<b>12,649</b>	<b>0</b>	<b>35,156</b>	<b>115,932</b>	<b>(235,156)</b>	<b>(119,223)</b>
<b>Movement in reserves during 2011/12</b>										
Surplus or (deficit) on the provision of services	52,932		247,863					300,795		300,795
Other comprehensive income & expenditure									(32,362)	(32,362)
<b>Total comprehensive income &amp; expenditure</b>	<b>52,932</b>	<b>247,863</b>						<b>300,795</b>	<b>(32,362)</b>	<b>268,433</b>
Adjustments between accounting basis & funding basis under regulations (note 7)	(30,521)	(247,966)		(3,632)	4,502	32,353	245,264	(245,264)		0
<b>Net increase/decrease before transfers to earmarked reserves</b>	<b>22,411</b>	<b>0</b>	<b>(103)</b>	<b>0</b>	<b>(3,632)</b>	<b>4,502</b>	<b>32,353</b>	<b>55,531</b>	<b>212,902</b>	<b>268,433</b>
Transfers to/from earmarked reserves (note 8)	(12,092)	12,061	676	(645)				0		0
<b>Increase/decrease in 2011/12</b>	<b>10,319</b>	<b>12,061</b>	<b>573</b>	<b>(645)</b>	<b>(3,632)</b>	<b>4,502</b>	<b>32,353</b>	<b>55,531</b>	<b>212,902</b>	<b>268,433</b>
<b>Balance as at 31 March 2012</b>	<b>30,007</b>	<b>54,181</b>	<b>2,268</b>	<b>3,979</b>	<b>9,017</b>	<b>4,502</b>	<b>67,509</b>	<b>171,463</b>	<b>(22,253)</b>	<b>149,209</b>



**GROUP COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2012**

	2010/11 Restated		2011/12	
	Gross Expenditure £'000	Gross Income £'000	Gross Expenditure £'000	Gross Income £'000
				Net Expenditure £'000
Central services to the public	50,289	(38,500)	59,163	(46,411)
Culture and related services	19,360	(2,984)	20,579	(2,648)
Environment and Regulatory services	32,827	(5,351)	35,324	(5,055)
Planning	7,944	(3,331)	4,440	(2,466)
Children's Social Care	52,138	(4,288)	47,266	(3,895)
Education and Children's services	398,317	(358,892)	354,959	(323,016)
Highways and transport services	26,144	(17,249)	34,078	(29,168)
Local authority housing (HRA)	31,110	(55,690)	48,901	(110,743)
Other housing services	364,678	(332,171)	401,812	(367,880)
Adult social care	122,213	(25,276)	118,054	(25,133)
Corporate and democratic core	6,470	0	8,609	(36)
Exceptional item - downward revaluation of assets	234,654	0	0	0
Reduction in past service pension costs	(117,950)	0	0	0
Non distributed costs	6,264	(9,603)	1,633	0
<b>Cost of Services</b>	<b>1,234,458</b>	<b>(853,335)</b>	<b>1,134,818</b>	<b>(916,451)</b>
Other operating expenditure		32,403		9,190
Financing and investment income and expenditure		63,926		45,255
Exceptional item – HRA settlement debt redemption costs		0		74,213
Exceptional item – HRA settlement capital grant		0		(272,213)
Taxation and non-specific grant income		(366,386)		(375,607)
<b>(Surplus) or Deficit on Provision of Services</b>		<b>111,066</b>		<b>(300,795)</b>
Surplus or deficit on revaluation of Property, Plant and Equipment assets		(2,368)		(35,479)
Surplus or deficit on revaluation of available for sale financial assets				
Actuarial gains/losses on pension assets and liabilities		12,510		67,841
<b>Other Comprehensive Income and Expenditure</b>		<b>10,142</b>		<b>32,362</b>
<b>Total Comprehensive Income and Expenditure</b>		<b>121,208</b>		<b>(268,433)</b>

GROUP BALANCE SHEET

GROUP BALANCE SHEET AS AT 31ST MARCH 2012

Restated 31 March 2010 £'000	Restated 31 March 2011 £'000		31 March 2012 £'000
1,302,898	1,122,042	Property, Plant & Equipment	1,286,634
		Heritage Assets	498
14,536	19,788	Investment Property	8,242
1,894	2,676	Intangible Assets	2,623
		Assets Held for Sale	
20,214	168	Long Term Investments	100
1,820	1,786	Long Term Debtors	1,657
<b>1,341,362</b>	<b>1,146,460</b>	<b>Long Term Assets</b>	<b>1,299,754</b>
		Short Term Investments	31,715
44,628	41,895	Assets Held for Sale	
2,799		Inventories	819
482	456	Short Term Debtors	45,920
72,513	64,376	Cash and Cash Equivalents	46,169
22,659	45,091	<b>Current Assets</b>	<b>124,623</b>
<b>143,081</b>	<b>151,818</b>		
	(6,271)	Cash and Cash Equivalents	(3,981)
(58,216)	(77,117)	Short Term Borrowing	(34,124)
(88,552)	(92,053)	Short Term Creditors	(84,230)
(3,707)	(5,104)	Provisions	(5,208)
			(81)
<b>(150,475)</b>	<b>(180,545)</b>	<b>Current Liabilities</b>	<b>(127,624)</b>
		Long Term Creditors	(38,275)
(24,736)	(33,640)	Provisions	(3,174)
(2,968)	(3,251)	Long Term Borrowing	(403,094)
(607,530)	(584,530)	Other Long Term Liabilities	(702,997)
(696,749)	(615,535)	Capital Grants Receipts in Advance	
<b>(1,331,983)</b>	<b>(1,236,956)</b>	<b>Long Term Liabilities</b>	<b>(1,147,540)</b>
<b>1,985</b>	<b>(119,223)</b>	<b>Net Assets</b>	<b>149,213</b>
		Usable Reserves	171,466
95,596	115,932	Unusable Reserves	(22,253)
(93,611)	(235,155)		
<b>1,985</b>	<b>(119,223)</b>	<b>Total Reserves</b>	<b>149,213</b>

## GROUP CASH FLOW STATEMENT

<b>2010/11</b> <b>Restated</b> <b>£'000</b>		<b>2011/12</b>  <b>£'000</b>
(111,066)	Net surplus or (deficit) on the provision of services	300,795
45,380	Adjustments for non-cash movements	(117,787)
93,739	Adjustments for investing and financing activities	89,416
<b>28,053</b>	<b>Net cash flows from Operating Activities</b>	<b>272,424</b>
(6,810)	Investing activities	(42,975)
(5,082)	Financing activities	(226,080)
<b>16,161</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>3,369</b>
22,658	Cash and cash equivalents at the beginning of the reporting period	38,819
<b>38,819</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>42,188</b>

## NOTES TO THE GROUP ACCOUNTS

### SUMMARY OF ITEMS IN GROUP ACCOUNTS

This shows the main differences between items in Brent's single entity accounts and the group accounts. Where there are intra-group entries these are adjusted in calculating the overall group position.

#### 2010/11 Restated

	<b>Brent</b>	<b>BHP</b>	<b>Adjustments</b>	<b>Group</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Financing and investment income	62,898	1,028		63,926
Property plant and equipment	1,112,022	10,020		1,122,042
Investment properties	2,993	16,795		19,788
Inventories	104	352		456
Short term debtors	65,657	4,192	(5,473)	64,376
Cash and cash equivalents in hand	41,764	3,327		45,091
Short term creditors	91,690	5,836	(5,473)	92,053
Other long term liabilities	604,385	11,150		615,535
Usable reserves	108,948	6,984		115,932
Unusable reserves	(222,095)	(13,060)		(235,155)
Cash flow from investing activities	(5,641)	12,451		6,810

#### 2011/12

	<b>Brent</b>	<b>BHP</b>	<b>Adjustments</b>	<b>Group</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Financing and investment income	43,532	1,723		45,255
Property plant and equipment	1,246,961	39,673		1,286,634
Investment properties	2,772	5,470		8,242
Inventories	138	681		819
Short term debtors	43,895	4,911	(2,886)	45,920
Cash and cash equivalents in hand	44,435	1,734		46,169
Short term creditors	81,784	5,332	(2,886)	84,230
Other long term liabilities	690,081	12,916		702,997
Usable reserves	165,961	5,505		171,466
Unusable reserves	(7,846)	(14,407)		(22,253)
Cash flow from investing activities	(21,079)	(21,896)		(42,975)

## BRENT PENSION FUND

### The Brent Pension Fund

The Brent Pension Fund is part of the Local Government Pension Scheme (LGPS) and is open to all local government employees, with the exception of police, fire fighters and teachers who have their own schemes.

### Administering authority

The London Borough of Brent is the administering authority for the Fund. It has responsibility for the collection of contributions, the payment of benefits and the investment of the Fund under the Local Government Pension Scheme Regulations 1997 (as amended).

### Brent Pension Fund Sub Committee

As part of its responsibility as administering authority, Brent Council has established the Brent Pension Fund Sub Committee to oversee as 'trustee' for the Fund. The Sub Committee meets quarterly to discuss investment strategy and objectives, to examine legislation and other developments as they may affect the Fund, and to review the performance of the fund managers.

Chair	Councillor S. Choudhary
Vice-Chair	Councillor G. Crane
Member	Councillor J. Bacchus
Member	Councillor S. Hashmi
Member	Councillor D. Brown
Member	Councillor B.M. Patel
Member	Councillor W. Mitchell Murray

### Co-opted members

North West London College	Mr. A. Patel
GMB	Mr. G. Fraser
Independent Adviser	Mr V. Furniss

### Brent Pension Fund Sub Committee responsibilities and learning & development

As set out in the scheme of governance, only councillors have voting rights because management of the Fund is part of their legal responsibility. However, representatives of both the staff and the largest employer outside Brent Council attend the Sub Committee and take a full part in discussions. The Sub Committee takes executive decisions.

During 2011/12, members attended Sub Committee meetings and received training as follows:-

Member	Meetings attended	Learning & development attended
S. Choudhary	5	3
G. Crane	5	3
B.M. Patel	5	1
J. Bacchus	5	1
S. Hashmi	6	2
D. Brown	3	1
W. Mitchell Murray	1	1
A. Patel	-	-
G. Fraser	2	-

Training was an amalgam of on-line, conferences and presentations by managers and consultants on key areas such as asset allocation.

## Fund managers

The Fund managers act as the council's agents and have authority to purchase and sell stocks as appropriate.

The following Fund managers manage individual portfolios:

Fund Managers	Asset Class	£M	per cent
Brent Finance and Corporate Resources (Bina Chauhan-Wild)	UK Equities	86.5	17.6
Legal & General Investment Management (Helen Gawkrödger)	Global Equities	117.9	24.0
Henderson Global Investors (Jennifer Ockwell)	UK Small Companies	15.9	3.2
Dimensional (Chris Morgan)	Emerging Markets	31.0	6.3
Henderson Global Investors (Jennifer Ockwell)	Fixed Interest	82.6	16.9
Aviva Investors (Catriona Allen)	UK and European Property	34.7	7.1
Yorkshire Fund Managers (Geoff Sankey)	Private Equity	2.0	0.4
Capital Dynamics (Angela Willetts)	Private Equity	63.6	13.0
Fauchier Partners (Alex Dolbey)	Hedge Fund	40.5	8.3
Alinda Capital Partners (Simon Riggall)	Infrastructure	15.5	3.2
		<b>490.2</b>	<b>100.0</b>

## Custodians

The Fund uses two custodians for segregated portfolios as follows:

BNP Paribas Security Services (Fixed Interest) – contact Jennifer Ockwell (Henderson)

Bank of New York Mellon (UK Equities & Property) – contact Beth Dowling-Jones

## Actuary (Contact – Douglas Green)

Hymans Robertson advises the Fund on pension fund issues as they arise, in particular, new legislation and complicated cases as they affect employers or individual employees. On an annual basis the actuary values the surpluses / deficits of individual employers under Financial Reporting Standard 17, International Accounting Standard 19 regulations. Every three years the actuary carries out a valuation of the Fund, assessing whether or not assets are sufficient to meet future liabilities, and amending employer contribution rates accordingly.

## Performance measurement (contact - Lynn Coventry)

The WM Company analyses and compares the performance of the fund with that of other funds and market indices on a quarterly and annual basis. The data produced enables the sub committee to review the performance of the managers and the fund over quarterly, one year and longer periods.

## Officers

The Exchequer & Investment Team advises the Sub Committee on investment strategy and monitors the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the fund.

Director of Finance & Corporate Services	Clive Heaphy	
Head of Exchequer & Investment	Anthony Dodridge	020 8937 1472
Principal Investment Officer	Bina Chauhan-Wild	020 8937 1473

The Pensions and Payroll Team monitors and manages the pension's contractors. The team is a contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

Pensions Manager	Andrew Gray	020 8937 3157
Principal Pensions Consultant	Anna McCormack	0208 937 3936

**Pensions contractors**

Capita Hartshead provides benefits administration – pension scheme membership records, advice, calculations and estimates. LOGICA is responsible for the actual payment of pensions and gratuities.

Advice and benefit calculations	Capita Hartshead
Danny Snow	01737 366018

Payment of pensions	LOGICA
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The Registrar of Occupational Pension Schemes	P O Box INN, Newcastle-Upon-Tyne NE99 INN
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**AVC Provider**

Clerical Medical is the AVC scheme provider – contact Simon Wildgoose.

**Legal Adviser**

The London Borough of Brent Solicitor is Fiona Ledden

**Banker**

The banker for the London Borough of Brent is National Westminster, Wembley Park Branch.

**Auditor**

The Fund is audited by the Audit Commission.

## Actuarial valuation

### London Borough of Brent

#### Statement of the Actuary for the year ended 31 March 2012

##### INTRODUCTION

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Brent Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

##### ACTUARIAL POSITION

1. Rates of contributions paid by the participating Employers during 2011/12 were based on the actuarial valuation carried out as at 31 March 2010.
2. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had decreased since the previous valuation with the market value of the Fund's assets at that date (of £457.4M) covering 61% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:
  - 13.4% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

##### Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 25 years from 1 April 2011, amounting to £15.9M in 2011/12, and increasing by 5.3% p.a. thereafter, before any phasing in or 'stepping' of contribution increases.

This would imply an average employer contribution rate of about 24.6% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.

4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority. In addition the Administering Authority agreed that the significant increases in contribution requirements could be phased in for some employers over periods of up to 6 years. The resulting aggregate deficiency contributions in 2011/12 are £11.9M. The aggregate deficiency contributions payable are anticipated to remain lower than indicated by point 3 above until 2015/16.
5. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011 which is appended to our report of the same date on the actuarial valuation.
6. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.



7. The main actuarial assumptions were as follows:

Discount rate	
Scheduled Bodies	7.5% p.a.
Admission Bodies	
In service:	6.25% p.a.
Left service:	4.75% p.a.
Rate of general pay increases	5.3% p.a.
Rate of increases to pensions in payment	3.3% p.a.
Valuation of assets	market value

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

8. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

9. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of London Borough of Brent. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, London Borough of Brent, in respect of this statement.

Aon Hewitt Limited

<b>List of scheduled bodies and admitted bodies</b>	<b>Employee contributions</b>	<b>Employer contributions</b>
	<b>£ 000s</b>	<b>£ 000s</b>
<b>Scheduled bodies</b>		
London Borough of Brent	5,539	21,424
Alperton Community School	68	266
ARK Academy	54	111
Avigdor Hirsch Torah Temimah School	2	6
Barham Park Primary School	29	119
Brent Housing Partnership	307	715
Capital City Academy	68	257
Cardinal Hinsley High School	42	164
Chalkhill Primary School	10	42
Claremont High School	32	125
College of North West London	328	1,017
Convent of Jesus & Mary RC Language College	36	142
CREST BOYS	27	107
CREST GIRLS	54	203
Furness Primary School	13	56
Granville Children's Centre	7	29
Islamia Primary School	14	58
JFS	68	259
Kilburn Park School	6	26
Kingsbury High School	112	447
Malorees Junior School	10	42
Manor Day School	41	163
Michael Sobell Sinai School	34	141
Mitchell Brook Primary School	28	117
North West London Jewish Day School	11	46
Oakington Manor Primary School	24	96
Park Lane Primary School	13	54
Preston Manor High School	72	291
Preston Park Primary School	32	131
Princess Frederica Primary School	11	44
Queens Park Community School	57	221
Salisbury Primary School	31	128
St Andrews & St Francis C of E Primary School	14	79
St Gregory's RC School	29	103
St Joseph's RC School	26	102
St Mary's C of E School	7	28
Stonebridge Primary School	7	29
Sudbury Primary School	28	118
The Copland Community School & Technology Centre	67	264
Village School	93	383
Woodfield Primary School	11	45
	<b>7,462</b>	<b>28,198</b>

**Admitted bodies: contributing**

Age Concern	0	0
Brent Association of Disabled People	1	4
Brent Society for Mentally Handicapped Children (Mencap)	5	17
Capita	11	31
Churchill contracts Ltd	1	3
Goldsborough Homecare and Nursing Services Ltd	2	9
Local Employment Access Project	19	59
National Autistic Society	111	454
Sudbury Neighbourhood Centre	10	40
Wetton Cleansing Grounds Maintenance	8	58
Wetton Maintenance Services	5	20
Willow	3	13
	<b>176</b>	<b>708</b>

**ADMITTED BODIES: NON-CONTRIBUTING**

Brent Asian Professional Association  
Brent Black Mental Health Project  
Brent Community Relations Council  
Brent Community Transport  
Brent Energy Services Team  
Brent Family Service Unit  
Brent Irish Advisory Service  
Brent Kids Scrap Bank  
Brent Mind  
Brent Under Twenties First Aid Housing  
Brent Voluntary Service Council  
Chalkhill Asian Forum  
Harlesden Young Mums Project  
    - Family Outreach Project  
Harlesden Methodist Church  
    - Harlesden Day nursery  
Hillside Under Fives Centre  
Kilburn Training  
Park Lane Methodist Day Nursery  
Pakistan Workers Association  
Welcome Senior Citizens Club  
West Indian Self Effort

## Pension Fund – GENERAL INFORMATION

### Fund income

The fund receives income from the following sources:

- employees, at varying rates dependant on salary levels or date of joining the scheme
- employers, at varying rates according to their status
- investment income – dividends or interest
- capital gains on investments and
- transfer values from other funds

**Table A: Employer Contribution Rates**

	<u>2010/11</u> <u>per cent</u>	<u>2011/12</u> <u>per cent</u>	<u>2012/13</u> <u>per cent</u>	<u>2013/14</u> <u>per cent</u>
<b>Brent</b>	22.9	25.1	26.9	27.4

**Table B: Fund membership and contributions 2007/08 to 2011/12**

	2007/08	2008/09	2009/10	2010/11	2011/12
Number of contributing employees as at 1 April	5,922	6,075	5,896	5,461	5,198
Deferred	5,380	5,713	6,096	6,595	6,891
Pensioners and dependants	5,161	5,269	5,438	5,711	5,934
	£M	£M	£M	£M	£M
Employee contributions	7.4	8.5	8.8	8.3	7.8
Employer contributions	28.4	28.1	29.8	31.2	33.8
<b>Total contributions</b>	<b>35.8</b>	<b>36.6</b>	<b>38.6</b>	<b>39.5</b>	<b>41.6</b>

**Table C: The total administrative cost of the fund**

EXPENDITURE	2010/11		2011/12	
	£'000	per cent	£'000	per cent
Administration and processing	1,099	40.3	944	26.1
Actuarial fees	115	4.2	69	1.9
Administration, management and custody fees	1,496	54.8	2,579	71.4
Performance measurement fees	19	0.7	20	0.6
<b>Total Administration Costs</b>	<b>2,729</b>	<b>100.0</b>	<b>3,612</b>	<b>100</b>

**Table D: Value of the fund as at 31<sup>st</sup> March**

YEARS	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000
<b>VALUE</b>	<b>472,040</b>	<b>339,573</b>	<b>454,815</b>	<b>490,359</b>	<b>493,897</b>

## Risk management

Commentary on the management of investment risk is contained within the Statement of Investment Principles, and the asset allocation for the Fund is included in table E. The risk profile of the Fund has not changed dramatically – exposure to private equity (from 10.1% of the Fund to 12.5%) and infrastructure (from 1.7% to 3.4%) have increased in line with investment plans. The asset allocation has also been amended to reflect the termination of the Global Tactical Asset Allocation mandate and the reduction in exposure to fixed interest assets. The main investment risks are:-

- a) Not meeting liabilities and severe market volatility. These are mitigated by regular review of performance and asset allocation, diversification between managers and asset classes, and taking advice from consultants, the investment adviser and managers. For example, the fund uses the core portfolio in the fixed interest fund for stability and income. Equity managers are used to utilise the equity risk premium, but some are active managers (where markets are less efficient) whereas others are index trackers that are less expensive. Other approaches used include the illiquidity premium (infrastructure and private equity) and absolute return investing (hedge funds and the satellite portfolio in fixed interest). It is also very helpful that the Fund has a surplus of income (contributions and dividends) over expenditure (payment of benefits).
- b) Operational risks. In particular, the systems used by and financial health of, managers, custodians and contractors (LPFA) are assessed at appointment and on an ongoing basis by reference to annual reports, assurance reports (such as AAF 01/06 and SAS 70) and other research. Managers report their use of professional and accounting standards to make valuations. If concerns arise, these are investigated and reported to members so that issues are resolved. Managers, custodians and contractors issue reports on a regular basis, allowing opportunity for checking. Wide investment diversification also provides protection – for example, the hedge fund manager invests in around 30 underlying funds, whereas each private equity fund usually has around 15 sub managers.
- c) Liquidity risks, where the Fund has insufficient liquid assets to meet benefit payments. This is met by keeping most assets either very liquid, as in cash and bonds, or semi liquid through large company equities. The Fund uses a long term cash flow (reviewed every three years) to assess the security of investment horizons and the likelihood of sudden cash calls.
- d) Foreign exchange risks. These are met by holding many assets in sterling and holding a diversified portfolio across a number of currencies.
- e) Credit risks. The Fund only appoints properly regulated managers, and only deals on authorised markets. Pooled funds have systems in place to protect the pooled fund from default by counterparties.
- f) Finally, the status of employer bodies may also give rise to concerns, particularly with regard to admitted bodies whose financial status may be less secure. Where possible, bonds are obtained on admission and renewed as appropriate.

The quantitative risks may be assessed as follows:-

Credit	There is a counter-party risk, but it is suggested that this is negligible. The main risk is that employers may collapse, particularly as some are contractors. The risk is mitigated by the existence of bonds. The risk is assessed as 10% of admitted body contributions - £180,000.
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- Liquidity** This is assessed as nil because the Fund is able to borrow short term and has a regular flow of income from dividends and employers which exceed benefit payments. There are contractual payments to private equity and infrastructure managers over the next five years or so (up to £91.3m), but these will be met from contributions and dividends, and the return of capital from private equity investments. Derivative payments from Henderson Global Investors (£2m) are covered by cash reserves.
- Currency** All liabilities are payable in sterling, but some assets are held in overseas currencies – in particular private equity, overseas equities, some bonds, European property and infrastructure. Although the fixed interest has currency hedges in place, the other managers do not hedge on the grounds that a) currencies do not tend to change much in value over the long term and b) sterling has tended to decline in value, thus making overseas assets more attractive.
- Market** Market risks, either positive or negative, are the largest risks faced by the Fund, and arise from fluctuations in market conditions and sentiment. It is suggested that equity exposure is most volatile – corrections of 10% over a short period are quite regular. Private equity and infrastructure also have equity elements, but are also affected by profits and, in the case of infrastructure, tariff contracts. If it is assumed that the potential variation may be two standard deviations, the changes (as illustrated in the CIPFA publication on Local Government Pension Scheme accounts – Example Accounts and Disclosure Checklist) may be:-

Equities	25.8% of exposure	+/- £m
Property	16%	+/- £m
Private equity	27.6%	+/- £m
Infrastructure	21.8%	+/- £m
Hedge funds	12% (worst year)	+/- £m
GTAA	25.8% (as equities)	+/- £m

However, note that in extreme corrections (such as 1987), equity markets can fall by 33% in a short time.

### **Financial performance**

The Fund does not construct a budget because most of the expenditure and income items cannot be controlled in this way. However, a budget is agreed for certain pensioner payroll, IT and committee support items at the beginning of each year. These budgets are adhered to strictly unless the Fund agrees to extra work items.

Following increases in employer contributions, it is anticipated that the Fund will have a positive cash flow (excluding dividend and interest receipts) in future years to reduce the Fund deficit. However, reductions in employee numbers will reduce the current surplus of contributions over benefit expenditure, as may changes to the LGPS that increase employee contributions to the Fund.

## **Investments**

### **Administration of the Fund**

The fund managers invest in markets in accordance with their management agreements and investment regulations and the Statement of Investment Principles.

The WM Company, market leader in performance measurement and investment administration services, has measured the performance of the Fund over the year in accordance with the performance benchmarks set for the investment managers. This has been based on the asset allocation agreed for the Fund.

### **Sales and purchases**

Sales proceeds totalled £196.1 million (£279.1 million 2010/11) and the purchases totalled £213.6 million (£296.1 million 2010/11) during 2011/12.

### **Administration**

Pension administration is carried out by Capita Hartshead which currently has the equivalent of five staff employed on the Brent contract.

London Borough of Brent Pension Fund accounts as at 31 March 2012

	Note	<u>2010/2011</u>	<u>2011/2012</u>
		<u>£ 000s</u>	<u>£ 000s</u>
<b>Contributions and benefits</b>			
Contributions receivable	3	39,594	41,663
Transfer values in	4	4,306	2,152
		<b>43,900</b>	<b>43,815</b>
Benefits payable	5	32,948	34,292
Payments to and account leavers	6	5,117	3,132
Administrative expenses	7	1,214	1,013
		<b>39,279</b>	<b>38,437</b>
<b>Net additions (withdrawals) from dealings with members</b>		<b>4,621</b>	<b>5,378</b>
<b>Returns on investment</b>			
Investment income	8	12,007	8,236
Change in market value of investments	9	20,431	(7,477)
Investment management expenses	10	(1,515)	(2,599)
<b>Return on investments</b>		<b>30,923</b>	<b>(1,840)</b>
<b>Net increase / (decrease) in the funds during the year</b>		<b>35,544</b>	<b>3,538</b>
<b>IFRS net assets of the scheme</b>			
Opening net assets		454,815	490,359
Closing net assets		490,359	493,897
<b>NET ASSETS STATEMENT 31 MARCH</b>			
<b>Investment assets</b>	<b>9</b>	<b>487,443</b>	<b>490,416</b>
<b>Investment liabilities</b>		<b>0</b>	<b>0</b>
<b>TOTAL Investments</b>		<b>487,443</b>	<b>490,416</b>
<b>Current assets</b>	<b>11</b>	<b>2,122</b>	<b>3,363</b>
<b>Non current Assets</b>	<b>16</b>	<b>1,758</b>	<b>1,921</b>
<b>Current liabilities</b>	<b>12</b>	<b>(964)</b>	<b>(1,803)</b>
<b>Net assets of the scheme at 31 March</b>		<b>490,359</b>	<b>493,897</b>

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

The actuarial certificate sets out the actuarial position of the Fund and the required level of contributions payable. In accordance with International Financial Reporting Standards, the actuary has valued the whole Fund as at 31<sup>st</sup> March 2010 on the basis of International Accounting Standard 26. This is produced as a separate report as part of the annual accounts, and will be updated every three years in accordance with CIPFA guidance.



## **London Borough of Brent Pension Fund**

### **Accounting policies and notes to the accounts**

#### **1. Basis of preparation**

The financial statements summarise the transactions and net assets of the scheme. They do not take account of liabilities to pay pensions and other benefits in the future, and have been prepared on a going concern basis. The accounts are prepared on an accruals basis. The debtors include income due and the pensions strain over the next 2 years. The actuarial position of the fund, which does take account of such liabilities, is dealt with in the statement by the actuary on page 8 of the annual report of the Fund and these financial statements should be read in conjunction with it.

#### **2. Accounting policies**

The consolidated accounts of the Fund for the year to 31st March 2012 are presented in accordance with the following accounting policies:

##### **A Statements of accounting policies**

- (i) the pension costs that are charged to the council's accounts in respect of its employees are equal to the contributions paid to the pension fund for those employees.
- (ii) further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. These costs have been determined on the basis of contribution rates that are set to meet 100 per cent of the liabilities of the Pension Fund, in accordance with relevant Government Regulations.

##### **B Basis of accounting**

The Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of the Pension Schemes: A Statement of Recommended Practice (revised May 2007). Chapter 2 Recommended Accounting Practice, International Financial Reporting Standards (IFRS) and the CIPFA Code of Practice on Local Authority Accounting.

##### **C Asset valuation principles**

- (i) UK quoted securities are valued at bid prices as at the close of business on the 31 March or at the date of the last pricing of the security.
- (ii) overseas quoted securities are valued at bid price on the 31<sup>st</sup> March, translated into sterling in accordance with accounting policy.
- (iii) UK unquoted unit trusts, property and other unquoted securities including hedge funds and private equity are valued at the external manager's valuation or latest accounts, unless actual valuations are available. Some valuations will be based on estimation or use of judgement, but will be based on professional standards, as in the case of property, or on comparable investments. For example, private equity valuations will be based on prices paid for the recent sale of similar assets, less an appropriate reserve, or on comparative earnings multiples
- (iv) fixed interest securities valued at market value excluding the value of interest accruing on the securities.

##### **D Income from investments**

Dividends on investments are credited to the Fund accounts on the ex-dividend date. Interest on fixed-interest securities is accrued on a day to day basis. Income is shown gross of taxes deducted at source in the accounts.

##### **E Foreign currencies**

Transactions in foreign currencies are accounted for in sterling at the rate ruling on the date of the transactions. Monetary and other assets denominated in foreign currencies are translated into sterling at exchange rates ruling on 31 March. Translation and conversion differences arising on transactions are included in the Fund account.

## **F Transfer values to and from the fund**

The Fund account has been prepared on cash basis. Transfer values paid to or paid out from the Fund during the year have been included.

## **G Ex-gratia payments**

No ex-gratia payments were met from the Fund in 2011/2012.

## **H Taxation**

### **(i) Investments**

The Fund is exempt from United Kingdom Capital Gains Tax. Income from overseas sources suffers a withholding tax in the country of origin, unless exemption is permitted as in the United States and Australia. A proportion of the tax deducted in some European countries is recovered. The amounts recovered will vary from the amounts paid due to exchange rate fluctuations. All VAT paid is recoverable.

### **ii) Compounded pensions**

There is a liability to income tax on these items, which are small pensions converted into lump sums. The rate of tax is 20 per cent and the liability is minimal.

## **I Employers' contributions**

In 2011/2012 employers' contributions of £33.9 million were paid (2010/11 £ 31.2 million).

The increased contributions will support the elimination of the funding deficit over a 25 year period.

## **J Statement of investment principles**

The Pension Fund Sub-committee agreed a revised Statement of Investment Principle in 2012 and will publish this both to the employers and on the Finance website. ([www.brent.gov.uk/pensions](http://www.brent.gov.uk/pensions))

## **K Related party's transactions**

As administering authority for the Brent Pension Fund, the London Borough of Brent is a related party to the Fund. The authority provides administrative support, elected member leadership to the Fund, and manages the UK equity portfolio in house. Other related parties would include other pension fund employers (page 8), pension fund managers and advisor's (page 4), and senior officers and their families (page 4).

- Key management personnel are the same for the pension fund as for the Council as a whole;
- The 2011/2012 remuneration for Council key management personnel are presented in full in the Council accounts (this is Note 36);
- It is not possible to apportion this remuneration precisely between the Council and the pension fund accounts, as the exact amount of time spent by these individuals on the pension fund is not exactly defined or measured. Hence, their remuneration is shown in full in the Council accounts, and not at all in the pension fund accounts.

## **L Liquidity of Investments**

Private equity and Infrastructure investments are illiquid because the funds are established for twelve years, which may be extended. The commitments are agreed at the commencement of the Fund and cannot be changed without agreement with the General Partner.

## **M The administrative authority's responsibilities**

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of their officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Corporate Services.
- manage business to secure economic, efficient and effective use of resources and safeguard assets.

**N Responsibilities of the Director of Finance and Corporate Services**

The Director is responsible for the preparation of the authority's pension fund's Statement of Accounts, in terms of the Code and the Statement of Recommended Practice. The director is required to present fairly the financial position of the Fund (and its income and expenditure) for the year ended 31st March 2012. In preparing this statement of accounts, the director has: selected suitable accounting policies and applied them consistently; made judgements and estimates that were reasonable and prudent; complied with the Code; kept proper up to date accounting records; and taken reasonable steps for the prevention of fraud and other irregularities.

**Clive Heaphy****Director of Finance and Corporate Services**

### 3 Contributions receivable

Employees contributed £7.7 million in 2011/2012. The numbers of contributing members increased during the year.

	<u>2010/11</u> <u>£000s</u>	<u>2010/11</u> <u>£000s</u>	<u>2011/12</u> <u>£000s</u>	<u>2011/12</u> <u>£000s</u>	<u>2010/11</u> <u>£000s</u>	<u>2011/12</u> <u>£000s</u>
	ongoing	deficit	ongoing	deficit		
<b>Employers</b>						
Brent	17,383	9,514	16,274	14,208	26,897	30,482
Scheduled	2,176	465	1,824	817	2,641	2,641
Admitted	1,091	633	389	371	1,724	760
<b>Members</b>						
Brent					6,892	6,593
Scheduled					904	869
Admitted					316	176
Additional contributions					220	142
	<b>20,650</b>	<b>10,612</b>	<b>18,487</b>	<b>15,396</b>	<b>39,594</b>	<b>41,663</b>

### 4 Transfers in

	<u>2010/11</u> <u>£000s</u>	<u>2011/12</u> <u>£000s</u>
Individual Transfers in from other schemes	<b>4,306</b>	<b>2,152</b>

### 5 Benefits payable

#### On retirement or death

<b>Pensions</b>		
Brent	21,721	23,631
Scheduled	906	1,066
Admitted	795	945
<b>Lump sum retirement benefits</b>		
Brent	7,762	6,484
Scheduled	972	599
Admitted	296	722
<b>Lump sum death benefits</b>		
Brent	496	683
Scheduled	0	90
Admitted	0	72
	<b>32,948</b>	<b>34,292</b>

### 6 Payments to and on account of leavers

Refund to members leaving service	(6)	(3)
Individual transfers to other schemes	5,123	3,135
	<b>5,117</b>	<b>3,132</b>

### 7 Administration expenses

Administration and processing	1,064	914
Actuarial fees	115	66
Audit fees	35	33
	<b>1,214</b>	<b>1,013</b>

## 8 Investment Income

Dividend income equities	4,837	3,043
Income from fixed interest securities	2,371	2,310
Income from property unit trusts securities	1,285	1,714
Income from private equity	2,408	769
Interest on cash deposits	42	65
Infrastructure	289	175
Commission recapture	17	0
Miscellaneous	758	160
<b>Total investment income</b>	<b>12,007</b>	<b>8,236</b>

Details of irrecoverable taxation are no longer being included as these are not required as part of the Pension Fund Statement of Recommended Practice.

## 9 Investments (summary as in the Statement of Recommended Practice)

Fixed interest securities – public sector	17,144	-
Equities	72,751	86,491
Pooled investment vehicles	396,519	410,576
Cash	540	(7,195)
	<b>486,954</b>	<b>489,872</b>

### Investments 2011 (detail)

	<u>Value at</u> <u>31.03.10</u> <u>£'000s</u>	<u>Purchases</u> <u>At cost</u> <u>£'000s</u>	<u>Sales</u> <u>Proceeds</u> <u>£'000s</u>	<u>Change in</u> <u>Market</u> <u>Value</u> <u>£'000s</u>	<u>Value at</u> <u>31.03.11</u> <u>£'000s</u>
UK equities-quoted	100,325	6,814	37,966	3,578	72,751
Global equities-quoted UK Alliance	14,721	3,683	17,810	(594)	0
Global equities-quoted Alliance	112,078	52,160	158,312	(5,926)	0
Global Equities-LGIM	0	111,304	0	10,817	122,121
Emerging markets-LGIM	0	34,724	0	1,580	36,304
Fixed interest (including unit trusts)	81,792	63,211	61,291	1,253	84,965
Property UK FOF UT	19,731	4,000	0	2,696	26,427
Property European FOF UT	6,756	0	0	(90)	6,666
UK equities small companies UT	15,447	77	2,400	2,760	15,884
*Private equity-YFM/CapDyn LLP	38,331	13,045	1,413	2,110	52,073
Hedge fund Open ended Trust	41,842	0	0	444	42,286
*Infrastructure LLP	5,011	3,079	0	20	8,110
GTAA Open ended Trust	11,450	4,000	0	3,377	18,827
	<b>447,484</b>	<b>296,097</b>	<b>279,192</b>	<b>22,025</b>	<b>486,414</b>
Cash deposits	5,676	0	5,175	39	540
Henderson Bond Future	0	106	(15)	(121)	0
Henderson FX	4	1,829	1,829	(4)	0
AllianceBernstein FX	0	5,765	4,298	(1,467)	0
AllianceBernstein Futures	5	154	118	(41)	0
	<b>453,169</b>	<b>303,951</b>	<b>290,597</b>	<b>20,431</b>	<b>486,954</b>
Investment income due	943				489
	<b>454,112</b>				<b>487,443</b>

UT is unit trust

LP is limited partnership

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year.

\*Private equity and Infrastructure

### Investments 2012 (detail)

	<u>Value at</u> <u>31.03.11</u> <u>£'000s</u>	<u>Purchases</u> <u>At cost</u> <u>£'000s</u>	<u>Sales</u> <u>Proceeds</u> <u>£'000s</u>	<u>Change in</u> <u>Market</u> <u>Value</u> <u>£'000s</u>	<u>Value at</u> <u>31.03.12</u> <u>£'000s</u>
UK equities-quoted	72,751	22,158	6,810	(1,608)	86,491
Global Equities-LGIM	122,121	0	3,115	(1,242)	117,764
Emerging markets-LGIM	36,304	0	35,907	(397)	0
Emerging markets-Dimensional	0	35,827	0	(4,784)	31,043
Fixed interest (including unit trusts)	84,965	128,760	126,961	3,063	89,827
Property UK FOF UT	26,427	1,200	0	818	28,445
Property European FOF UT	6,666	0	18	(354)	6,294
UK equities small companies UT	15,884	476	0	(380)	15,980
*Private equity-YFM/CapDyn LLP	52,073	17,283	4,969	1,170	65,263
Hedge fund Open ended Trust	42,286	0	0	(1,792)	40,494
*Infrastructure LLP	8,110	7,892	193	(343)	15,466
GTAA Open ended Trust	18,827	0	18,158	(669)	0
	<b>486,414</b>	<b>213,596</b>	<b>196,131</b>	<b>(6,518)</b>	<b>497,067</b>
Cash deposits	540		7,203	(532)	(7,195)
Henderson Bond Future	0	213	80	(133)	0
Henderson FX	0	258	258	0	0
	<b>486,954</b>	<b>214,067</b>	<b>203,672</b>	<b>(7,183)</b>	<b>489,872</b>
Investment income due	489				544
	<b>487,443</b>				<b>490,416</b>

UT is unit trust

LP is limited partnership

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year.

\*Private equity and Infrastructure

The Brent pension fund has made commitments as a limited partner to ten funds managed by Capital Dynamics, the Capital Fund for London and to the Alinda Infrastructure Fund. As at 31<sup>st</sup> March 2012, outstanding commitments totalled £89m.

<b>Fixed interest securities</b>	<b><u>2010/11</u></b>	<b><u>2011/12</u></b>
	<b><u>£000s</u></b>	<b><u>£000s</u></b>
<b>Segregated</b>		
UK public sector	17,144	-
<b>Pooled</b>		
UK corporate – open ended unit trust	23,957	-
Overseas government open ended unit trust	8,257	-
Secured loans open ended unit trust	4,613	-
Credit opportunities open ended unit trust	9,201	9,805
Credit alpha open ended unit trust	12,516	-
Currency fund open ended unit trust	646	-
Absolute return fund open ended unit trust	0	66,093
Infrastructure Limited Partnership	920	1,141
Money market fund	7,711	12,788
	<b>84,965</b>	<b>89,827</b>

**Pooled investment vehicles (excluding fixed interest):**

	<b><u>2010/11</u></b>	<b><u>2011/12</u></b>
	<b><u>£000s</u></b>	<b><u>£000s</u></b>
Property - UK fund of funds unit trust	26,427	28,445
Property - European fund of funds unit trust	6,666	6,294
UK Equities – small companies unit trust	15,884	15,980
Overseas equities – developed markets	122,121	117,764
Overseas equities - emerging markets	36,304	31,043
Private equity limited partnerships	52,073	65,263
Hedge fund open ended trust	42,286	40,494
Infrastructure limited partnership	8,110	15,466
GTAA open ended trust	18,827	-
	<b>328,698</b>	<b>320,749</b>

<b>Type of derivative</b>	<b>Expiration</b>	<b>Economic exposure value £000</b>	<b>Fair Value</b>	
			<b>Asset</b>	<b>Liability</b>
<b>Henderson</b>				
Euros	26 June 2012	(35)		
Euros	26 June 2012	35		

Derivative receipts and payments represent the realised gains and losses on contracts. The various derivatives are / were held for the following purposes:-

- Gilt futures. The manager purchases exposure to the value of gilts at a future date, paying a margin that increases / reduces as the value of the future varies. Futures are used because the market is liquid and costs are lower.
- Currency exposure was obtained through futures, and had two main purposes. First, the pooled currency fund managed by Henderson took views on currency movements, seeking to make gains as currencies rose / fell. Second, the Fund sought to protect the value of investments against adverse currency movements by fixing the sterling value in the future.

- c) Global Tactical Asset Allocation (GTAA) sought to make gains through the relative movements in currency, bonds and equities. Exposure was gained through a pooled fund managed by Mellon.

### AVC Investments

Additional voluntary contributions are not included in the pension fund accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. Individuals hold assets invested separately from the main fund in the form of with profits, equity related, or building society accounts, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVCs). Members participating in this arrangement each receive an annual statement made up to 31<sup>st</sup> March confirming the value of their account and the movements in the year. The aggregate value of the AVC investments is as follows:-

	<u>2010/11</u>	<u>2011/12</u>
	<u>£000s</u>	<u>£000s</u>
Equitable Life	180	175
Clerical Medical	1,212	1,138
	<u>1,392</u>	<u>1,313</u>

### 10 INVESTMENT MANAGEMENT EXPENSES

	<u>2010/11</u>	<u>2011/12</u>
	<u>£000s</u>	<u>£000s</u>
Administration, management and custody fees	1,429	2,510
Performance measurement fees	19	20
Other advisory fees	67	69
	<u>1,515</u>	<u>2,599</u>

INVESTMENT MANAGEMENT FEES INCLUDE FEES CHARGED DIRECTLY TO THE FUND, BUT NOT FEES CHARGED WITHIN POOLED FUNDS.

### 11. CURRENT ASSETS

Contributions due		
Employers	2,507	2,102
Employees	98	101
Additional voluntary contributions	1	2
Other miscellaneous debtors	1,274	1,157
	<u>3,880</u>	<u>3,363</u>

### 12. CURRENT LIABILITIES

Management / advisor's fees	(48)	(1,642)
Lump sums not paid	0	0
Accrued expenses	(916)	(161)
	<u>(964)</u>	<u>(1,803)</u>

### 13. Short-Term Debtors

Central government bodies	0	0
Other local authorities	0	0
NHS bodies	0	0
Public corporations and trading funds	0	0
Other entities and individuals	3,880	5,284
	<u>3,880</u>	<u>5,284</u>



**14. Short-Term Creditors**

Central government bodies	0	0
Other local authorities	0	0
NHS bodies	0	0
Public corporations and trading funds	0	0
Other entities and individuals	(964)	(1,803)
	<b>(964)</b>	<b>(1,803)</b>

**15. Cash and cash equivalents**

Cash held by authority	0	0
Bank current accounts	540	(7,195)
Short-term deposits with building societies	0	0
	<b>540</b>	<b>(7,195)</b>

**16. Non current assets**

This comprises of contributions due from employers, repayable later than a year of the Balance sheet date.

## Information Required for IAS 26

### Introduction

IAS 26 requires the "actuarial present value of the promised retirement benefits" to be disclosed, which is the IAS 26 terminology for what IAS19 refers to as the "defined benefit obligation".

The information set out below relates to actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme. The Fund provides defined benefits, based on members' Final Pensionable Pay.

### Actuarial present value of promised retirement benefits

Paragraph 6.5.2.8 of CIPFA's Code of Practice on local authority accounting for 2010/11 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed. CIPFA have also indicated that comparator values at the 2007 should also be provided.

The results at both dates are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions. We do not believe the Authority needs to show these additional items if it does not wish to do so, but we include them in our report as we believe that they are helpful for the reader.

	Value as at 31 March 2010 £M	Value as at 31 March 2007 £M
Fair value of net assets	454.8	498.5
Actuarial present value of the promised retirement benefits	1,116.5	853.9
Surplus / (deficit) in the Fund as measured for IAS 26 purposes	(661.7)	(355.4)

### Assumptions

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with the requirements of IAS 26 took place at 31 March 2010. The principal assumptions used by the Fund's independent qualified actuaries were:

	31 March 2010 (% p.a.)	31 March 2007 (% p.a.)
Discount rate	5.5	5.3
RPI Inflation	3.9	3.2
CPI Inflation	3.0	N/A
Rate of increase to pensions in payment*	3.9	3.2
Rate of increase to deferred pensions	3.9	3.2
Rate of general increase in salaries **	5.4	4.7

\* In excess of Guaranteed Minimum Pension increases in payment where appropriate

\*\* In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31 March 2010 and 31 March 2007.

## Principal demographic assumptions

Post retirement mortality	31 March 2010	31 March 2007
<b>Males</b>		
Base table	Standard SAPS Normal Health Light Amounts (S1NMA_L)	Standard tables PNMA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates *	100%	100%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 1.0% p.a.
Future lifetime from age 65 (currently aged 65)	23.7	22.0
Future lifetime from age 65 (currently aged 45)	25.5	24.0

<b>Females</b>		
Base table	Standard SAPS Normal Health Light Amounts (S1NFA_L)	Standard tables PNFA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates *	80%	100%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 0.5% p.a.
Future lifetime from age 65 (currently aged 65)	26.5	24.0
Future lifetime from age 65 (currently aged 45)	28.5	25.3

\* The scaling factors shown apply to normal health retirements

	31 March 2010	31 March 2007
<b>Commutation</b>	Each member is assumed to exchange 25% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.	Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

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**Changes in benefits during the accounting period**

As set out earlier we believe the switch to using CPI for pension increases falls under paragraph 6.5.5.1 of the Code of Practice and our suggested wording is set out below.

In his budget on 22 June 2010, the Chancellor announced the following:

*"The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright) and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."*

The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits.

This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will reduce the value of the benefits and hence the value placed on those benefits.

We have estimated that, had the switch to CPI been implemented on 31 March 2010, the actuarial present value of the promised retirement benefits would have reduced by £132.0M. i.e. the actuarial present value of promised retirement benefits would have been £984.5M.

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**Volatility of Results**

Our calculations involve placing present values on future benefit payments to individuals many years into the future. These benefits will be linked to pay increases whilst individuals are active members of the Fund and will be linked to statutory pension increase orders (inflation) in deferment and in retirement. Assumptions are made for the rates at which the benefits will increase in the future (inflation and salary increases) and the rate at which these future cashflows will be discounted to a present value at the accounting date to arrive at the present value of the defined benefit obligation. The resulting position will therefore be sensitive to the assumptions used.

The present value of the defined benefit obligations are linked to yields on high quality corporate bonds whereas the majority of the assets of the Fund are usually invested in equities or other real assets. Fluctuations in investment markets in conjunction with discount rate volatility will therefore lead to volatility in the funded status of the Fund disclosed under IAS 26 as amended by the Code of Practice.

## **GLOSSARY**

### **ACCRUALS**

Amounts charged to the accounts for goods and services received during the year for which payments have not been made.

### **AREA BASED GRANT**

Area Based Grant is paid by the Government to local authorities starting from 2008/09. It is a non-ringfenced general grant.

### **CAPITAL EXPENDITURE**

Expenditure on the acquisition of assets to be of value to the Council beyond the end of the financial year, e.g. purchase of land and buildings, construction of roads etc or revenue expenditure which the Government may exceptionally permit the Council to capitalise e.g. redundancy payments.

### **CAPITAL RECEIPTS**

Money received from the sale of land, buildings and plant. A prescribed portion of receipts received for HRA dwellings must be "*pooled*" and paid to central government.

### **COMMUNITY ASSETS**

A classification of fixed assets that the Council intends to hold in perpetuity that may have restrictions on their disposal. Examples of such assets are parks, historic buildings and works of art.

### **CONSISTENCY**

The principle that the accounting treatment of like items should be treated the same from one period to the next.

### **CORPORATE AND DEMOCRATIC CORE**

This comprises all activities which local authorities engage in specifically because they are elected multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a single purpose body managing the same service. There is no logical basis for apportioning these costs to services. It comprises of Democratic Representation and Management and Corporate Management.

### **CORPORATE MANAGEMENT**

Those activities which relate to the general running of the Council. These provide the infrastructure that allows services to be provided whether by the Council or not and the information required for public accountability. Activities relating to the provision of services, even indirectly, are overheads on those services, not a charge to corporate management.

### **CREDITORS**

Amounts owed by the Council at 31<sup>st</sup> March for goods received or services rendered but not yet paid for.

### **DEBTORS**

Amounts owed to the Council which are collectable or outstanding at 31<sup>st</sup> March.

## **GLOSSARY (Continued)**

### **DEMOCRATIC REPRESENTATION AND MANAGEMENT**

This concerns corporate policy making and all other member-based activities. It includes the costs of officer time spent on appropriate advice and support activities plus subscriptions to local authority associations.

### **FINANCE LEASE**

A lease that transfers substantially all of the risks and rewards of ownership of an asset to the lessee (the Council) and at the end of the lease term substantially all the asset value and interest payments have been made.

### **FIXED ASSETS**

Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

### **FORMULA GRANT**

The amount provided by Government to local authorities in the form of Revenue Support Grant and redistributed National Non-Domestic Rates based on relative needs and council tax base.

### **GOING CONCERN**

The concept that the Council will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

### **GOVERNMENT GRANTS - SPECIFIC**

Assistance by Government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

### **INFRASTRUCTURE ASSETS**

A classification of fixed assets, whose life is of indefinite length and which are not usually capable of being sold, e.g highways, street lighting and footpaths.

### **LONG TERM INVESTMENTS**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments which do not meet the above criteria should be classified as current assets.

### **LEVIES**

These are payments to London-wide bodies whose costs are borne by local authorities in the area concerned.

## **GLOSSARY (Continued)**

### **LONG-TERM CONTRACTS**

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

### **MINIMUM REVENUE PROVISION**

The minimum amount the Council must charge to the revenue accounts each year to repay loans as defined by Government regulation.

### **NATIONAL NON DOMESTIC RATE (NNDR)**

A flat rate in the pound set by the Central Government and levied on all non-residential premises according to their rateable value collected by the Council and paid into a central pool (NNDR POOL) which is administered by the Central Government. The total collected is then redistributed to councils as part of Formula Grant.

### **OPERATING LEASES**

The lessor is paid rental for the hire of an asset for a period, which is substantially less than the useful economic life of an asset. The lessor is taking a risk on the residual value at the end of the lease.

### **OPERATIONAL ASSETS/NON OPERATIONAL ASSETS**

- Fixed assets held and occupied, used or consumed by the Council in the direct delivery of services for which it has either a statutory or discretionary responsibility.
- Non-operational assets, not directly occupied or surplus to requirements pending sale or development.

### **PRECEPTS**

A charge made by another authority on the Council to finance its net expenditure. This Council has a charge on the collection fund by the Greater London Authority.

### **PRIOR YEAR ADJUSTMENTS**

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### **PRUDENCE**

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets the ultimate cash realisation of which can be assessed with reasonable certainty.

### **REVENUE SUPPORT GRANT**

A general grant paid to local councils from national taxation which, together with redistributed National Non Domestic Rates, makes up total Formula Grant.

**GLOSSARY (Continued)**

**STATEMENT OF STANDARD ACCOUNTING PRACTICE (SSAP)**


Guidance issued by the professional bodies on best accounting practice.



## ABBREVIATIONS

ALMO	Arms Length Management Organisation
AVC	Additional Voluntary Contribution
BHP	Brent Housing Partnership
CIPFA	Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government
DfE	Department for Education
FTE	Full Time Equivalent
GLA	Greater London Authority
HRA	Housing Revenue Account
IFRS	International Financial Reporting Standards
I&E Account	Income and Expenditure Account
LABGI	Local Authority Business Growth Incentive
LGPS	Local Government Pension Scheme
LPFA	London Pensions Fund Authority
MRA	Major Repairs Allowance
MRP	Minimum Revenue Provision
NNDR	National Non Domestic Rates (also called Business Rates)
PFI	Private Finance Initiative
PPP	Public Private Partnership
PWLB	Public Works Loans Board
SORP	Statement of Recommended Practice
SRB	Single Regeneration Budget
SSAP	Statement of Standard Accounting Practice

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	<p style="text-align: center;"><b>Audit Committee</b> 27 September 2012</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Services</b></p>
Wards Affected: ALL	
<b>The Treasury Management Annual Report 2011/12</b>	

## 1. SUMMARY

- 1.1 This report attaches the Treasury Management Annual Report 2011/12 that the Executive has recommended to Full Council to approve at its meeting of 19 November 2012, and updates members on recent treasury activity.

## 2. RECOMMENDATION

- 2.1 Members are asked to note and comment on the Treasury Management Annual Report 2011/12 and recent treasury activity.

## 3. DETAIL

- 3.1 I attach the Treasury Management Annual Report 2011/12 that the Executive has recommended to Full Council to approve at its meeting of 19 November 2012.
- 3.2 The Annual Report includes a market update to July 2012 (paragraphs 3.15 – 3.16). Recent treasury activity has involved borrowing and lending for short periods as cash flow allows.
- 3.3 Forecasts that interest rates will remain low for some years mean that cash balances are being reduced. However, major capital expenditure is continuing on the new Civic Centre and the timing of new borrowing to fund this is an important consideration.

## 4. FINANCIAL IMPLICATIONS

These are covered in the report.

## **5 DIVERSITY IMPLICATIONS**

The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

## **6 STAFFING IMPLICATIONS**

None.

## **7 LEGAL IMPLICATIONS**

There are no legal implications arising from the report.

## **8 BACKGROUND**

Annual Treasury Strategy – Report to Full Council (and the Audit Committee) as part of the Budget Report – March 2011.

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Finance and Corporate Resources, on 020 8937 1472/74 at Brent Town Hall.

**CLIVE HEAPHY**  
Director of Finance and  
Corporate Services

**ANTHONY DODRIDGE**  
Head of Exchequer and Investment



**Executive**  
**19 September, 2012**

**Report from the Director of Finance and  
Corporate Services**

For Action

Wards Affected:  
ALL

**The Treasury Management Annual Report 2011/12**

**1. SUMMARY**

The purpose of this report is to summarise borrowing and investment activity and performance compared to prudential indicators during 2011/12. Executive is asked to recommend this report to Full Council for approval and will also be considered by the Audit Committee as part of the scrutiny function required under the 2009 Treasury Management Code of Practice issued by CIPFA.

**2. RECOMMENDATIONS**

The Executive is asked to recommend that Full Council:

- 2.1 Approves the Treasury Management Annual Report (section 3); and Annual Investment Strategy Report (section 4)
- 2.2 Notes the outturn for prudential indicators (section 5)
- 2.3 Notes the updated position since 2011/12 (paras.3.15 – 3.16).

**3. TREASURY MANAGEMENT ANNUAL REPORT**

3.1 The Council adopted the 2009 CIPFA Code of Practice on Treasury Management in Local Authorities in September 2010. The Code stipulates that the Chief Financial Officer should set out in advance to Full Council the treasury strategy for the forthcoming financial year, issue a progress report during the year and subsequently report treasury management activities at the year-end. This section of the report details:-

- a) The economic background for 2011/12 (paras 3.3 to 3.4)
- b) The agreed treasury strategy (para 3.5)
- c) Borrowing activity during 2011/12 (paras 3.6 to 3.8)

- d) Lending activity during 2011/12 (paras 3.9 to 3.13)
- e) Overall interest paid and received (para 3.14)
- f) Developments since the year end (paras 3.15 – 3.16)

3.2 Treasury management in this context is defined as ‘the management of the local authority’s cash flows, banking, money market (short term borrowing and lending) and capital market (long term borrowing) transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.’ This means that the pursuit of additional returns must be secondary to protecting the Council’s cash balances and a rigorous assessment of risk.

### **ECONOMIC BACKGROUND FOR 2011/12**

- 3.3 The world economy grew by 3.6% in 2011. The UK economy grew by 0.7%, USA by 1.7%, the Euro area by 0.7% (though Germany grew by 1.5%) and the Chinese economy slowed to 8.9%. In the UK growth remained slow as banks were unable or unwilling to lend and borrowers were unwilling to increase existing debts. In the USA, quantitative easing (governments buying back debt and increasing the money supply) supported activity and reduced longer term interest rates. In the UK, inflation as measured by the Consumer Price Index remained above 3% as VAT increases and some price rises (such as energy) passed through the system. The Bank Base Rate remained at 0.5% as monetary policy sought to encourage economic growth given an assumption that inflation would fall to reflect low economic activity. Overnight interest rates remained very low, at 0.3% - 0.4%. Fiscal policy has become progressively tighter in 2011/12, a trend which is likely to continue. Markets experienced continued volatility as Euro-zone authorities failed to change the widely held perception that they were unable to bringing the situation under control; it became steadily clearer that Greece would continue to experience difficulty in remaining in the Euro-zone and speculation mounted that other countries would also be forced to review their membership
- 3.4 Table 1 shows interest rates charged during the year by the Public Works Loans Board (PWLB), the government agency that provides long term credit to local authorities. Previously, the PWLB enabled local authorities to borrow at similar rates to the government (gilt yield plus 0.15%). However, in October 2010 it was decided that local authorities would pay rates set at the gilt rate plus 1% in order to encourage local authorities to reassess the viability of capital projects and use their cash balances to finance them where appropriate. It can be seen that rates fell during the year, reflecting the low demand for credit and desire for security and rates are now similar to those which prevailed under the old charging regime.

**Table 1 – PWLB Interest rates during 2011/12**

	<b>1 April 2011 %</b>	<b>30 June %</b>	<b>30 Sept. %</b>	<b>31 March 2012 %</b>
10 year	4.80	4.42	3.47	3.30
25 year	5.36	5.22	4.53	4.32
50 year	5.28	5.18	4.69	4.36

**STRATEGY AGREED FOR 2011/12**

- 3.5 On the basis of advice and research from the Council's treasury adviser, Arlingclose, Capital Economics and pension fund managers, it was anticipated that the bank rate would remain unchanged throughout 2011/12. It was agreed as part of the strategy that lending that lending would be kept short (less than one year), that long term loans would be allowed to mature, and that the lending list would be expanded when market conditions allowed. It was also agreed that borrowing would remain flexible, but that the Council would take short term or variable debt if it was likely that rates would stay low. It was also agreed that officers would look for opportunities to restructure debt, recognising that low rates might make this uneconomic.

**BORROWING ACTIVITY DURING 2011/12**

- 3.6 The split of the Council's treasury portfolio between fixed interest and variable loans and investments, is set out in Table 2.

**Table 2 – Treasury portfolio at 31 March – loans and investments**

	<b>Actual</b>		<b>Interest rate</b>
	<b>31/03/11 £m</b>	<b>31/03/201 2 £m</b>	<b>31/03/201 2 %</b>
Fixed rate loans – PWLB	491.0	310.0	4.84
Variable rate loans – PWLB	-	-	
Variable rate loans – Market	95.5	95.5	4.31
Short-term loans – Market	69.2	26.3	0.39
<b>GROSS DEBT</b>	<b>655.7</b>	<b>431.8</b>	<b>4.47</b>
Investments	57.5	43.8	0.38
<b>NET DEBT</b>	<b>598.2</b>	<b>388.0</b>	

- 3.7 The average rate of interest payable by the Council on its loans has risen slightly from 4.37% in 2010/11 to 4.47% in 2011/12, mainly because of a reduced proportion of temporary debt in the portfolio. No debt restructuring was undertaken during the year but, at the end of March, the Department for Communities and Local Government repaid £198m of PWLB debt relating to the Housing Revenue Account (HRA). The intention is that this will place the HRA in a position where it can be self-financing in the long term with the interest saved accruing to the HRA. It is intended that the remaining debt will be apportioned between the HRA and the General Fund on a basis which is equitable and allows the HRA to plan its business with some degree of certainty about its costs. In 2011/12, the Council borrowed £20m from the PWLB on Equal Instalment of Principal (EIP) terms at 2.34%, repayable over 10 years.
- 3.8 The duration and average interest rate of loans in the treasury portfolio is set out in Table 3.

**Table 3 – Treasury portfolio at 31 March 2012 – duration/interest rates**

Maturing Within	£m		Share of total debt %	Average Interest Rate 31/03/12 %
	31/03/11	31/03/12		
1 Year	71.2	28.7	6.6	0.58
1 – 5 Years	8.0	9.8	2.3	2.64
6 - 10 years	19.0	18.9	4.4	3.92
11 – 20 years	5.0	0	-	0.00
21 – 30 years	30.0	18.3	4.2	4.75
31 – 40 years	85.0	61.9	14.4	4.60
Over 40 years	342.0	198.7	46.0	5.38
Market (all over 40 years)	95.5	95.5	22.1	4.72
<b>TOTAL</b>	<b><u>655.7</u></b>	<b><u>431.8</u></b>	<b><u>100.0</u></b>	<b><u>4.45</u></b>

**LENDING ACTIVITY DURING 2011/12**

- 3.9 The Council's investments averaged £49m during 2011/12 (£78m during 2010/11) and earned interest of £0.3m. The portfolio of long term deposits



(deposited in 2008 for up to three years) finally matured, and new deposits have been for less than one month at rates generally between 0.25% and 0.75%. The amount invested has varied from day to day depending on cash-flow and the Council's borrowing activity.

3.10 Investments by the in-house team were made primarily with the intentions of achieving security and liquidity placed with AAA rated Money Market Funds or for periods up to one month. Rates achieved generally ranged between 0.25% and 0.75%, with an average rate achieved of 0.6% (2010/11, 1.3%). Loans were made to high quality counterparties included on the Treasury Lending List. Appendix 1 lists the deposits outstanding at 31 March 2012.

3.11 Brent still has deposits in two Icelandic banks which were placed into receivership following the collapse of Lehman Brothers in 2008. The original deals were:-

Heritable	£10m	5.85%	Lent 15/08/08	Due back 14/11/08
Glitnir	£5m	5.85%	Lent 15/09/08	Due back 12/12/08

3.12 The Council continues to work with the Local Government Association and other authorities to recover the loans to Icelandic banks. Local authorities were accepted as preferred creditors of Glitnir in the Icelandic Courts and this resulted in almost the whole sum deposited being repaid. The final recovery remains slightly uncertain as about £1m remains denominated in Icelandic krone and held in a ring-fenced account in Iceland, pending conversion and repayment by the Central Bank of Iceland. The administrators for Heritable have repaid £1.8m in 2011/12, and a further £0.4m to date in 2011/12. The administrators have indicated that creditors should expect to receive between 86%-90% of deposits plus interest to October 2008, in instalments to 2013.

3.13 External cash managers were initially appointed in 1998 to manage two portfolios with the aim of achieving an improved return at an acceptable level of risk. Aberdeen Asset Management's £23.7m portfolio was liquidated in July 2011 because the opportunities for additional yield no longer compensated for the costs of maintaining the arrangement.

**TOTAL INTEREST PAID AND RECEIVED**

3.14 Total interest paid and received in 2011/12 is shown in Table 4. The reduced interest paid on external debt reflects the restructuring in October 2010 and short term borrowing at lower rates.

**Table 4 – Overall interest paid and received in 2011/12**

	<b>Budget £m</b>	<b>Actual £m</b>
Interest paid on external debt	32.2	28.6
Interest received on deposits	0.1	0.3
Debt management expenses	0.4	0.4

**DEVELOPMENTS SINCE THE END OF THE YEAR**

- 3.15 UK financial markets have been volatile since the end of the financial year, mainly in response to continued worries about credit worthiness and debt owed by Portugal, Ireland, Italy, Greece and Spain. Short term interest rates remain very low and long term rates have fallen in response to lenders seeking safer investments for cash and the growing belief that economic recovery will be very slow and monetary conditions will continue to be loosened. In consultation with Arlingclose, the Council has borrowed £20m from the PWLB; £10m for ten years at 1.99% and £10m for twenty years at 2.64% towards meeting the long term financing requirement for the new Civic Centre (both on EIP terms).
- 3.16 In response to continuing fears about developments in Euro-zone markets, Arlingclose issued advice in May that local authorities should restrict lending to less than 1 month for UK banks and overnight for Santander, before subsequently removing Santander completely. The Council has used slightly tighter criteria than Arlingclose and, in practice, Brent no longer lends to UK banks, and all maturities are currently kept very short. Though a number of Australian and Canadian banks are on the list, and have occasionally been useful, most lending is to AAA rated Money Market Funds (MMFs) and the UK Debt Management Office, an arm of the Bank of England.

**4 ANNUAL INVESTMENT STRATEGY REPORT**

- 4.1 Regulations issued under the 2003 Local Government Act require that councils agree an Annual Investment Strategy (AIS) before the beginning of each year, setting out how investments will be prudently managed with close attention to security and liquidity. The AIS for 2011/12 was agreed by Full Council in March 2011. The AIS sets out the security of investments used by the authority analysed between Specified (offering high security and liquidity, with a maturity of no more than one year) and Non-Specified (entailing more risk or complexity, such as gilts, certificates of deposit or commercial paper) investments. The AIS also sets out the maximum duration of deposits.

4.2 Treasury activity has fully complied with the AIS in 2011/12. The approach has been to lend for short periods to high quality counterparties, reducing risk. As loans have matured, receipts have been used to minimise borrowing.

## 5. PRUDENTIAL INDICATORS – 2011/12 OUTTURN

5.1 The introduction of the prudential system of borrowing in the 2003 Local Government Act (LGA) gave opportunities for councils to assess their requirements for capital spending and not have them restricted by nationally set approvals to borrow money (credit approvals) as previously. The prudential system also brought new responsibilities on councils to ensure that:

- a) capital expenditure plans are affordable;
- b) all external borrowing and other long term liabilities are within prudent and sustainable levels;
- c) treasury management decisions are taken in accordance with good professional practice.

5.2 Under regulations issued under the 2003 LGA councils are required to follow the Prudential Code issued by CIPFA which sets out how councils ensure responsible use of these freedoms. The Code details indicators that councils are required to set before the beginning of each year, to monitor during the year and to report on at the end of each year.

5.3 The outturn for prudential indicators measuring affordability is set out in Table 5. General Fund and HRA capital financing charges as a proportion of total budget were lower than the original estimates as a result of the reduced requirement to fund expenditure from unsupported borrowing in 2011/12.

**Table 5 – Prudential indicators measuring affordability**

	<b>2011/12 (estimates )</b>	<b>2011/12 (actual)</b>
Capital financing charges as a proportion of net revenue stream:		
- General Fund	9.3%	7.7%
- HRA	36.4%	35.7%
Impact of unsupported borrowing on:		
- Council tax at Band D	£4.68	£2.42
- Weekly rent	-	-

- 5.4 The outturn for prudential indicators for capital spending is set out in Table 6. Movements within the capital programme, including slippage between years and resources becoming available during the year, are to be reported in the Performance and Finance Quarter 4 Outturn report to the Executive in July 2012. Capital spending is funded from a variety of resources, including government grants, capital receipts, revenue contributions, Section 106 contributions and borrowing. This means that movements in capital spending are not directly reflected in movements in the Capital Financing Requirement (CFR), which principally reflects borrowing requirements.

**Table 6 – Prudential indicators measuring capital spending and CFR**

	<b>2011/12 Estimates £m</b>	<b>2011/12 Actual £m</b>
Planned capital spending:		
- General Fund	133.4	99.7
- HRA	20.1	14.5
- <b>TOTAL</b>	<b>153.5</b>	<b>114.2</b>
Estimated capital financing requirement for:		
- General Fund	371.5	350.5
- HRA	337.7	331.3
- <b>TOTAL</b>	<b>709.2</b>	<b>681.8</b>

- 5.5 The Council also sets prudential indicators for external debt as shown in Table 7. This is to ensure that the Council's overall borrowing is kept within prudent limits. The Authorised Limit for external borrowing is set flexibly above the CFR to allow for opportunities to restructure debt or borrow early when interest rates are favourable. The Operational Boundary sets out the expected maximum borrowing during the year, allowing for cash flow, interest rate opportunities and restructuring.

**Table 7 – Prudential indicators for external debt**

<b>Indicator</b>	<b>Limit</b>	<b>Status</b>
Authorised limit for external debt	£850m	Met
Operational boundary for external debt	£750m	Met
Net borrowing	Below CFR	Met

- 5.6 The prudential indicators for treasury management, which are included in Table 8 below, were all met. These are set to ensure that interest rate

exposures are managed to avoid financial difficulties if interest rates rise sharply. Although borrowing at variable rates can be advantageous if rates are falling, a sharp rise can cause budget difficulties, and force the Council to fix rates at an inopportune time. Managing loan durations ensures a variety of maturity dates to avoid a disproportionate amount of re-financing when rates may be high. Finally, the upper limit on investments of more than one year allows flexibility to lend for longer periods if interest rates make this advantageous, particularly by external managers investing in gilts, but also ensures that a minimum level of balances is available for cash flow purposes. Deposits have been short term, and long term loans have been run down during the year.

**Table 8 – Prudential indicators for treasury management**

<b>Indicator</b>	<b>Limit</b>	<b>Outcome</b>
<b>Treasury Management Code</b>		Adopted
<b>Exposure to interest rate changes</b>		
- fixed rate upper limit	100%	98%
- variable rate upper limit	40%	19%
<b>Maturity of fixed interest loans</b>		
Under 12 months		
- upper limit	40%	1%
- lower limit	0%	0%
12 months – 24 months		
- upper limit	20%	1%
- lower limit	0%	0%
24 months – 5 years		
- upper limit	20%	1%
- lower limit	0%	0%
5 years – 10 years		
- upper limit	60%	2%
- lower limit	0%	0%
Above 10 years		
- upper limit	100%	98%
- lower limit	30%	96%
<b>Upper limit on investments of more than one year</b>	<b>£60m</b>	<b>£22m</b>

## **6. MINIMUM REVENUE PROVISION**

6.1 The Local Authorities (Capital Finance and Accounting) Regulations 2003 as revised in 2008 require an authority to set an amount of Minimum Revenue Provision which is considered to be 'prudent'. The definition of what counts as

'prudent' is set out in statutory guidance which has been issued by the Secretary of State for Communities and Local Government and which authorities must 'have regard' to.

- 6.2 Under the guidance councils are required to prepare an annual statement of their policy on making Minimum Revenue Provision to Full Council. The purpose of this is to give Members the opportunity to scrutinise the use of the additional freedoms and flexibilities under the new arrangements. This Policy Statement was submitted and approved by the Full Council at its meeting in March 2012 within section 9 of the Budget Setting report.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 Financial implications are set out within this report.

## **8. DIVERSITY IMPLICATIONS**

- 8.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

## **9. LEGAL IMPLICATIONS**

- 9.1 Guidance has been issued under Section 21 (IA) of the Local Government Act 2003 (the '2003 Act') on how to determine the level of prudent provision. Authorities are required by Section 21 (B) to have regard to this guidance.
- 9.2 Under regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) authorities have significant discretion in determining their Minimum Revenue Provision but, as a safeguard, the guidance issued under the 2003 Act recommends the formulation of a plan or strategy which should be considered by the whole Council. This mirrors the existing requirement to report to Council on the prudential borrowing limit and investment policy. The Local Authorities (Functions and Responsibilities) (England) (Amendment) Regulations 2000 have been amended to reflect that the formulation of such a plan or strategy should not be the sole responsibility of the Executive.

## **10. BACKGROUND INFORMATION**

1. Logitech Loans Management System.
2. Arlingclose reports on treasury management.
3. Aberdeen Asset Management quarterly reports.
4. 2011/12 Budget and Council Tax report – March 2011

## **11. CONTACT OFFICERS**

1. Anthony Dodridge, Head of Exchequer and Investments – 020 8937 1472
2. Mark Peart, Head of Financial Management – 020 8937 1568

**CLIVE HEAPHY**

**Director of Finance and Corporate Services**

## APPENDIX 1

### Brent treasury lending list

The current investments outstanding as at 31 March 2012 were:

<b>Name</b>	<b>Amount £m</b>	<b>Yield %</b>	<b>Lending Date</b>	<b>Maturity Date</b>
Global Treasury Fund (RBS)	8.0	0.59	Call	
Gartmore Cash Reserve	2.0	0.60	Call	
Northern Trust Global Fund	0.1	0.15	Call	
Heritable bank	3.2	5.85	15/08/08	14/11/08
Glitnir	1.0	5.85	15/09/08	12/12/08
Isle of Wight Council	5.0	0.30	30/03/12	05/04/12
London Borough of Merton	5.0	0.30	30/03/12	02/04/12
Santander UK plc	10.0	0.52	30/03/12	03/04/12
UK Debt Management Fund	9.5	0.25	30/03/12	03/04/12
<b>Total</b>	<b>43.8</b>			



	<p style="text-align: center;"><b>Audit Committee</b></p> <p style="text-align: center;">27 September 2012</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Services</b></p>
<p style="text-align: right;">Wards Affected: ALL</p>	
<p><b>Corporate Risk Register</b></p>	

## 1. Summary

- 1.1. The purpose of this report is to present an updated version of the Council's Corporate Risk Register to be noted by the Audit Committee.

## 2. Recommendations

- 2.1. Audit Committee to review and note the contents of the Council's updated Corporate Risk Register.

## 3. Detail

- 3.1. Following presentation of the Corporate and Departmental Risk Register at the meeting of the Audit Committee on 27<sup>th</sup> June 2012, members agreed to receive an update of the corporate register at each meeting and the departmental registers annually.
- 3.2. The revised Corporate Risk Register is attached at appendix 1. This has been considered and approved by the Corporate Management Team at its meeting on 13<sup>th</sup> September 2012.
- 3.3. The key changes are a reduction in some of the inherent risk scoring to adjust for a previous omission and more detail concerning the control of the risks associated with welfare reform, risk S4.

## 4. Legal Implications

- 4.1. The Accounts and Audit Regulations (England) 2011<sup>1</sup> section 4(1) require the council to *“ensure that the financial management of the body is adequate and*

*effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."*

**5. Financial Implications**

5.1. None.

**6. Diversity Implications**

6.1. None.

**7. Background Papers**

1. Accounts and Audit Regulations 2011

**8. Contact Officer Details**

Simon Lane, Head of Audit & Investigations, Room 1, Town Hall Annexe.  
Telephone – 020 8937 1260

**Clive Heaphy**  
**Director of Finance and Corporate Services**

# CORPORATE STRATEGIC RISKS


ID	CAT.	RISK IDENTIFICATION (Describe risk and underlying cause)	IMPACT (Consequences of risk maturing)	Risk Owner	Inherent (raw) risk			Existing Controls	Sources of Assurance	Residual (net) risk			Movement Indicator	Further Actions	Deadline	Responsible Officer
					Impact	Likelihood	Risk Score			Impact	Likelihood	Risk Score				
S1	Political	Failure to recognise and plan for coalition government's future vision for Local Government - Greater role in partnerships and strategic commissioning; diminishing role in direct service provision (e.g. Education, joint health and social care services; removal of responsibility for housing benefit delivery.	Inadequate planning for reduced direct service provision role and increased commissioning role may lead to poor service outcomes for users, increased complaints, poor value for money.  Large scale reductions in resources, forced shared services / amalgamation, creation of a small commissioning core, reduced local political accountability, potential for London / local government restructure.  Opportunities for improved services and lower cost through effective partnerships and integration not exploited.	Chief Executive	6	4	24	Ensure members and senior officers have a good understanding of central government policy and possible intentions through briefings.  Relevant officers and members maintain close links with DCLG, respond to consultation where necessary and seek to influence future policy through LGA and London Councils and any other lobbying route.  Ensure opportunities for partnership and shared services are considered	Reports to PCG, CMT.  One Council programme	6	3	18				
S2	Political / Reputational	1st April 2013. Start date for multiple service changes, new Civic Centre, new way of working and self-service, new legislation. i.e. benefit caps, local council tax rebate, retention of business rates	Potential for major IT / customer service failure	Chief Executive	6	5	30	Regular reporting either through CMT or PMO on status of projects and adequate risk management within projects and risk escalation if appropriate.	CMT reports  PMO reports	6	4	24				
S3	Economic/ Political/ Socio Cultural	Income loss due to various factors including budget reductions, change in legislation, economic recession, lack of external investment	Failure to meet statutory service demand / council objectives	Clive Heaphy - Director of Finance and Corporate Services	6	6	36	Economic monitoring and market contact		6	5	30		Ongoing economic monitoring and market contact	On-going	Andy Donald
S4	Economic / Socio Cultural	Economic recession / demographic change and welfare reform agenda including localised council tax benefit resulting in increase in need for council services.	Increased demand for council services / accommodation / crime / anti-social behaviour	Phil Newby Director of Strategy, Partnership and Improvement	6	6	36	Lobbying of Central Government. Partnership working with NHS. Preparing customers for impact of welfare reform through communications and proactive engagement. i.e. "Benefit are being cut" leaflet, briefing at area consultative forums and voluntary groups. Ongoing work to model impacts on housing need. Briefing reports to Executive and other political groupings on HB reforms. Contingency plans being drafted for impact on customer demand.		6	5	30				
S5	Legal / Political	The Council fails to comply with legal/statutory obligations including consultation and equality duty in implementing policy changes or failure to comply with	Increased dissatisfaction with council, increase in number of legal challenges and Judicial Reviews resulting in cost of defence and delay	Toni McConville - Director of Customer & Community Engagement  Fiona Ledden Borough Solicitor	6	4	24	Area Consultative Forums; Brent Citizens Panel; User Consultative Forums; Equalities issues reported to CMT on a quarterly basis. Regular monitoring by CMT. Equalities Statement	Consultation Board.	6	3	18		Contentious issues flagged up through surgery system. New guidance on Equalities to be issued.	Dec-12	Christine Collins - Community Engagement Manager
S6	Technological	Inability to deliver technological changes to meet customer requirements and demand	Damage to reputation. Service delivery failure. Impact on savings already identified in FCS project	Toni McConville - Director of Customer & Community Engagement	6	5	30	Regular monitoring by PMO and Brent Customer Services Board.	PMO and Brent Customer Services Board.	5	3	15		CMS (content management system) specification and prototype developed and reviewed by Customer Services Board. Governance arrangements agreed by Customer Services Board. Web enhancement project to be implemented to address limitations of current CMS.	Dec-12	Jenny Dunne - Project Manager, Future Customer Services Project
S7	Economic	Reduced ability to / reduction in scope to recruit and retain sufficient numbers of skilled staff in key areas/services. Fewer people having to work harder and do more.	Service delivery will be impacted. Increase in stress related sickness/absences. Costs and human implications.	Clive Heaphy - Director of Finance and Corporate Services	6	4	24	Robust Performance Management framework for managers & staff; Effective HR policies; Management Development Programme; Development & Learning opportunities available for managers and staff; Investors in People; Succession Planning; Staff benefits (flexible working etc.). Equalities Act	Performance Management Data; LLD Attendance; Appraisals.	6	3	18		Development of better management skills amongst managers. Better monitoring of performance.	On-going	Tracey Conrage - Asst Director, People & Development.

ID	CAT.	RISK IDENTIFICATION		Risk Owner	Inherent (raw) risk			Existing Controls	Sources of Assurance	Residual (net) risk			Movement Indicator	Further Actions	Deadline	Responsible Officer
		(Describe risk and underlying cause)			(Consequences of risk maturing)		Impact			Likelihood	Risk Score	Impact				
S8	Legal / Reputational	Significant failure to comply with Health & Safety requirements.		Accidents in the work Place. Death/injury to staff and public. Increase in sickness absence. Potential for corporate and personal criminal liability.	Chief Executive; Sue Harper - Director of Environment & Neighbourhood	6	6	36	Corporate Health & Safety Policy; Health & Safety Advisory Team; Accident & incident reporting and investigations; Risk assessments; advice : promoting positive health & safety culture;	Heath & Safety Inspections; Training for staff. Consumer & Business Protection.	6	3	18	N/A	N/A	N/A

# KEY OPERATIONAL RISKS

ID	CAT.	RISK IDENTIFICATION (Describe risk and underlying cause)	IMPACT (Consequences of risk maturing)	Risk Owner	Inherent (raw) risk			Existing Controls	Sources of Assurance	Residual (net) risk			Movement Indicator	Further Actions	Deadline	Responsible Officer
					Impact	Likelihood	Risk Score			Impact	Likelihood	Risk Score				
<b>Regeneration and Major Projects</b>																
RMP1	Reputational	Civic Centre Project (over run in completion) and / or Move to Civic Centre (systems failure).	Risk to Council's reputation. Delays in realising expected savings. Disruption to some services where leases have been terminated. Business Continuity arrangements.	Aktar Choudhury - Assistant Director Major Projects & Civic Centre	6	5	30	Programme Governance/ Civic Centre Programme Board/ Master Programme of Works - progress is monitored on an on-going basis. New governance arrangements have now been put in place with a new Programme Manager appointed to manage the move to the Centre. A task Register has also been set up with named officers assigned with specific tasks.	Regular Progress Reports provided to Project Board.	6	4	24	No Change	Move to Civic Project Governance embedded. Detailed communication plan in place for all staff.	December 2012 / April 2013	Aktar Choudhury / Caroline Rainhan
RMP2	Economic / Socio Cultural	Lack of external investment in regeneration of the borough	Reduced income receipts from business rates; reduction in housing supply within the borough. Increase in levels of poverty, unemployment and increased levels of deprivation within the borough.	Andy Donald - Director of Regeneration & Major Projects	6	6	36	De-risking by assisting with planning permissions etc. on behalf of developers; Maintaining dialogue with investors / developers. Reviewing other sources of capital finance.	Regular economic monitoring. Regular market contact.	5	5	25	Reduction	Ongoing economic monitoring and market contact	On-going	Aktar Choudhury/Dave Carroll
<b>Children and Families</b>																
CF1	Legal/ Political /Socio Cultural /Reputational	Inability to meet demand for School places.	Council unable to discharge statutory duty to provide education. Reputation damage, legal challenge, increased health and safety risks	Sara Williams - Assistant Director Early Help & Education	6	6	36	Lobbying Central Govt for additional funding; funding of £25m secured from central govt. to provide additional school places; Temporary expansions and Projects established to address shortfall; Regular reports to CMT & Executive to agree prioritisation of use of capital funding; Strategy Board meets on a regular basis ; Standing Agenda Item in Overview & Scrutiny Committee Meetings.	Regular monitoring by Overview & Scrutiny Committee; CMT & Executive.	6	4	24	No Change	Continued lobbying and work with London Councils and Schools.	On-going	Sara Williams - Assistant Director Early Help & Education
CF2	Reputational / Political	Vulnerable children not adequately safeguarded.	Abuse, Death or injury of vulnerable persons. Reputational damage to Council.	Graham Genoni - Assistant Director, Social Care Division, Children & Families.	3	5	15	Safeguarding of Children Teams deal with child protection and safeguarding issues; Brent Local Safeguarding Children's Board; Safer Recruitment & Training; Whistleblowing; publicity; raising of awareness at Schools & community in general; Children & Young Persons Plans; Child Protection Arrangements; Strong partnership working with relevant agencies; High level monitoring meetings with Chief Executive, Corporate Parent Group, Auditing arrangements; Range of monitoring arrangements to track progress; Children & Families Overview & Scrutiny; Performance Information (quarterly scorecards); Timely reviews of Looked After Children;	Ofsted Inspections; Internal Service User Surveys; Internal Audit.	6	2	12	Reduction	Continuous Monitoring & Development; Safeguarding & Looked After Children Inspection Action Plan; Continued collaboration with relevant agencies.	On-going	Graham Genoni - AD Social Care Division
<b>Adult Social Services</b>																
ASC1	Legal/ Political /Socio Cultural / Reputational	Vulnerable persons (older persons; persons with physical & learning disabilities; mental health and other vulnerable adults) are not adequately safeguarded.	Abuse, Death or injury of vulnerable persons. Reputational damage to Council.	Alison Elliot - Director Adult Social Care/ Liz Jones - Assistant Director, Adult Social Care	6	4	24	Safeguarding of Adults Teams deal with safeguarding issues. Safer Recruitment; training; Multi - Agency Policies and Procedures for Adults; ASC Transformation Programme; Reablement. Appointeeships/Deputyship arrangements in place after client needs have been assessed.	Care Quality Commission Inspections; Carers Survey; Internal Audit; Office of Protection.	6	3	18	No Change	None	N/a	N/a

ID	CAT.	RISK IDENTIFICATION (Describe risk and underlying cause)	IMPACT (Consequences of risk maturing)	Risk Owner	Inherent (raw) risk			Existing Controls	Sources of Assurance	Residual (net) risk			Movement Indicator	Further Actions	Deadline	Responsible Officer
					Impact	Likelihood	Risk Score			Impact	Likelihood	Risk Score				
ASC4	Financial / Economic	Budget / Demand - by 2020 high level figures estimated that demand will increase budgetary requirements 26% based on projected movements in demographics and populations with people living longer	Changes in ways we deliver services and demand management strategies need to be put into place to protect the council's financial position.	Alison Elliot - Director Adult Social Care / Liz Jones, AD, Adult Social Care	6	5	30	Demand levels are continuously monitored and regular modelling and forecasting will help to keep a close watch on the situation.	Financial pressures are regularly reported and monitored through Strategic Finance Group and High Level Monitoring panel.	6	4	24	New	None specific as routine monitoring and reporting arrangements are in place Ongoing work is required to look at how to deliver the service differently to be able for the department to be able to deal with the projected increase in demand.	31/03/2013	DMT
<b>Environment and Neighbourhood Services</b>																
ENS1	Environmental / Economic	Effects of Climate Change not adequately planned for. Environmental Targets not met. Failure to understand and plan to mitigate the impact of and adapt to climate change. Failure to cope with severe weather events.	Negative impact on health & wellbeing of residents. Increase in energy costs and fees paid to the Environment Agency on Carbon Reduction Commitment Regulations and reputational risks for being at the bottom of the league table. Increase expenditure to make further adaptations and other levies.	Sue Harper - Director of Environment & Neighbourhood	6	4	24	Climate Change Strategy & Action Plan; Travel Plans; Recycling Schemes; Civic Centre; Climate Change Pledge; Waste Strategy; Carbon Management Programme and the Council's Green Charter.	Internal Audit - CRC Readiness Report. Audit by Environment Agency. Progress on Green Charter is reported to members	6	3	18	No Change	N/A	Ongoing	Sue Harper - Director of Environment & Neighbourhood
ENS2	Legal / Reputational / Environmental	Major or large scale incident (accident; natural hazard; riot) business interruption affecting Council's resources and its ability to deliver critical services. Risk to safety of staff / Loss of staff.	Service delivery disruption and impact on the Council's ability to deliver critical services.	Chief Executive; Sue Harper - Director of Environment & Neighbourhood	6	5	30	Community Resilience; Civil Contingencies Register; Emergency Planning	Emergency Planning & Business Continuity	6	3	18	No Change	Regular review and assessment of robustness of plans	Ongoing	Martyn Horne - Head of BCP, Env & Neighbourhood
<b>Corporate Services</b>																
CS1	Economic / Reputational	Increased acts of significant fraud or corruption due to economic down turn.	Financial Loss and damage to Council's reputation.	Clive Heaphy - Director of Finance	6	4	24	Anti-Fraud Framework; Whistleblowing Policy; Staff Code of Conduct; Audit & Investigations Unit; Conflicts of Interests Policy; Gifts and Hospitality Policy;	Audit & Investigations Reports / Investigations. NFI; Audit Commission	6	3	18		Anti-Fraud Culture promotion; fraud training across the Council and to external organisations.	Ongoing	Simon Lane - Head of Audit & Investigations
CS2	Technological/ Reputational	ICT systems failure/ severe or prolonged failure of ICT capability across the Council / breach of IT security either external or significant data loss by staff. Denial of Access. Proximity of new Civic Centre to Wembley Stadium - would take a major threat at the Stadium to have a significant impact on the Council's ICT capabilities.	Service delivery disruption. Financial penalties. Serious damage to Council's reputation.	Clive Heaphy - Director of Finance.	6	5	30	ICT Strategy; Disaster Recovery Plans place; ICT projects to improve technical infrastructure (info store; OnePrint etc.); Information Governance; S Access to Information Policy; IT Steering Group.	Test Results from Disaster Recovery Plans. IT Audits. Incident management process	6	4	24		Security Policies & Protocols in need of review and revision.;	Ongoing	Stephan Conoway - AD, Information Technology.

	<p style="text-align: center;"><b>Audit Committee</b> 27 September 2012</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Services</b></p>
<p>Wards Affected: ALL</p>	
<p><b>1<sup>st</sup> Internal Audit Progress Report 2012/13</b></p>	

## 1. Summary

- 1.1. This report summarises the work of Internal Audit and the Investigations Team from 1<sup>st</sup> April 2012 to 31 August 2012. The attached report provides further details of this together with assurance ratings of reports issued.

## 2. Recommendations

- 2.1. That the Audit Committee notes the progress made in achieving the 2012/13 Internal Audit Plan and the review of fraud work.

## 3. Detail

### Internal Audit – Delivery Status

- 3.1. The Internal Audit Plan for 2012/13<sup>1</sup> comprises 1,200 days, of which 905 are allocated to Deloitte Touche Public Sector Internal Audit Limited, and 295 to the in-house team.
- 3.2. A total of 368 days have been delivered against the overall Plan, made up of 267 Deloitte PSIA days and 101 days in-house days. This represents 31% of the Plan and represents the same levels of delivery as in 2011/12.
- 3.3. In a number of areas, audits have not been possible due to requests from service areas to defer work. The primary reasons for this have been given as civic centre moves and the Olympic Games. Auditee availability was partly impacted by the Olympic Games and Paralympic Games. In a number of other instances audits have had to be postponed due to changes in procedures or structural changes which need time to embed before they can be objectively reviewed.

3.4. A summary report setting out the completed audit work is attached as Appendix 1. The status of all projects planned is set out in table 1 below:

Audit	Planned Days	Actual Days	Progress	Assurance/ Direction of Travel	Priority			Issue date
					1	2	3	
<b>Corporate/Cross Cutting</b>								
Appointment of Consultant and Non Comensura Temporary/Interim Staff	10	3	Work In Progress					
Comensura	15	15	<b>Final Report</b>	<b>Limited</b>	<b>4</b>	<b>6</b>	<b>-</b>	<b>15/09/2012</b>
<b>Corporate/Cross Cutting Total</b>	<b>25</b>	<b>18</b>						
<b>Finance and Corporate Services (FCS)</b>								
Council Tax	15		Q3					
Reform of National Non Domestic Rates (NNDR)	5	1	Q3/4					
NNDR	15		Q3/4					
Reform of Council Tax Benefits	10		Q4					
Housing and Council Tax Benefits	20		November 2012					
Treasury Management	10		Q3					
Payroll	20	2	Q3/4					
Accounts Payable	15		November 2012					
Accounts Receivable	15	3	Work In Progress					
General Ledger	15		Q3					
Cash and Banking	15	4	Work In Progress					
Pension Fund Administration	20	20	<b>Draft Report</b>	<b>Substantial</b>	<b>-</b>	<b>6</b>	<b>1</b>	<b>06/09/2012</b>
One Council Project – Project Athena	10		October 2012					
Once Council Project – Customer Service	12		Withdrawn following a meeting with the Head of Service.					
Financial Planning	15		Q3					
<b>FCS Total</b>	<b>212</b>	<b>30</b>						
<b>Children &amp; Families</b>								
School Audits Primary/Junior Schools	Total 150							
Chalkhill	10	10	<b>Draft Report</b>	<b>Limited</b>	<b>6</b>	<b>11</b>	<b>1</b>	<b>02/08/2012</b>
Our Lady of Grace Infants	10		Q4					
Our Lady of Grace Juniors	10		Q4					
Furness	10		Q3					
Lyon Park Juniors	10	12	<b>Final Report</b>	<b>Substantial</b>	<b>1</b>	<b>9</b>	<b>-</b>	<b>15/09/2012</b>
St Mary's CE	10		Q3					
Oliver Goldsmith	10	10	<b>Draft Report</b>	<b>Limited</b>	<b>7</b>	<b>5</b>	<b>3</b>	<b>19/09/2012</b>



Audit	Planned Days	Actual Days	Progress	Assurance/ Direction of Travel	Priority			Issue date
					1	2	3	
Convent of Jesus and Mary	10		November 2012					
Elsley	10		November 2012					
Roe Green Infants	10		October 2012					
Roe Green Juniors	10		October 2012					
Sudbury	10		October 2012					
St Joseph Junior	10		November 2012					
St Joseph Infants	10		November 2012					
St Joseph's RC Primary	10		October 2012					
Newfiled	10		October 2012					
St Mary Magdalen	10		November 2012					
Stonebridge	10	8	Work In Progress <sup>1</sup>					
Torah Temimah	10	12	<b>Draft Report</b>	<b>Nil</b>	<b>16</b>	<b>7</b>	<b>-</b>	<b>10/09/12</b>
Newman CC (Secondary)	10		Q3					
Preston Manor (Secondary)	10	7	September 2012					
St Gregory's (Secondary)	5		Reduced scope as the School achieved 'Substantial' assurance in 2010/11. November 2012					
The Village (Special)	10		Q3					
Manor (Special)	3	3	<b>Final Report</b>	<b>Non Assurance Work.</b>				<b>31/08/2012</b>
Follow up of limited assurance Schools	20	5	Throughout the year.					
Safeguarding of Children	15	2	Postponed to Q4 due to appointment of new Head of Service. Audit Brief prepared and issued to current Head					
<b>Children &amp; Families Total</b>	<b>263</b>	<b>69</b>						
<b>Environment &amp; Neighbourhood (EN)</b>								
Parking Enforcement	20		Q3					
Olympics	10	10	<b>Final Report</b>	<b>Non Assurance Work.</b>				<b>27/07/2012</b>
Libraries	15		Q3					
<b>EN Total</b>	<b>45</b>	<b>10</b>						
<b>Customer &amp; Community Engagement</b>								
Mayor's Office	8	8	<b>Final Report</b>	<b>Limited</b>	<b>5</b>	<b>1</b>	<b>-</b>	<b>15/09/2012</b>
Language Shop	12	12	<b>Draft Report</b>	<b>Limited</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>17/09/2012</b>
<b>Customer &amp; Community Engagement Total</b>	<b>20</b>	<b>20</b>						
<b>Adult Social Services</b>								
Mental Health Partnership	20	20	<b>Final Report</b>	<b>Limited</b>	<b>7</b>	<b>1</b>	<b>-</b>	<b>10/09/2012</b>

<sup>1</sup> Draft Report is partially completed. Final visit is arranged for 21 September 2012.

Audit	Planned Days	Actual Days	Progress	Assurance/ Direction of Travel	Priority			Issue date
					1	2	3	
Home Care	15		Q4					
Appointeeship, Receivership, and Power of Attorney	10	20	<b>Draft Report</b> – More work required than initially envisaged and a significant number of queries.	<b>Limited</b>	<b>15</b>	<b>9</b>	<b>1</b>	<b>29/08/2012</b>
Personalised Budgets and Direct Payments	20	2	Postponed to Qtr. 3 /4 due to implementation of new procedures					
<b>HCC Total</b>	<b>65</b>	<b>42</b>						
<b>Legal and Procurement</b>								
Procurement	15		Q4					
High Value Contracts – Compliance with the Blue Book	20	20	<b>Final Report</b>	<b>Limited</b>	<b>6</b>	<b>3</b>	<b>-</b>	<b>25/07/2012</b>
<b>Legal and Procurement Total</b>	<b>35</b>	<b>20</b>						
<b>Regeneration and Major Project (RMP)</b>								
Capital Projects (contract audits)	30		Q4					
Civic Centre Project (Move to the Civic Centre)	10	10	<b>Final Report</b>	<b>Non Assurance Report</b>				<b>14/09/2012</b>
Housing Solutions (Choice based letting/housing allocations)	15		Q4					
Building Control and Enforcement	15	16	<b>Draft Report</b>	<b>Substantial</b>	<b>3</b>	<b>13</b>	<b>-</b>	<b>07/09/2012</b>
<b>RMP Total</b>	<b>70</b>	<b>26</b>						
<b>Strategy, Partnership, and Improvement (SPI)</b>								
Partnership Management	10	10	<b>Draft Report</b>	<b>Substantial</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>21/09/2012</b>
Public Sector Reform – Policy and Key Legislative Changes	15	15	<b>Draft Report</b>	<b>Substantial</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>21/09/2012</b>
<b>SPI Total</b>	<b>25</b>	<b>25</b>						
<b>Computer Audit</b>								
Oracle Financials Application Audit	10		Withdrawn due to Project Athena. To be replaced.					
Northgate Sx3 Housing Benefits System	10	6	September 2012 –Work in Progress					
Automated Customer Contact (One Council Project)	10		November 2012					
Abacus	10		Withdrawn as the system is now due to be decommissioned next year. To be replaced.					
IT Service Management (Information Technology Infrastructure Library ITIL,	15		October 2012					

Audit	Planned Days	Actual Days	Progress	Assurance/ Direction of Travel	Priority			Issue date
					1	2	3	
V3 Gap Analysis)								
Wireless Networks	15		October 2012					
Virtual Desktop Infrastructure (VD)	20		February 2013					
Civic Centre IT Controls	20	2	Started in September 2012 but postponed to October 2012					
Follow up of previous IT audits	12	1	Throughout the year.					
<b>Computer Audit Total</b>	<b>122*</b>	<b>9</b>	*Plus 10 days delivered on V5 (BHP) Total Computer Audit days = 132 days.					
<b>Others</b>								
Risk Management	10	4						
Consultation, Communication and Reporting	55	25						
Follow up	55	16						
Office Move	14	12						
Contingency	30							
	<b>164</b>	<b>57</b>						
<b>BHP</b>								
Housing Repairs and Maintenance	12							
Housing Rents	8		October 2012					
Major Works Contracts	20	2	Work In Progress					
Procurement & Contracts (Non Major Works)	15	15	<b>Draft Report</b>	<b>Substantial</b>	<b>2</b>	<b>3</b>	<b>-</b>	<b>15/09/2012</b>
Treasury Management	8							
Internal Financial Controls	10							
Rent Arrears Management	15		October 2012					
Tenant Management Organisations – Watling Gardens	13	15	<b>Draft Report</b>	<b>Limited</b>	<b>7</b>	<b>8</b>	<b>1</b>	<b>14/09/2012</b>
Management of Non-Brent Properties	15		October 2012					
TMO – South Kilburn TMO		4	<b>Draft Report</b>	Non-Assurance work	2	8		<b>17/0912</b>
Risk Management	8	1	Awaiting response to request for audit to be undertaken					
V5 System (Housing Rents)	10							
Consultation and Management Days	20	5	Throughout the year.					
<b>BHP Total</b>	<b>154</b>	<b>42</b>						
<b>Total</b>	<b>1200</b>	<b>368</b>						

<b>Delivery Status</b>	
Total days in the plan	1200 days
Number of days delivered to date	368 days
% of days delivered to date	31%
Days to be delivered	832 days
Total number of projects in 2012/13 plan (excluding follow up reports and Committee reports)	78
Number of reports issued to date	20
% of reports issued to date	26%

**Table 1 – Internal Audit Delivery Status**

### **Housing Benefit Fraud**

- 3.5. The Audit and Investigation Team continues to investigate housing and council tax benefit fraud. From April 2013, the DWP intend to create a Single Fraud Investigation Service to investigate all centrally administered welfare benefit fraud. This single service will be staffed by existing fraud staff within local authorities, the DWP and HMRC. Although from April 2013 staff will remain employed by their own organisations, the intention is for a single policy and procedure to be developed under which all investigators will operate. This has significant ramifications for the council and its' ability to determine what is investigated and how. Despite the short timescale there remains a significant lack of detail about how the arrangements will operate, including governance, IT, operational and tactical methods and how investigations into fraud in council tax support will be joint worked (the DWP have stated that this will not be included as part of the SFIS remit).
- 3.6. The DWP have also announced the intention to pilot SFIS by collocating DWP and Local Authority staff in four pilot authorities. There is one pilot where the team is based within a local authority. The pilots will commence in October 2013 and test the practicalities of single policy, strategy, line management etc. It is unclear when the results of these pilots will be published. However, the DWP remain committed to introducing SFIS in April 2013.
- 3.7. The team continues to receive a high volume of housing / council tax benefit fraud referrals and many have to be screened out without investigation. There is a process of case screening which considers the quality of evidence, likely value of overpayment and other factors. Those which are not screened out are passed for investigation. An investigation will be closed once there is sufficient evidence to establish that a fraudulent overpayment of benefit has occurred and a sanction has been applied or no further action is warranted. Investigations range in length from a few months to many years for complex prosecutions.
- 3.8. The sanctions available for HB fraud are: Overpayment recovery, a caution administered by the council, an administrative penalty of 30% of the overpayment and criminal prosecution. Historical case load data and current performance is shown below:

						2012/13		
<b>HB Fraud</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>20010/11</b>	<b>20011/12</b>	Q1		
Referrals	799	723	672	757	612	247		
Closed	922	832	744	675	597	164		
Screened Out	637	511	423	386	339	103		
% dropped	69%	61%	57%	57%	57%	63%		
<b>Investigated</b>	<b>285</b>	<b>321</b>	<b>321</b>	<b>290</b>	<b>258</b>	<b>62</b>		
Fraud Found	147	118	150	121	102	25		
Hit Rate	52%	37%	47%	42%	40%	40%		
Caution	26	7	5	1	3	0		
Admin Penalty	45	46	40	20	28	4		
Prosecution	44	31	36	50	30	9		
<b>Total Sanctions</b>	<b>115</b>	<b>84</b>	<b>81</b>	<b>71</b>	<b>61</b>	<b>17</b>		
Summons Only	3	1	0	2	0	0		
Overpayment Only	29	21	73	47	40	12		
HB/CTB Overpayment	£769,273	£849,505	£1,332,014	£1,660,613	£1,435,073	£618,338		

**Table 2 – HB Fraud Caseload 2007 to 2012/2013**

### Social Housing Fraud

- 3.9. Social housing fraud occurs due to the sub-letting of council properties and false declaration of circumstances on housing and homeless applications. The council has taken tenancy fraud seriously for many years. Since 2000, investigation work by A&I has resulted in the recovery of 348 properties and prevented almost 90 inappropriate Right to Buy applications. The Audit Commission currently estimates that each unlawfully sub-let council property results, on average, in a financial loss of some £18,000 per annum.
- 3.10. Caseload information is shown below.

						2012/13		
<b>Housing Fraud</b>	2007/08	2008/09	2009/10	2010/11	2011/12	Q1		
Referrals	82	82	111	120	189	43		
Closed	56	55	82	166	185	54		
Screened Out	3	3	9	10	13	1		
<b>Investigated</b>	<b>53</b>	<b>52</b>	<b>73</b>	<b>155</b>	<b>172</b>	<b>53</b>		
Fraud Found	24	21	26	37	48	17		
<b>Recovered Property</b>	<b>23</b>	<b>21</b>	<b>26</b>	<b>34</b>	<b>47</b>	<b>16</b>		
RTB Stop	1	1	0	0	1	0		
Application refused	1		0	2	0	0		
Property Reduced						1		

**Table 3 – Housing Fraud Caseload 2007 to 2012/13**

### Blue Badge Fraud

- 3.11. There have been five new reactive referrals in the first quarter of 2012/13 within

the more serious categories. Three investigations have been completed resulting in one warning letter.

**Internal Fraud**

- 3.12. Internal fraud refers to fraud committed by employees, agency staff and staff in schools. For the purposes of this report, “fraud” includes any financial irregularity or malpractice or serious breach of financial regulations or the staff code of conduct.
- 3.13. Historic data and current year statistics are shown in the tables and charts below:

							2012/13		
Internal	2007/08	2008/09	2009/10	2010/11	2011/12		Q1		
Referrals	45	26	51	53	58		9		
Closed	43	34	28	51	62		9		
Screened Out	6	3	3	3	5		0		
Investigated	37	31	25	48	57		9		
Fraud / Irregularity	17	11	16	23	33		4		
Dismiss / Resign	12	9	14	21	27		4		
Warning	2	0	0	2	5		0		

**Table 4 – Internal Fraud Caseload 2007/08 to 2012/13**

- 3.14. This year, to date, there have been four officers who have either been dismissed or left prior to disciplinary proceedings being concluded. Three of these have been due to identity / illegally working and one for misuse of a blue bage.

**4. Financial Implications**

- 4.1. None

**5. Legal Implications**

- 5.1. None

**6. Diversity Implications**

- 6.1. None

**7. Background Papers**

- 1. REPORT FROM THE DIRECTOR OF FINANCE – INTERNAL AUDIT PLAN FOR 2012/13, Audit Committee 27<sup>th</sup> June 2012

**8. Contact Officer Details**

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**Clive Heaphy**  
**Director of Finance and Corporate Services**

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**Internal Audit  
Progress Report 2011/12  
London Borough of Brent  
September 2012**

## Executive Summary

<b>Introduction</b>	This report sets out a summary of the work completed to date against the 2012/13 Internal Audit Plan, including the assurance opinions awarded and any high priority recommendations raised.
<b>Summary of Work Undertaken</b>	<p>A range of audits have been undertaken since the beginning of the year, comprising both financial and non-financial systems, areas of One Council Projects and work across the schools.</p> <p>The Final Reports relate to the following areas, with further details of these provided in the remainder of this report:</p> <ul style="list-style-type: none"><li>• Procurement;</li><li>• Mayor's Office;</li><li>• Mental Health;</li><li>• Comensura (Appointment of Agency Staff);</li><li>• Move to the Civic Centre;</li><li>• Olympic Games Preparedness; and</li><li>• Manor School.</li><li>• Lyon Park Infants</li></ul> <p>We were due to carry out an audit in respect of the One Council Future of Customer Contact project. However, this has now been withdrawn following discussions with the Head of Service. The decision was made on the basis that the service is still going through major transformation and the project is scrutinised through various mechanism, including the project board meetings. Two audits in respect of Oracle Financials (one IT audit and a systems audit) have had to be removed from the plan as a result of significant changes which will need to be implemented as part of Project Athena. They have been replaced with alternative audits.</p>
<b>One Council Project</b>	<p>As stated in the previous section, we have carried out an audit in respect of the Move to the Civic Centre.</p> <p>Overall, we were able to confirm that governance arrangements are in place at various levels to monitor the progress of the Move to Civic Centre Project and relatively few weaknesses have been identified.</p> <p>The weaknesses for which recommendations were raised related to communications; and documentation retention requirements. There were other areas where further progress and development would be required for which recommendations were not raised as management were already aware of these elements and they were in the process of addressing these.</p>

## FULL / SUBSTANTIAL ASSURANCE REPORTS

Only the assurance opinion and direction of travel is being reported on for those audits for which Substantial Assurance was given. The Committee's focus is directed to those audits which received a Limited Assurance opinion.

Audit	Assurance Opinion and Direction of Travel
<b>SYSTEMS AUDIT</b>	
Move to the Civic Centre	
<b>SCHOOLS</b>	
Lyon Park Infant School	

## LIMITED ASSURANCE REPORTS – General Audits

For all Limited Assurance reports, we have included a brief rationale, together with details of any **priority 1** recommendations raised, including the agreed actions to be taken and deadlines for implementation. These are the key audits and recommendations which the Committee should be focusing on from a risk perspective. The only exception is for any BHP reports, for which the details are reported separately to the BHP Audit & Finance Sub-Committee.

### Procurement

The audit focused on the controls in place with regard to the tendering process and compliance with the Council's Contract Procurement and Management Guidelines, the Blue Book.

There are a number of key areas where weaknesses were identified, including in relation to the retention of key documents; enforcing the requirement to notify the Corporate Procurement Unit (CPU) of procurements over £20,000; obtaining a Certificate Against Canvassing and Certificate of Non-Collusive Tendering; the opening of tenders; involvement of the Director of Finance's representatives in the evaluation process; and declaration of interests of officers involved in the tender process, including the evaluation panel members.

It should be noted that the CPU are currently reviewing the Council's procurement process and work is in progress to develop a more co-ordinated and consistent approach across the Council. We have been informed that the control weaknesses identified as part of this work are to be addressed as part of the review and any improvements made to the control environment in response to our recommendations are to be embedded within the new procurement process and reflected in the Blue Book.

Six priority 1 and three priority 2 recommendations were raised and agreed with management.



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Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>Service Area Directors should be reminded of the need to put in place a structure to retain all key documents relating to tender processes for their respective Service Area. As part of this, types of documents that are expected to be retained should be clarified and responsibilities of officers should be defined.</p>	<p>Agreed. The E-Procurement changes will enable compliance to take place. CPU is aware that there is a constant need to ensure compliance in these areas, many of the issues raised relate to the pending introduction of e-Procurement projects, these are scheduled for completion in the next 6 months, CPU along with Legal continues to review the content of the Blue Book to ensure this is both up to date and easy to understand and follow. The</p>

Recommendation	Management Response / Responsibility / Deadline for Implementation
	<p>decision to move to an e-enabled procurement environment was largely informed by the belief that controls need to be improved and a mechanism for assuring compliance with process introduced.</p> <p>CPU agree that category managers working with Service Area Directors should remind colleagues of the need to exercise appropriate management control over these matters.</p> <p>CPU, Service Area Directors, Legal July 2013</p>
<p>Spend analysis should be undertaken by the CPU to identify any procurements exceeding £20,000 and confirm that the CPU have been notified and that quotes/tenders have been undertaken in line with the Blue Book.</p> <p>Consequences for non-compliance should be agreed by the Senior Management Team (SMT) and any incidences of non-compliance should be reported to the SMT to trigger the corrective actions.</p>	<p>Agreed.</p> <p>At present, the recommendation for spend analysis to be undertaken for all procurements over £20,000 is unrealistic and the volume of work is excessive. There is a spend analysis tool within Oracle that CPU can use to look at expenditure, however, this categorisation of spend looks at the owner / service area and/or the provider, neither are reliable indicators which are not being used correctly by the service areas..</p> <p>In July 2013 Brent will implement Oracle R12 and move to a “commitment accounting” environment which will allow intervention at an appropriate stage to ensure compliance in these areas. It is recommended that as this will enable compliance and better information to be made available that this recommendation is not pursued at this time, and could be reviewed in 12 months’ time.</p> <p>CPU agree that Category Managers working with Service Area Directors should remind colleagues of the need to exercise appropriate management control over procurement activity and category managers are working directly with colleagues to enable this to happen.</p> <p>Finance, CPU, Service Area Directors July 2013</p>
The officers responsible for checking the tender	Agreed.

Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>submissions should be reminded of the need to confirm that the Certificate Against Canvassing and Certificate of Non-Collusive Tendering have been signed by the all tenderers,</p> <p>Any outstanding certificates should be followed up and obtained promptly.</p>	<p>The blue book which contains the process for LBB procurement is in the process of being updated. Once this is done mechanisms including I-Procurement will ensure compliance. The process for certificates against canvassing will be part of that process.</p> <p>The new CPU team have recently completed a review of related documents and these are currently being approved by legal.</p> <p>CPU / Legal July 2013</p>
<p>The opening tender form should be completed and signed off by two authorised officers for all tenders.</p> <p>As part of the current review of the Blue Book, all references to appendices should be checked and an appendix of detailed guidance on receipting and opening tenders should be attached as indicated in the Blue Book. In addition, the opening tender form should also be attached to the Blue Book.</p> <p>The envelopes containing tenders should be date stamped and the record of the submission date should be retained. The opening tender form may be modified to capture the submission date of each tender.</p>	<p>Agreed.</p> <p>The new CPU team recently completed a review of related documents and these are currently being approved by legal. The process of signing the opening of tenders is currently undertaken by colleagues in Democratic Services. In relation to the 2 contracts where this did not take place. The Director has been provided with the information and a mechanism is in place to provide confidence that compliance with this procedure will occur.</p> <p>The decision to move to an e-enabled procurement environment was largely informed by the belief that controls need to be improved, in doing so we'll remove the need to carry out any / all of this largely admin role. The e-enablement will provide an auditable and flawless approach to recording such information.</p> <p>CPU December 2012</p>
<p>Representatives of the Director of Finance should take part in the evaluation process for high value contracts.</p>	<p>Agreed.</p> <p>With immediate effect CPU will ensure that representatives of the Director of Finance will be invited to take part in the evaluation process for high value contracts.</p>

Recommendation	Management Response / Responsibility / Deadline for Implementation
	CPU/Finance August 2012
<p>The declaration of interests relating to the officers involved in the tender process including the tender panel members should be checked at the beginning of the tender process. In addition, they should also be asked to confirm whether there have been any changes to their interests which have yet to be declared.</p> <p>It should be noted that this is a key control and is of increased importance with the introduction of the new Bribery Act 2010 and the need for organisations to demonstrate that controls are in place to prevent bribery and corruption from occurring.</p>	<p>Agreed.</p> <p>This is a matter of corporate compliance and as such needs the input of numerous functions. CPU and Legal to agree the required steps and that these be approved by audit / finance before adoption.</p> <p>CPU, legal, audit and finance September 2012</p>

## Mayor's Office

The audit focused on the systems of control in place over the administration of the Mayor's Office.

A number of key weaknesses were identified in relation to the collection of income; banking; reconciliations; and payment processes as part of the Mayor's charity fund, and regarding monitoring the use of the Mayoral Car. In addition, weaknesses were identified relating to the monitoring and management of the Mayor's interests, and the extent to which the Mayor's Office are able to influence the engagements undertaken, including the formal reporting on Mayoral performance.

Given the potential significance to the Council as a whole of the reputational risks surrounding the Mayor, we raised five priority 1 and one priority 2 recommendations regarding these weaknesses. It is of critical importance that the Mayoral activities are wholly transparent and can stand up to intense public scrutiny, noting that reputational damage can occur regardless of whether issues are real or only perceived. This was also reflected in the assurance opinion awarded.

Each of the recommendations were agreed with management.



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Recommendation	Management Response / Responsibility/ Deadline for Implementation
<p>The Mayor's Office should liaise with the Director of Legal and Procurement to determine whether a protocol can be introduced and incorporated within the Civic Handbook for dealing with instances where invitations are considered inappropriate, either on the basis of potential reputational damage to the Council or if the expected benefits for the Borough are limited. Such a protocol would require an escalation route in the event that a decision needed to be made as to whether an invitation could be accepted.</p> <p>In developing the protocol, management should consider whether the National Association of Civic Officers (NACO) mayoral performance analysis can be used to support making decisions on whether or not to accept invitations.</p> <p>In addition, an appropriate channel should be determined within the Council for formally reporting on the NACO analysis and the feedback summary that is currently monitored within the Mayor's Office to appraise the performance of the Mayoral</p>	<p>Agreed.</p> <p>This recommendation will be implemented including the use of NACO analysis in the suggested manner.</p> <p>Senior Lawyer Mayor's Office and Member Development Manager 31 October 2012</p>



Recommendation	Management Response / Responsibility/ Deadline for Implementation
activities.	
<p>The Mayor's Office should obtain a copy of the Mayor's declaration of pecuniary interests upon appointment to office and that the Mayor should notify the Mayor's Office of any change to his or her disclosable pecuniary interests in addition to notifying the Monitoring Officer in accordance with the Members' Code of Conduct.</p>	<p>Agreed.</p> <p>The arrangements for disclosure of interests are about to be varied due to changes in the law. The new requirement is that members provide details of pecuniary interests which would not for example include the need to disclose the role of governor in a school on the register, nor membership of local groups or organisations.</p> <p>The Mayor is bound by the Code of Conduct which requires that all councillors do not use their position to confer a particular advantage on a group or person. This provision remains in the new Code.</p> <p>The Mayor's Office to obtain a copy of the Mayor's declaration of pecuniary interests upon appointment to office and the Mayor will be reminded to notify any changes.</p> <p>Mayor's Office and Member Development Manager Senior Lawyer 30 September 2012</p>
<p>The Chauffeur should be reminded of the need to complete journey logs, and that these should be kept on record by the Mayor's Office.</p> <p>In addition, periodic reconciliations should be undertaken between the journey log and the Mayoral diary of engagements together with the mileage readings from the Mayoral car.</p> <p>Where any discrepancies are identified, these should be followed up and resolved.</p>	<p>Agreed.</p> <p>The recommendation will be implemented as suggested.</p> <p>Mayor's Office and Member Development Manager 30 September 2012</p>
<p>Prior to paying the monies to the selected charities for 2011/12, confirmation should be sought from the Director of Finance that</p>	<p>Agreed.</p> <p>Pending confirmation from Finance that there will be an officer</p>

Recommendation	Management Response / Responsibility/ Deadline for Implementation
<p>they are financially sound and that the payments can be made. Going forwards, in addition to completing the financial assessment as part of the initial selection process at the start of each year, this should be repeated at year-end prior to the processing of the payment.</p>	<p>available to undertake this work.</p> <p>Director of Finance Confirmation to be obtained by the end of September</p>
<p>Bank reconciliations undertaken by the Graduate Trainee Financial Accountant should be reviewed by an independent officer.</p> <p>In addition, tickets sales and income collected should be reconciled by an independent officer as soon as is practical during the working week after a charity event. Any discrepancies should be followed up and resolved.</p> <p>In order to facilitate an effective reconciliation, donations and ticket sales will need to be recorded separately, and the ticket number(s) should also be recorded in the Income spreadsheet.</p>	<p>Agreed.</p> <p>The points raised in the recommendation will be addressed. With regards to the first point, pending confirmation from Finance.</p> <p>Director of Finance (first point, to be confirmed by the end of September) Mayor's P.A. and Business Manager (second point, when next event takes place) Mayor's P.A. (third point, as above)</p>

## Mental Health Partnerhsip

The audit focused on the of the partnership arrangement with Central and North West London NHS Foundation Trust (CNWL) for the provision of social care to Brent residents with mental health issues.

The annual budget for the partnership is approximately £7.5m including approximately £3.5m for the Council staff members seconded to the Trust.

A Limited Assurance was given for this audit. A number of weaknesses in controls were identified including the following fundamental weaknesses:

- A lack of a current formal agreement – whilst the Executive approved an extension to the agreement, the partnership is currently operating without a formal agreement since it expired in 2007. Given the level of pooled funding, nature of services, and the scale of the operation, there are significant risk exposures, both reputational and financial; and
- A lack of defined performance measures – linked to the above, performance measures for the outcomes of the partnership have not been defined. It is noted that high level progress and concerns are discussed in the Partnership Board meetings, however, given the absence of defined measures, there are no reporting mechanisms in place to monitor the achievement of the partnership objectives. As detailed within the report, where performance in relation to Brent service users has been identified as needing improvement via the Trust’s own monitoring arrangements, we have been unable to identify what actions have been taken to address this. It is also noted that the frequency of Partnership Board meetings has declined and we were unable to determine the reasons for this.

Seven priority 1 and one priority 2 recommendations were raised and agreed with management.



Recommendation	Management Response / Responsibility/ Deadline for Implementation
<p>The partnership arrangement should be governed by a formal agreement covering the relevant period.</p>	<p>In parallel to this Audit, Adult Social Care (ASC) has been reviewing the MH service with an intention of obtaining a robust in depth knowledge of the service and to make a long term decision on how to transform the Mental Health Service in Brent. Subsequently ASC may decide to develop a s75 agreement to ensure that Central North West London (CNWL) Trust delivers the required changes and provides a high quality mental health service to Brent residents. Timescale for the s75 agreement or alternative arrangements to be in place is April 2013.</p>

Recommendation	Management Response / Responsibility/ Deadline for Implementation
	Director of Adult Social Services April 2013
<p>A partnership performance management framework should be agreed between the two parties and included as part of the formal agreement. As a minimum, the framework should include, but not necessarily be limited to:</p> <ul style="list-style-type: none"> <li>• Key Performance Indicators (KPIs) for the partnership;</li> <li>• Reporting line and reporting frequency; and</li> <li>• Protocol for addressing any poor performance.</li> </ul> <p>In addition to the above, a performance management framework for the seconded staff should also be agreed and their performance overview should be reported to the Council.</p>	<p>S75 agreement or alternative will specify the requirements in this area. We will require a robust performance framework to be in place reporting on the Key National Performance Indicators, and also on the local agreed performance areas to be agreed with CNWL. We realise that there are no agreed governance structures in place to monitor performance and this is currently done on an ad hoc basis. S75 or alternative will detail the governance structures, responsibilities and how poor performance will be dealt with.</p> <p>DMT April 2013</p>
<p>A strategic review and analysis should be carried out in respect of the allocation of social workers.</p> <p>In addition, the allocation of social workers should be kept under a periodic review and amended as appropriate in line with demand and staffing pressures.</p> <p>The allocation should be determined in consultation with the Council and, where changes take place in respect of the allocation, including staff leaving, these should be communicated to the Council promptly.</p>	<p>A review is underway looking at the allocation of resources. The outcome of the review will be analysed by ASC DMT and a strategic view of the appropriateness of resources will be formed. A periodic review of allocation of social workers will be part of the s75 agreement and the findings will be presented to DMT. The new s75 agreement or alternative will require that the ASC lead officer to be informed of vacancies and recruitment and any changes to allocation of social work positions.</p> <p>Lead ASC MH officer To start in April 2013, and 6 monthly thereafter.</p>
<p>The issues arising from the CPA Audit should be discussed between the Trust and the Council to formulate an action plan with defined deadline and responsibilities.</p>	<p>The new performance framework will include the CPA audit and the ASC will expect regular robust audits to be carried out and the finding to be presented to the quarterly meetings. High level</p>

Recommendation	Management Response / Responsibility/ Deadline for Implementation
<p>The implementation of the action points should be followed up promptly as they fall due.</p> <p>As per recommendation no.2, this principle of defining action points and monitoring progress against them should be a key response to any identified instance of sub-standard performance.</p>	<p>monitoring to be done at the quarterly performance meetings between CNWL and ASC, and the operational monitoring to be overseen by the lead officer.</p> <p>Lead ASC Officer 6 monthly audits starting April 2013</p>
<p>The following points should be addressed by management in respect of procurement:</p> <ul style="list-style-type: none"> <li>• Comparable costs should be presented to the Panel for all cases. Where this is not possible, reasons for not providing comparable costs should be approved by the Panel. Where the cheapest placement is not recommended, the justification should be provided and approved by the Panel. Discussions regarding these should be recorded;</li> <li>• Periodic analysis should be undertaken to determine whether a tender should be carried out to put in place a framework or call off contracts with agreed service quality standards and negotiated prices across various service provisions; and</li> <li>• Panel members and the care co-ordinator should be required to make a declaration of pecuniary interests.</li> </ul>	<p>Currently the MH placement panel requires to see more than one option explored for placements and wishes to see evidence of VfM consideration. As well as quality VfM discussion takes place between the panel members. We do realise that this is ad hoc and a more consistent approach will be in place across the MH teams when commissioning services. Our aim is to have one panel for all care packages to streamline the authorisation process and enforce consistency in quality and commissioning. The MH panel ToR will be revised.</p> <p>Through our engagement in the West London Alliance Adult Social Care Efficiencies Unit we are exploring the establishment in 2012/13 of a four year Approved Provider and Contractor Scheme (framework agreement) for Specialist Residential and Nursing Care services which may include care placements for mental health. The temporary accommodation service lease with Atlantic Properties is due for renewal in January 2013. Negotiations with the current provider are due to commence in autumn of this year, with the aim of securing an improved cost offer on a short term two year lease. Supported living accommodation for mental health is currently being re-procured via both a local Supporting People Services and a WLA Supporting People Services framework, with new contracts going live between January and April 2013. An Investment Review of Supporting People services, including mental health supported living, is currently being undertaken and will report at</p>

Recommendation	Management Response / Responsibility/ Deadline for Implementation
	<p>end of October 2012. This Review will inform future commissioning of supported living services, both relating to scope and nature of future services.</p> <p>Lead Adult Social Service Officer/Head of Commissioning Nov 2012</p>
<p>The new budget management process should be kept under review. In addition, management should define and agree the following:</p> <ul style="list-style-type: none"> <li>• Membership of the finance meeting; and</li> <li>• Frequency of the finance meetings.</li> </ul>	<p>Regular finance meetings are now in place. Membership &amp; frequency of this meeting to be revised and the ToR of the meeting agreed by CNWL and ASC.</p> <p>Adult Social Services Finance Assistant Director 30 October 12</p>
<p>Annual timetable for the Partnership Board meeting should be agreed and meetings should be held regularly.</p> <p>The Board should determine the extent of performance information they require and determine the reporting line in respect of partnership KPIs.</p>	<p>Governance arrangement will be agreed following decisions made on the report recommendations from the internal review.</p> <p>Director of Adult Social Services October 2012</p>

## Comensura

The audit focused on the process operated by Comensura for the provision of agency workers to the Council through agencies appointed by Comensura.

Overall, we were able to confirm that there is a mechanism in place to monitor the agencies' compliance with the key requirements through bi annual audit, and there are automated controls in place for the worker request process and timesheet approval. However, there were key weaknesses for which priority 1 recommendations have been raised and these related to; changes to hourly rates; audit of additional skill requirements and verification of documents; following up and sanctioning of non compliance; and balanced scorecards.

The weakness in respect of following up and sanctioning of non compliance is a fundamental issue given the number of agency workers whose evidence of right to work in the UK could not be provided and the level of agencies failing to confirm adequate CRB Disclosure and ISA Barred List Check process.

In addition to the four priority 1 recommendations, six priority 2 recommendations were also raised.



Recommendation	Management Response / Responsibility/ Deadline for Implementation
<p>Changes to hourly rates should be reviewed by a Comensura manager to confirm that the appropriate authorisation from the Council has been obtained prior to making any changes.</p> <p>Staff should be reminded of the need to retain evidence of the Council's request and approval relating to any such changes.</p>	<p>Agreed. The hourly rates have been set on the basis of the pre-determined job specification and these should not be changed without a full evaluation of the job specification requested and this should be approved by the Council. The Employee and Business Services Manager and the Council's consultant to work with Comensura to address this.</p> <p>Raj Soni-Alagh – Employee and Business Services Manager End September 2012</p>
<p>The following should be assessed as part of the audit of agencies:</p> <ul style="list-style-type: none"> <li>• Retention of the photo ID;</li> <li>• Whether overseas police check results were reviewed where applicable; and</li> <li>• Where additional skill requirements were requested by the</li> </ul>	<p>Agreed. The Employee and Business Services Manager and the Council's consultant will liaise with Comensura to determine the way forward to address this issue.</p> <p>Raj Soni-Alagh – Employee and Business Services Manager The exact actions to be agreed by the end September 2012</p>

Recommendation	Management Response / Responsibility/ Deadline for Implementation
recruitment manager, whether these have been met.	
<p>Instances of non compliance identified from audits should be followed up fully so that remedial actions are taken and that any outstanding issues are resolved.</p> <p>In addition, the current arrangement in respect of making decisions regarding the suspension of agencies or removing the agency worker should be reviewed. Any serious non compliance should be communicated to the Council's senior management and they should be consulted in the process of making decisions on whether the agency should be suspended or the agency worker should be removed depending on the nature and the extent of the non compliance.</p> <p>If senior management consider suspending non compliant agencies is not practical, alternative sanctions should be agreed and these should be applied consistently.</p>	<p>Agreed.</p> <p>The most urgent for us to address is the failure of Comensura to ensure CRB checks and Right to Work checks have been carried out by agencies before workers commence at Brent. We are taking action to cover this internally.</p> <p>Raj Soni-Alagh – Employee and Business Services Manager End September 2012</p>
Audit results should be reflected in balanced scorecards for all agencies.	<p>Agreed. The Employee and Business Services Manager and the Council's consultant will liaise with Comensura to determine the way forward to address this issue.</p> <p>Raj Soni-Alagh – Employee and Business Services Manager End September 2012</p>



## NON ASSURANCE WORK

This section summarises other work undertaken during the year for which an assurance opinion was not applicable.

### Olympic Games Preparedness

#### Introduction

The focus of this work was to assess the control environment in relation to the Council's preparations for the London 2012 Olympic Games and to raise recommendations to address areas of control weakness and/or potential areas of improvement.

London Council's document 'Preparing for the London 2012 Olympic and Paralympic Games in London Local Authorities' (hereafter referred to as "the Guidance") included a 'checklist' for local authorities to use to help ensure that they knew what they were responsible for delivering for the city and the Games and to help find ways to deliver these services in an effective way. Brent Council were involved in the production of this guidance documentation with the previous London 2012 Manager contributing to the London Councils Borough Reference Group and had also used this as a basis from which to approach preparing for the Games.

We did not provide an assurance opinion on the adequacy of the Council's plan for the Olympic Games or strategic advice on planning for the Olympic Games. Instead we sought to confirm the processes being followed by the Council to prepare for the London 2012 Olympic Games.

#### Overall Summary of Findings

Overall, on the basis of the documentation provided to us and the discussions held, arrangements were found to be in place with regard to the Council's preparation for the London 2012 Olympic Games. However, two priority 1 and one priority 2 recommendations were raised as a result of this work. The priority 1 recommendations related to more formal monitoring of the overall budget and confirming the appropriateness of the elements of the Guidance that have been omitted from the Operational Plans and the Service Area questionnaires. With regard to the later, whilst it was accepted that the London 2012 Manager was responsible for making such decisions and that the Operational Plans were reviewed by the Assistant Director of Environment & Neighbourhood Services, this focused on the overall plans as opposed to the selection of the elements of the Checklist contained within the Guidance. Through discussion, the reasons given by the London 2012 Manager for excluding certain elements seemed reasonable. However, we were not in a position to confirm the appropriateness of this and the potential impacts in the event that any gaps should have been considered were significant. The priority 2 recommendation related to gaining sufficient evidence to support updates provided by Service Areas regarding their preparedness.

All recommendations were agreed.

## Manor School

### Introduction

As requested by Manor School, on the basis of their Bursar being new in post, we carried out a pre-audit visit to discuss the key control processes which we would expect to be in place. In so far as they were able to, the Bursar outlined the extent to which they believed these were in place within the School, thereby identifying areas in which further actions were necessary to strengthen the control environment and ensure compliance with the Council's Financial Regulations for Schools.

The work was based solely on these discussions and we did not seek to verify the control processes described to us. An assurance opinion was not therefore awarded.

### Overall Summary of Findings

On the basis of the discussions with the Bursar, a range of further actions were identified as being needed to strengthen the School's internal controls.

A report was issued which set out key expected controls, the current status against these, and any agreed actions.

### Next Step

The School will be scheduled to receive a full Internal Audit visit in early 2013/14, at which time the agreed actions are expected to be embedded into the School's processes.

## Follow-Up of Previously Raised Recommendations

The table below provides a summary of the findings from the follow-up work completed since the last meeting, excluding any BHP recommendations.

Our approach is explained within the Executive Summary. Recommendations are classified as either Implemented (I); Partly Implemented (PI); Not Implemented (NI); or in some cases no longer applicable (N/A), for example if there has been a change in the systems used.

For any recommendations found to have only been partly implemented or not implemented at all, further actions have been raised with management. As such, we have included all recommendations followed-up to date, including Draft Follow-Up Reports, as well as those that have been finalised. Where the reports have been finalised, the further actions have been agreed with management, including revised deadlines and responsible officers. For those at Draft stage, we are awaiting responses from management. All agreed further actions will be added to our rolling follow-up programme as explained in the Executive Summary to this report.

The table includes a column to highlight any priority 1 recommendations which were found not to have been fully implemented. Please note that we have not replicated the full recommendation, only the general issue to which they relate.

Audit Title	Priority 1			Priority 2			Priority 3			Total				Priority 1 Recommendations not implemented
	I	PI	NI	I	PI	NI	I	PI	NI	I	PI	NI	N/A	
Mayor's Office	-	-	-	1	-	-	-	-	-	1	-	-		
Traffic Management	1	1	3	-	-	-	-	-	-	1	1	3		<ul style="list-style-type: none"> <li>• Invoicing Process*</li> <li>• Quality check on Application assessment**</li> <li>• Application of additional conditions***</li> </ul>
Sports and Leisure Centre	2	-	-	2	2	-	-	-	-	4	2	-	1	
Harlesden Primary School	3	3	-	4	3	-	-	-	-	7	6	-	1	
<b>Total</b>	<b>6</b>	<b>4</b>	<b>3</b>	<b>7</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>9</b>	<b>3</b>	<b>-</b>	

\*Management indicated that this was due to unforeseen staff absence but measures are now in place to cover any future such absence.





\*\* Management indicated that the 5% quality check will be implemented from the end of September 2012.

\*\*\*Management indicated that the application of additional conditions will be checked as part of the 5% quality check.

## Appendix A – Definitions

### Audit Opinions




We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	<b>Full</b>	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	<b>Substantial</b>	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	<b>Limited</b>	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	<b>None</b>	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

The assurance grading provided are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

### Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

## Recommendation Priorities

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

<b>Priority 1</b>	Major issues for the attention of senior management and the Audit Committee.
<b>Priority 2</b>	Important issues to be addressed by management in their areas of responsibility.
<b>Priority 3</b>	Minor issues resolved on site with local management.

## Appendix B – Audit Team and Contact Details

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