



## Audit Committee

**Thursday 30 June 2016 at 7.00 pm**

Board Room 1&2 - Brent Civic Centre, Engineers Way,  
Wembley HA9 0FJ

### Membership:

#### Members

Mr Ewart (Chair)

Councillors:

A Choudry (Vice-Chair)

Davidson

Khan

Naheerathan

Nerva

#### Substitute Members

Councillors:

Long, Hoda-Benn and McLeish

Councillors:

**For further information contact:** Joe Kwateng, Democratic Services Officer  
(020) 8937 1354; [joe.kwateng@brent.gov.uk](mailto:joe.kwateng@brent.gov.uk)

For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit: [democracy.brent.gov.uk](http://democracy.brent.gov.uk)

**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 personal and prejudicial interests and discloseable pecuniary interests in any matter to be considered at this meeting.	
<b>2 Deputations</b>	
<b>3 Minutes of the previous meeting</b>	1 - 6
<b>4 Matters arising</b>	
<b>5 Date of next meeting</b>	
To note formally that the current calendared date of 5 October needs to be changed as the accounts need to be approved by 30 September 2016.	
<b>6 Role of the Audit Committee</b>	7 - 16
Any governance arrangement needs periodic review, and as this is the first meeting of the council's audit committee for this municipal year it is appropriate that the committee should consider its own arrangements and plan for the year ahead. This report provides a framework for this discussion.	
<b>Ward affected:</b>	<b>Contact Officer:</b> Conrad Hall, Chief Finance Officer
<b>7 Draft Statement of Accounts 2015/16</b>	17 - 146
To present the draft Statement of Accounts prior to their submission for	

audit.

**Ward affected:** All Wards  
**Contact Officer:** Conrad Hall, Chief Finance Officer  
Tel: 020 8937 6528 conrad.hall@brent.gov.uk

**8 2015/16 Treasury Management Outturn report** 147 -  
158

This report updates members on Treasury Management activity and confirms that the Council has complied with its Prudential Indicators for 2015/16.

**Ward affected:** All Wards  
**Contact Officer:** Conrad Hall, Chief Finance Officer  
Tel: 020 8937 6528 conrad.hall@brent.gov.uk

**9 Draft annual governance statement 2015/2016** 159 -  
178

This report sets out the draft Annual Governance Statement (AGS) for 2015/16 as required by the Accounts and Audit Regulations 2015.

**Ward affected:** All Wards  
**Contact Officer:** Conrad Hall, Chief Finance Officer  
Tel: 020 8937 6528 conrad.hall@brent.gov.uk

**10 Update report from external auditor (KPMG)** 179 -  
188

**11 Internal Audit Annual report 2015/2016** 189 -  
216

This report is the annual report from the Head of Internal Audit. The report includes an opinion on the overall adequacy and effectiveness of the Council's internal controls and presents a summary of the audit work undertaken during the year.

**Ward affected:** All Wards  
**Contact Officer:** Steve Tinkler, Head of Internal Audit and Audit Investigations Shared Service

**12 Internal Audit Update report** 217 -  
220

This report is an update report from the Head of Internal Audit on internal audit activity from 1 April 2016.

**Ward affected:**

All Wards

**Contact Officer:** Conrad Hall, Chief Finance Officer

Tel: 020 8937 6528 conrad.hall@brent.gov.uk

### 13 Any other urgent business

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



Please remember to set your mobile phone to silent during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.

**Contact Officer**

**Contact Officer**

**Contact Officer:**

**Contact Officer:**



## LONDON BOROUGH OF BRENT

### MINUTES OF THE AUDIT COMMITTEE Wednesday 23 March 2016 at 7.00 pm

PRESENT: Councillor Mr Ewart (Chair), Councillor A Choudry (Vice-Chair) and Councillors Davidson, Khan, Naheerathan and Nerva

1. **Declarations of personal and prejudicial interests**

None made.

2. **Deputations**

None.

3. **Minutes of the previous meeting**

RESOLVED:

that the minutes of the previous meeting held on 5 January 2016 be approved as an accurate record of the meeting.

4. **Matters arising**

*Corporate Risk Register*

Steve Tinkler undertook to share LB Hounslow's risk register as previously discussed.

5. **External audit plan 2015/16**

Phil Johnstone and Steve Lucas (KPMG) introduced the External Audit Plan 2015/2016 programme the findings on which would be reported in September 2016. He drew attention to areas on which the audit would focus including Financial Resilience and the Better Care Fund as it was a new initiative. The accounts had been closed and the outcome would be reported back.

The committee raised questions on the council's level of materiality (which had been set at £12 million, 1.3% of gross expenditure), Oracle and the General Ledger risks. On the materiality level, the committee heard that it was based on the benchmark standard and also on the level of General Funds reserves. Any errors would be reported. The committee also were advised that shared learning was part of the audit regime, focusing on partnership working and value for money.

Regarding Oracle and the general ledger, Phil Johnstone acknowledged the concern over sub systems the main ledger and costs over spilling. The audit would look at findings from past reports and the general ledger on which the spending was based. There was currently no concern over material error however this had been flagged as a risk.

A question was raised on financial resilience and assurances sought on the adequacy of internal systems and processes. Steve Lucas responded stating that the reserves were taken into account, referred to forward plan pressures and highlighted that local government was under pressure and difficult decisions would have to be made. Brent however had a good track record to date. He was not aware of any particular concerns at this stage given the current reserves and financial strategy however consideration would be given to plans from the previous year and the extent to which they were delivered. Additionally, while the borough's population and associated demands were on the increase, the flow of resources was not.

On the adequacy of reserves, Phil Johnstone reiterated that this was primarily a matter for the authority's S151 Officer, the Chief Finance Officer. The external audit would comment if reserves were considered too low.

RESOLVED:

that the content of the external audit plan 2015/16 be noted.

#### **6. KPMG Annual Report on grants and returns work 2014/15**

The committee received a report from KPMG summarising work carried out on the council's 2014/2016 grant claims and returns. Stephen Lucas (KPMG) drew attention to incidents of errors in the calculation of self-employed income for benefit purposes and noted that the percentage had decreased from the previous year but remained high. The Chief Finance Officer commented that in view of sums involved, consideration was being given to the value for money of this exercise.

RESOLVED:

that the KPMG annual report on grants and returns work 2014/15 be noted.

#### **7. Action plan to address the Audit findings from 2013/14 subsidy claim**

David Oates (Head of Customer Services and Benefits) and Russell Gibbs (Benefits Subsidy and Policy Manager) introduced the report which set out progress on the Action Plan to address Audit findings from the 2013/14 Subsidy Claim which had recommended a detailed review of errors. David Oates was pleased to report that from a sample check, the rate of errors was decreasing and monitoring continued. Analysis of Quarters 1 and 2 revealed issues over decision making and questioning. Quarter 2 also had a number of complaints regarding self-employment claims. This year's audit looked at in excess of 40 cases and revealed further errors, some of which were considered to be avoidable. In the light of this, a fundamental review had taken place and December 2015 saw the start of staff briefings on what was required and the method of recording. Additionally, a bid had

been submitted for central government funding to support a review and intervention on high risk cases.

The committee noted the action plan and the Chief Finance Officers assured that as this was a core part of financial audit, further concerns would be escalated.

RESOLVED:

that the action plan to address the audit findings from the 2013/14 subsidy claim be noted.

## **8. Changes to arrangements for appointment of External Auditors**

The report from the Chief Finance Officer, Conrad Hall, summarised the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits. The Council would need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017. Conrad Hall outlined the pros and cons of the three options available and advised that he would report back in advance of a decision being made.

RESOLVED:

- (i) that the three options available for the appointment of External Auditors be noted:
  - a) Establishing a stand-alone independent Auditor Panel to make the appointment on behalf of the Council;
  - b) Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities; and
  - c) Supporting the Local Government Association (LGA) in setting up a national Sector Led Body by indicating intention to “opt-in”.
- (ii) that it be noted that option (i) (c) above was at this stage the preferred option, but that this does not commit the council at this stage;
- (iii) that it be noted that a further report would be brought to Cabinet in due course confirming the way forward and granting authority for the procurement.

## **9. Internal Audit and Counter Fraud Progress Report for the period 1 November 2015 – 29 February 2016**

Steve Tinkler (Head of Audit and Investigation) introduced the report which provided an update on the progress made against the delivery of the audit plan up to the 29 February 2016. The report further provided key findings and agreed management comments to address areas of control weaknesses. Further, the report also provided a summary of counter fraud work for the first three quarters of 2015/16 including January 2016. Members expressed an interest in hearing more about those recommendations arising from audits where responsible officers continued to fail to respond and update the status of implementation of

recommendations as part of the self-assessment process, and stated they would consider 'calling in' officers who repeatedly fail to respond. The committee was pleased to note the improvement in activity in tackling housing fraud but were concerned over the number of secondary schools with limited assurances. It was noted that the intention was to change the approach to school audits planned in 2016/17 to more thematic based audits. It was felt that school governors should be encouraged to take their roles more seriously and questions were raised on how change behaviour and to ensure that best practice was adhered to.

RESOLVED:

that the progress made in achieving the 2015/16 Internal Audit Plan and the review of fraud work be noted.

**10. Draft Internal Audit Plan 2016/17**

The report from the Chief Finance Officer set out the Draft Internal Audit Plan ("the Plan) for 2016/17 and the basis on which the plan has been formulated. The committee raised questions on the items for inclusion such as a review of key controls of business rates. On income generation and continuity planning, questions were also raised on ways of changing perception towards treasury management. Conrad Hall (Chief Finance Officer) responded that 'asset sweating' was taking place and risks would have to be carefully considered as these could be significant.

RESOLVED:

that the approach taken to formulate the draft plan for the 2016/17 financial year be noted and approval given to the content of the plan.

**11. Strategic risk register**

Steve Tinkler (Head of Audit and Investigation) introduced the risk register in accordance with the terms of reference for the Audit Committee to review the adequacy and effectiveness of the risk management framework within the Council. He drew attention to two new risks which have been escalated to the Strategic Risk Register namely the ability to attract and retain high calibre staff and also the failure by BHP to deliver housing management services and retain housing assets. An additional item for inclusion was suggested namely plans in place for the more sophisticated risk management and Conrad Hall advised that once refreshed, a report should be submitted to Cabinet.

RESOLVED:

that the current Strategic Risk Register (Appendix A to the report from the Chief Finance Officer) noted to assure that included all appropriate strategic risks facing the council and that all necessary and appropriate actions were being taken to safeguard the Council's business and reputation.

**12. Internal audit procurement update (verbal)**

Steve Tinkler (Head of Audit and Investigation) updated the committee on the procurement of a shared internal audit service. The bids had been evaluated

resulting in PWC being appointed as the internal auditor for three boroughs in the shared service.

**13. Exclusion of Press and Public**

RESOLVED:

that the press and public be now excluded from the meeting as the following report contains the following category of exempt information as specified in the Local Government Act 1972 namely:

Information relating to the financial or business affairs of any particular person (including the authority holding that information).

**14. Any other urgent business**

*BHP Contract*

The committee heard from the Strategic Director Community Wellbeing about emerging findings over the BHP Contract which would be reported to Cabinet in June 2016.

**15. Date of next meeting**

The date of the next meeting would be agreed by the Council's Annual Meeting in May.

The meeting closed at 8.40 pm

D EWART  
Chair

**This page is intentionally left blank**

 <b>Brent</b>	<p style="text-align: center;"><b>Audit Committee</b> 30 June 2016</p> <p style="text-align: center;"><b>Report of the Chief Finance Officer</b></p>
Wards affected: ALL	
<b>Role of the audit committee</b>	

## 1. INTRODUCTION

- 1.1. The audit committee is an essential part of the corporate governance framework for any large organisation. The Financial Reporting Council (FRC) defines the role of an audit committee, amongst other things, as:

*“acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control”...and that “audit committee arrangements need to be proportionate to the task, and will vary according to the size, complexity and risk profile of the company”*

- 1.2. Whilst the FRC defines this in a private sector context its guidance clearly summarises the key role that an audit committee plays for any organisation. Attached to this report at Appendix One is CIPFA’s more detailed position statement on audit committees, and at Appendix Two is the council’s constitutional terms of reference for its audit committee.
- 1.3. Any governance arrangement needs periodic review, and as this is the first meeting of the council’s audit committee for this municipal year it is appropriate that the committee should consider its own arrangements and plan for the year ahead. This report provides a framework for this discussion.

## 2. RECOMMENDATIONS

- 2.1. That the audit committee discuss the issues raised in this report.
- 2.2. That the audit committee considers the training appropriate to meet the needs of the specialised role that they are responsible for fulfilling.

### **3. Detail**

- 3.1. Brent is a large and complex local authority. By its nature it enters into complex and high value contracts and other financial transactions and it provides a wide range of services. The nature of many of these services is such that there are inherent risks in the delivery of them, either of service failure, financial loss or, in the worst cases, fraud or corruption.
- 3.2. These risks are inherent. This means that it would not be possible to deliver the service in question without some exposure to these risks. It is not possible, for example, to deliver major construction projects and regeneration schemes without dealing with high value and complex contracts, and hence the management of these and many other risks is a key management function.
- 3.3. The role of the audit committee is to provide assurance that a proper framework is in place for the management of these risks, and to help the organisation to hold its officers to account accordingly, ensuring that lessons are learned as appropriate and that a proper cycle of continuous improvement is in place. It also helps to set the right organisational tone and culture to protect against fraud and corruption, which are risks that any organisation must be aware of and manage accordingly. It is not a party political role.
- 3.4. This is a specialist role, and it is important for the committee to assure itself that appropriate training and support is in place to help it to fulfill the function. Clearly, councillors come to the committee with a wide range of backgrounds, skills and experience, and they will have different training needs as a result.
- 3.5. The areas in which members of the committee may wish to assess their own backgrounds and skills, and hence any training needs, include but are not necessarily limited to the ability to:
  - Interpret complex financial information;
  - Oversee complex financial transactions, including treasury management
  - Understand systems of internal control and internal financial control;
  - Understand risk and how it is managed;
  - Ask appropriately challenging questions and to hold management to account; and
  - Understand the different roles played by the Executive (Cabinet), management (officers) and the audit committee
- 3.6. The audit committee may also wish to consider whether additional members might strengthen its ability to fulfill these roles. The committee is

independently chaired, which is good practice in terms of corporate governance. Some local councils also appoint independent members to their audit committees, with relevant backgrounds in, for example, finance and audit, and the committee may wish to consider whether this should be pursued.

- 3.7. Some of the work programme of the audit committee is essentially dictated either by legislation or corporate governance requirements. For example, elsewhere on this agenda is an item with the council's draft annual accounts for 2015/16. Whilst the audit committee is no longer strictly required by statute to approve these it is strongly recommended, as a point of good corporate governance, that the committee should retain this role. The committee is required to approve the audited accounts, to receive appropriate reports from the internal and external auditors on the control framework and, specifically, to review the council's treasury management arrangements.
- 3.8. However, it would be appropriate at this point in the cycle for the committee also to indicate other items that they may wish to review during the year, and the balance that they wish to strike between reviewing overall arrangements and holding individual officers to account for the controls in place in their own services, including conducting more detailed reviews into areas where audit reports have revealed significant weaknesses in the control environment.

#### **4. FINANCIAL IMPLICATIONS**

- 4.1. There are no specific financial implications associated with the committee reviewing its role and composition. In the event that members decide that further training would be appropriate then it is anticipated that the costs of this could be met from the appropriate training budget.

#### **5. LEGAL IMPLICATIONS**

- 5.1. There are none specific to this report [CHECK]

#### **6. STAFFING and EQUALITIES IMPLICATIONS**

- 6.1. None

#### **7. APPENDICES and CONTACT OFFICERS**

Appendix One: CIPFA position statement on audit committees

Appendix Two: Brent Audit Committee terms of reference

Contact Officer: Conrad Hall, Chief Finance Officer [conrad.hall@brent.gov.uk](mailto:conrad.hall@brent.gov.uk)

# CIPFA's Position Statement: Audit Committees in Local Authorities and Police<sup>1</sup>

- 1 **Audit committees are a key component of an authority's governance framework.** Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2 **The purpose of an audit committee is to provide to those charged with governance<sup>2</sup> independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.** By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 **The core functions of an audit committee are to:**
  - Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
  - In relation to the authority's internal audit functions:
    - oversee its independence, objectivity, performance and professionalism
    - support the effectiveness of the internal audit process
    - promote the effective use of internal audit within the assurance framework.
  - Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
  - Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.
  - Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.

---

1. The scope of this statement includes all local authorities in the UK and the audit committees for police and crime commissioners and chief constables.

2. In police bodies, *'those charged with governance'* are the police and crime commissioner and the chief constable.

- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

**4 Audit committees can also support their authorities by undertaking a wider role in other areas including:**

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.<sup>3</sup>
- Providing oversight of other public reports, such as the annual report.

**5 Although no single model of audit committee is prescribed, all should:**

- Act as the principal non-executive, advisory function supporting those charged with governance.<sup>4</sup>
- In local authorities, be independent of both the executive and the scrutiny functions; in police bodies, be independent of the executive or operational responsibilities of the police and crime commissioner or chief constable.
- Have clear rights of access to other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Be properly accountable to the authority's board or equivalent bodies
- Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Be able to meet privately and separately with the external auditor and with the head of internal audit.
- Include, as regular attendees, the chief financial officer(s) or appropriate senior and qualified substitute, the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required.<sup>5</sup>
- Report regularly on their work, and at least annually report an assessment of their performance.

---

3. *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)*, CIPFA, 2011.

4. In police bodies, 'those charged with governance' are the police and crime commissioner and the chief constable.

5. While recognising the independence of the chief constable in relation to operational policing matters.

**6 Good audit committees are characterised by:**

- A membership that is balanced,<sup>6</sup> objective, independent of mind, knowledgeable and properly trained to fulfil their role.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest.<sup>7</sup>
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

Additional guidance to support those acting as audit committee members in local authorities can be found in CIPFA's publication *Audit Committees: Practical Guidance for Local Authorities and Police* (2013), available from [www.cipfa.org.uk/publications](http://www.cipfa.org.uk/publications)

- 
6. The political balance of a formal committee of an authority will reflect the political balance of the council. However, it is important to achieve the right mix of apolitical expertise.
  7. There are many personal qualities needed to be an effective chair, but key to these are promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime are also essential. A specialism in one of these areas would be an advantage.

**This page is intentionally left blank**

## **Audit Committee**

**30 June 2016**

### **Appendix Two – Extract from the Council’s Constitution**

## **AUDIT COMMITTEE**

### **Membership**

The committee comprises 5 non-executive councillors and 1 non-voting co-opted member.

### **Terms of Reference**

#### *Audit Activity*

1. To consider the Head of Internal Audit’s annual report and opinion, and a summary of internal audit activity (actual and proposed), and the strategic and annual audit plans, and consider the level of assurance these can give over the council’s corporate governance arrangements.
2. To consider summaries of specific internal audit reports as appropriate.
3. To consider the annual review of the effectiveness of internal audit.
4. To consider, as required, reports from internal audit on agreed audit recommendations not implemented within a reasonable timescale.
5. To consider specific reports as agreed with the external auditor.
6. To comment on the scope and depth of external audit work and to ensure it gives value for money.

#### *Regulatory Framework*

7. To maintain an overview of the Council’s constitution in respect of Contract Standing Orders and financial regulations.
8. To review any issue referred to it by the chief executive or a director, or any council body.
9. To monitor the effective development and operation of risk management and corporate governance in the Council.
10. To monitor council policies to facilitate confidential reporting by employees of suspected fraud, corruption or any other wrongdoing, the Council’s anti-fraud and anti-corruption policies.
11. To oversee the production of the Council’s Statement on Corporate Governance and Internal Control and to recommend its adoption.
12. To consider the Council’s arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
13. To consider the Council’s compliance with its own and other published standards and controls.

14 To monitor the handling of any reports from the Local Government Ombudsman.

*Accounts*

15. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

16. To review and approve the statement of accounts and consider whether there are any issues from the financial statements or from the audit that need to be brought to the attention of the Council.

 <p><b>Brent</b></p>	<p><b>Audit Committee</b> 23 June 2016</p> <p><b>Report from the Chief Finance Officer</b></p>
<p>To Note</p> <p style="text-align: right;">Wards affected: ALL</p>	
<p><b>Draft Statement of Accounts 2015/16</b></p>	

## 1.0 Purpose

1.1 To present the draft Statement of Accounts prior to their submission for audit.

## 2.0 Recommendations

2.1 The Committee is asked to consider the draft accounts.

## 3.0 Background

3.1 The Council is required to present its accounts, approved by the Chief Finance Officer, for audit by 30 June. Following the completion of the audit of the accounts the Audit Committee will receive a report on the audit from KPMG and be asked to approve the accounts for publication.

3.2 Although the presentation of the draft accounts to the Audit Committee is not part of the formal decision making process it enables members to gain an understanding of the financial statements and raise any issues at an early stage of the process.

## 4.0 Statement of Accounts

4.1 The draft statement of accounts is set out in the appendix to this report. Whilst there is a prescribed format for much of the statement officers seek to ensure that the information is presented as concisely as possible.

4.2 Within the accounts four statements are defined as “core financial statements”, which means that they are fundamental to understanding the accounts. A short commentary on each of these is set out below.

### Movement in Reserves Statement (MiRS)

- 4.3 The MiRS shows the movement in the year on the different reserves held by the Council, analysed into those reserves which can be used to fund expenditure and other reserves of a technical nature which cannot be used to fund expenditure. This is therefore a summary of the resources that the council has available to fund future expenditure and to manage financial risks.

### Comprehensive Income and Expenditure Statement (CIES)

- 4.4 The CIES sets out the total expenditure by the authority in the 2015/16 financial year. The format of the CIES is prescribed to us and is completely different to the council's management accounts, which are used for budget monitoring and present income and expenditure by service area. However, a reconciliation between the two is provided in the technical reconciliation section of these financial statements.

### Balance Sheet

- 4.5 The balance sheet reports how much the council is worth. This is the difference between what we own, are owed and what we owe others.

### Cash Flow Statement

- 4.6 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the 2015/16 financial year.

### Other Statements and Key Notes

- 4.7 Members' attention is also drawn to the following financial statements, which although not technically defined as "core financial statements" are nonetheless highly important to understanding key aspects of local authority services and financing:
- The Housing Revenue Account (HRA) which presents the financial transactions relating to the provision of council housing; and
  - The Collection Fund which presents a summary of the collection of council tax and national non domestic rates.
- 4.8 The accounts also provide substantial detail by way of notes and other statements. In particular, Members may find the following helpful to their understanding the financial position of the authority:
- Notes 2 and 7 to the core financial statements, which disclose the debtors and creditors of the council as at 31 March 2016
  - Note 9 to the core financial statements, which discloses the provisions held by the Council against the costs of likely future events
  - Note 10 to the core financial statements, which discloses the level of earmarked revenue reserves and the purposes for which these are held.

## **5.0 Financial Implications**

5.1 The accounts are a financial document, and present a picture of the council's activities in 2015/16 and its assets and liabilities as at 31 March 2016. However, there are no financial implications directly arising from the production of the draft accounts.

## **6.0 Legal Implications**

6.1 The Accounts and Audit Regulations 2011 require that the draft accounts are approved for issue by 30 June following the year end by the Responsible Finance Officer.

### **Contact Officer**

Conrad Hall, Chief Finance Officer [conrad.hall@brent.gov.uk](mailto:conrad.hall@brent.gov.uk)

**This page is intentionally left blank**

# LONDON BOROUGH OF BRENT

## STATEMENT OF ACCOUNTS

### 2015/16

#### Contents

Narrative Statement.....	1
Core Financial Statements .....	6
Balance Sheet.....	6
Movement in Reserves Statement.....	7
Comprehensive Income and Expenditure Statement.....	8
Cash Flow Statement .....	9
Physical and Intangible Assets .....	10
Current Assets .....	12
Cash Flow Notes.....	12
Liabilities.....	13
Earmarked Reserves.....	15
Comprehensive Income and Expenditure Notes .....	17
Additional Disclosures.....	18
Financial Instruments.....	26
Employee Benefits .....	35
Pension notes.....	40
Housing Revenue Account .....	46
Movement on the HRA Statement.....	47
Notes to the Housing Revenue Account .....	48
Collection Fund .....	50
Group Accounts.....	55
Independent auditor's report to the members of the London Borough of Brent .....	61
Conclusion on the London Borough of Brent's arrangements for securing economy, efficiency and effectiveness in the use of resources.....	62
Statement of Responsibilities for the Statement of Accounts.....	64
Statement of Accounting Policies .....	65
Additional Supporting Information and reconciliation disclosures .....	75
Pension Fund Accounts .....	85
Glossary.....	121

## **Narrative Statement**

### **Brent 2020**

Brent 2020 is an emerging vision for Brent that connects our Borough Plan to the actions we need to take over the next five years, with our partners, to deliver our priorities and provide support to the residents of Brent in 2020.

Over the past four years Brent have implemented major organisational and service changes, we are a leaner and more efficient organisation and have reduced our budget by £100m in light of the government's tough austerity programme. However, we now need to make even more changes to reduce our overall budget by a further £45m by 2019.

The changes to our funding mean our relationship with the citizens and businesses of Brent will change as we become more locally accountable for tax raising.

The government intends to localise business rates by 2020, so supporting business growth will be an essential area of focus for both job supply and business rate collection.

There are the five key priority areas for the Brent 2020 programme.

- Employment and skills - in order to respond to the increase in the working age population and lift people out of poverty and welfare dependency.
- Regeneration - physical, social and environmental - to improve the economic, social and environmental conditions in the borough.
- Business and housing related growth - to maximise the tax base to support the delivery of core services.
- Demand Management - to manage down the pressure on needs-led budgets such as children's social care, adult social care and homelessness.
- Raising income through our assets - to support the delivery of core services.

The areas selected are aligned to the demographic and economic needs profile of the borough and the findings from the community engagement activities which underpin the priorities in our Borough Plan 2015 – 2019. They have also been chosen because they are the areas where we anticipate that system wide solutions will put the council in the best position to support the people of Brent in 2020.

The accounts presents the financial position for the financial year of 2015/16, as we lead in implementing the vision for Brent 2020.

### **Financial Year 2015/16**

The Council set its net budget for 2015/16 at £235.7m. This included revenue support grant from central government of £69.9m a reduction of 27% on the £95.4m received in 2015/16.

### **2015/16 Revenue Budget Compared with Outturn**

The council has undergone a significant restructure in 2015/16. The below table reflects the current structure of the council, although the council did not operate in this way for the first three quarters of the year. This new structure came into operation in January 2016.

	Net Budget £m	Outturn £m	Variance £m
Children & Young People	41.3	42.9	1.5
Community Wellbeing (excluding HRA)	126.3	127.7	1.4
HRA	0.0	(1.7)	(1.7)
Performance Policy & Partnerships	9.4	9.8	0.3
Regeneration & Environment	29.3	27.3	(2.0)
Resources Department	29.4	30.9	1.6
<b>Net Service Total</b>	<b>235.7</b>	<b>236.9</b>	<b>1.2</b>
Central Items	(235.7)	(238.7)	(3.0)
<b>Total Outturn</b>		<b>(1.8)</b>	<b>(1.8)</b>
<i>Comprised: – General Fund</i>			<i>0.1</i>
<i>– HRA</i>			<i>1.7</i>

The Children & Young People overspend relates to pressures in social care. Staffing pressures amounted to £0.8m as a result of a policy to reduce social work caseloads. Social care placements were overspent by £0.2m and protection of families with no recourse to public funds overspent by £0.4m.

When excluding HRA, the Community Wellbeing department overspent against their 2015/16 budget by £1.4m. Within Adult Social Care, pressures relating to Homecare expenditure and unachieved commissioning savings contributed to a £0.7m overspend. Throughout 2015/16 the department had reported pressure in relation to the Temporary Accommodation budget which overspent by approximately £0.7m.

The Housing Revenue Account (HRA) returned a surplus of £1.7m in the year increasing HRA Balances to £6.2m. However in view of the requirement of the Housing & Planning Act to pay the Government for vacant higher value properties, there is a risk that the surplus will not be reinvested into Council Housing stock. The council is considering contingency plans in this area.

The overall underspend of £2m within Regeneration and Environment is largely due to in-year staff vacancies and additional income generated. Areas such as Parking, Land Charges, Planning fees and Regulatory service exceeded their income target due to increase activity volumes.

Overspends in Legal and delayed savings (since delivered) caused overspends in Resources in 2015/16.

The underspend on Central items is principally due to delays in the capital programme causing an underspend on capital financing, as less money has been borrowed, and less money spent on interest payments as a result.

Linked to the change in council structure was a senior management restructure. The council's senior management structure was adapted to create greater synergies within departmental functions and to further align responsibilities in order to improve productivity and efficiency.

The restructure has reduced the number of high earning staff, as is shown in note 31. The number of staff with remuneration over £50,000 has reduced from 173 to 168 in 2015/16, and those with remuneration over £100,000 has fallen from 20 to 15.

When the 2015/16 budget was prepared and subsequently agreed by full council, it was expected that costs of restructuring would be relatively high in that year, due to the scale of savings that had to be made. The senior management restructure and other departmental restructures increased the cost of exit packages as shown in note 32. The number of exit packages increased in 2015/16 to 166 from 60 in 2014/15 for a total cost of £3.3m. The council has managed to help control the overall cost of exit packages by reducing the average cost from £26k in 2014/15 to £20k in 2015/16.

An avoidable error in September 2015 resulted in a duplicate payment run of £2.15m being made to suppliers. A recovery plan was immediately actioned and as at end of April 2016, only nine suppliers have not returned monies for a total value of £ 12k. Of this value are supplier accounts for around £5k where we have initiated legal action. The remaining suppliers will continue to be pursued for the outstanding value.

### **Capital Expenditure**

The Council's in year expenditure in 2015/16 was £93.4m (2014/15 £75.4m). Of this £93.4m, £91.4m is from the capital programme as shown below; the remaining £2m of capital expenditure is expenditure by the schools from their delegated resources.

	<b>2015/16 Capital Budget £m</b>	<b>2015/16 Actuals £m</b>	<b>Variance £m</b>
Children & Young People	0.2	0.1	0.1
Community Wellbeing (Excluding HRA)	14.9	15.0	(0.2)
HRA	33.9	32.9	1.0
Regeneration & Environment	50.0	42.1	7.9
Resources Department	3.3	1.0	2.2
	<b>102.3</b>	<b>91.4</b>	<b>11.1</b>

### **Balance Sheet**

	2014/15	2015/16	Movement
	£m	£m	£m
<b>What the council owns or is owed (assets):</b>			
Property, Plant, equipment, vehicles and infrastructure	1,471	1,340	(131)
Other Assets	9	8	(1)
Amount owed to us by other people/organisations	127	147	20
Cash and cash equivalents	32	32	0
The amount we hold in investments	140	141	1
<b>Total we own and are owed</b>	<b>1,779</b>	<b>1,668</b>	<b>(111)</b>
<b>What the council owes (liabilities)</b>			
We owe other people/organisations	(132)	(143)	(11)
We have outstanding loans	(428)	(424)	4
We have to meet future years' pension costs	(725)	(636)	89
We received grants from government towards our assets	(24)	(22)	2
We have other liabilities (e.g. Cash overdrawn and provisions)	(11)	(24)	(13)
<b>Total amount we owe</b>	<b>(1,320)</b>	<b>(1,249)</b>	<b>71</b>
<b>Total the council is worth</b>	<b>459</b>	<b>419</b>	<b>(40)</b>

The overall net worth of the council decreased by £40m. This is due to a large decrease in the unusable reserves of £71m, with usable reserves increasing by £31m, a growth of 15%. The unusable reserves

have decreased in value by £71m to £69m at 31 March 2016 (£140m at 31 March 2015). This is primarily a result of the following three factors:

- (a) **A £130m decrease in the value of assets, mostly related to council dwellings.** The council's council dwellings have historically been indexed using the land registry house price index. However, average house prices in Brent have been rising very quickly; at the same time, evidence from right to buy sales is that the price of council dwellings has been rising much more slowly. The council's council dwellings have therefore been revalued in line with the evidence of values from right to buy sales. This has led to a substantial revaluation loss (£146m) slowing in income and expenditure. Accounting regulations mean that the net impact of this loss is to reduce an unusable reserve, and there is no impact on housing rent payers or taxpayers.
- (b) **A £41m reclassification of historic minimum revenue provision.** The council has revised its policy on how it makes provision to repay the outstanding monies it has borrowed. The council has been prudent and borrowed long term to control its borrowing costs, but the previous policy made a much greater provision than the actual repayments of debt, which built up a large level of unusable reserves which could not be used to repay debt. The policy has been updated so that the provision for repayment of debt better matches the actual repayment of debt. This has led to the transfer of £41m from unusable reserves to usable reserves.
- (c) **A £89m decrease in the value of the Councils share of the Pension Fund liabilities.** There was a substantial decrease in the net liability the Council holds for the pension fund to £636m. (£725m at 31 March 2015). Although the assets held by the pension fund remained broadly the same at £567m (£573m at 31 March 2015), the gross liability decreased to £1,203m (£1,298m at 31 March 2015). This decrease in the gross liability is mainly as a result of an increase of 0.3% in the assumption the Actuary has used for the discount rate to value the fund. The discount rate is determined by reference to market yields on high quality corporate bonds at the reporting date.

## Debtors

By comparing the debtors (as shown in note 2) without central government bodies, Brent has reduced its debtors figure by £6.8m (13%) from the previous year. The overall debtor's increase of 36% to 91.6m at 31<sup>st</sup> March 2016 is largely due to a 200% increase in central government bodies, from which there is no realistic risk on non-payment

## Pension Fund/CIV

The pension fund accounts are disclosed from page 87 onwards. The pension fund comprises the Council plus other bodies.

The pension fund accounts make reference to the London CIV. Launched in December 2015 it is the London Collective Investment Vehicle, a management company set up by local government established as a collective investment vehicle for their Local Government Pension Scheme funds. Pension Officers are continuing to engage in the development and roll-out of the London CIV. One transfer of assets has been carried out (into the Baillie Gifford DGF Fund), and further transfers will take place when suitable vehicles are available in the London CIV range.

Against a backdrop of continued uncertainty in the global economy and volatility in the financial markets, the value of the Fund's net assets increased to £675.9m (2014/15 £657.0m).

Total contributions received from employers and employees totalled £46.3m for the year, an increase on the previous year's £45.3m.

Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £37.9m, an increase on the previous year's £36.2m.

DRAFT

**Core Financial Statements**  
**Balance Sheet**

31-Mar 2015 £'000		Notes	31-Mar 2016 £'000	
1,471,397	Property, Plant & Equipment	1	1,340,159	Non-current Assets
498	Heritage Assets		498	
822	Investment Property		822	
2,513	Intangible Assets	1	1,542	
100	Long Term Investments	26	100	
59,646	Long Term Debtors	26	54,958	
<b>1,534,976</b>	<b>Long Term Assets</b>		<b>1,398,079</b>	
139,673	Short Term Investments	26	141,077	Current Assets
4,519	Assets Held for Sale		4,519	
66	Inventories		55	
67,592	Short Term Debtors	2	91,612	
31,881	Cash and Cash Equivalents	3	32,156	
<b>243,731</b>	<b>Current Assets</b>		<b>269,419</b>	
(8,564)	Short Term Borrowing	26	(8,572)	Liabilities
(97,744)	Short Term Creditors	7	(111,890)	
(3,915)	Provisions	9	(13,615)	
<b>(110,223)</b>	<b>Current Liabilities</b>		<b>(134,077)</b>	
(34,182)	Long Term Creditors	26	(31,507)	
(7,323)	Provisions	9	(10,701)	
(419,316)	Long Term Borrowing	26	(414,975)	
(749,151)	Other Long Term Liabilities	8	(658,108)	
<b>(1,209,972)</b>	<b>Long Term Liabilities</b>		<b>(1,115,291)</b>	
<b>458,512</b>	<b>Net Assets</b>		<b>418,130</b>	
12,235	General Fund		12,323	Reserves
52,919	Capital Receipts		41,004	
132,271	Earmarked Reserves – Revenue	10	101,460	
17,150	Earmarked Reserves – Capital	10	98,472	
104,318	Other Usable Reserves		96,345	
139,619	Unusable Reserves		68,526	
<b>458,512</b>	<b>Total Reserves</b>		<b>418,130</b>	

## Movement in Reserves Statement

	General Fund Balance £'000	School Balances £'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 2014</b>	<b>12,136</b>	<b>17,636</b>	<b>104,404</b>	<b>949</b>	<b>1,824</b>	<b>46,173</b>	<b>12,714</b>	<b>87,068</b>	<b>282,904</b>	<b>142,251</b>	<b>425,155</b>
<b>Movement in reserves during 2014/15</b>											
Surplus or (deficit) on the provision of services	32,684	0	0	87,457	0	0	0	0	120,141	0	120,141
Other comprehensive income & expenditure	0	0	0	0	0	0	0	0	0	(86,784)	(86,784)
<b>Total comprehensive income &amp; expenditure</b>	<b>32,684</b>	<b>0</b>	<b>0</b>	<b>87,457</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>120,141</b>	<b>(86,784)</b>	<b>33,357</b>
Adjustments between accounting basis & funding basis under regulations	(7,028)	0	0	(78,721)	0	6,746	3,977	(9,127)	(84,153)	84,153	0
<b>Net increase/decrease before transfers to earmarked reserves</b>	<b>25,656</b>	<b>0</b>	<b>0</b>	<b>8,736</b>	<b>0</b>	<b>6,746</b>	<b>3,977</b>	<b>(9,127)</b>	<b>35,988</b>	<b>(2,631)</b>	<b>33,357</b>
Transfers to/from earmarked reserves	(25,557)	3,968	21,589	(5,202)	0	0	5,202	0	0	0	0
<b>Increase/decrease in 2014/15</b>	<b>99</b>	<b>3,968</b>	<b>21,589</b>	<b>3,534</b>	<b>0</b>	<b>6,746</b>	<b>9,179</b>	<b>(9,127)</b>	<b>35,988</b>	<b>(2,631)</b>	<b>33,357</b>
<b>Balance as at 31 March 2015 carried forward</b>	<b>12,235</b>	<b>21,604</b>	<b>125,993</b>	<b>4,483</b>	<b>1,824</b>	<b>52,919</b>	<b>21,893</b>	<b>77,941</b>	<b>318,892</b>	<b>139,620</b>	<b>458,512</b>
<b>Movement in reserves during 2015/16</b>											
Surplus or (deficit) on the provision of services	(22,476)	0	0	(141,884)	0	0	0	0	(164,360)	0	(164,360)
Other comprehensive income & expenditure	0	0	0	0	0	0	0	0	0	123,980	123,980
<b>Total comprehensive income &amp; expenditure</b>	<b>(22,476)</b>	<b>0</b>	<b>0</b>	<b>(141,884)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(164,360)</b>	<b>123,980</b>	<b>(40,380)</b>
Adjustments between accounting basis & funding basis under regulations	82,315	0	0	143,594	0	(11,915)	(19,817)	896	195,073	(195,073)	0
<b>Net increase/decrease before transfers to earmarked reserves</b>	<b>59,839</b>	<b>0</b>	<b>0</b>	<b>1,710</b>	<b>0</b>	<b>(11,915)</b>	<b>(19,817)</b>	<b>896</b>	<b>30,713</b>	<b>(71,093)</b>	<b>(40,380)</b>
Transfers to/from earmarked reserves	(59,751)	4,516	47,821		(100)	0	7,514	0	0		0
<b>Increase/decrease in 2015/16</b>	<b>88</b>	<b>4,516</b>	<b>47,821</b>	<b>1,710</b>	<b>(100)</b>	<b>(11,915)</b>	<b>(12,303)</b>	<b>896</b>	<b>30,713</b>	<b>(71,093)</b>	<b>(40,380)</b>
<b>Balance as at 31 March 2016</b>	<b>12,323</b>	<b>26,120</b>	<b>173,814</b>	<b>6,193</b>	<b>1,724</b>	<b>41,004</b>	<b>9,590</b>	<b>78,837</b>	<b>349,605</b>	<b>68,527</b>	<b>418,132</b>

## Comprehensive Income and Expenditure Statement

2014/15			2015/16				
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Note
£'000	£'000	£'000		£'000	£'000	£'000	
27,728	(13,134)	14,594	Central services to the public	27,263	(17,588)	9,675	
17,411	(4,639)	12,772	Cultural and related services	13,776	(4,637)	9,139	
34,625	(5,771)	28,854	Environmental and regulatory services	36,927	(7,036)	29,891	
7,339	(4,132)	3,207	Planning	7,826	(4,955)	2,871	
40,720	(6,421)	34,299	Children's social care	47,745	(7,424)	40,321	
279,783	(264,704)	15,079	Education and children's services	297,209	(277,244)	19,965	
54,281	(35,569)	18,712	Highways and transport services	56,211	(28,741)	27,470	
39,064	(56,538)	(17,474)	Local authority housing (HRA)	36,652	(54,642)	(17,990)	
0	(74,459)	(74,459)	Exceptional Item - Revaluation of HRA Properties	145,957	0	145,957	
448,018	(428,097)	19,921	Other housing services	457,448	(434,598)	22,850	
102,566	(28,571)	73,995	Adult social care	101,826	(27,697)	74,129	
9,457	(159)	9,298	Corporate and democratic core	10,271	(187)	10,084	
(2,245)	(55)	(2,300)	Non distributed costs	284	(46)	238	
16,748	(18,848)	(2,100)	Public Health	20,494	(20,824)	(330)	
<b>1,075,495</b>	<b>(941,097)</b>	<b>134,398</b>	<b>Cost of Services</b>	<b>1,259,889</b>	<b>(885,619)</b>	<b>374,270</b>	
		7,314	Other operating expenditure			39,428	11
		46,400	Financing and investment income and expenditure			41,975	12
		(308,243)	Taxation and non-specific grant income			(291,314)	13
		<b>(120,131)</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>164,359</b>	
		(26,424)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets			(18,365)	
		113,210	Actuarial (gains)/losses on pension assets and liabilities			(105,615)	37
		<b>86,786</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(123,980)</b>	
		<b>(33,345)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>40,379</b>	

## Cash Flow Statement

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

<b>2014/15</b>		<b>2015/16</b>	
<b>£'000</b>		<b>£'000</b>	<b>Note</b>
120,131	Net surplus or (deficit) on the provision of services	(165,943)	
(100,062)	Adjustments for non-cash movements	167,873	
46,397	Adjustments for investing and financing activities	50,336	
66,466	<b>Net cash inflows/(outflows) from Operating Activities</b>	52,266	
(89,840)	Net cash inflows/(outflow) from Investing activities	(44,460)	5
(6,399)	Net cash inflows/(outflow) from Financing activities	(6,531)	6
(29,773)	<b>Net increase/(decrease) in cash and cash equivalents</b>	275	
61,654	Cash and cash equivalents at the beginning of the reporting period	31,881	
<b>31,881</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>32,156</b>	3

**Physical and Intangible Assets**

**Note 1 – Significant movements on balances of property, plant and equipment**

Movements in 2015/16	Council Dwellings	Land & Buildings	VPF&E	Infrastructure	Surplus	Asset under construction	Total	PFI Assets	Intangible Assets
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>Cost or Valuation</b>									
At 1 April 2015	653,873	620,529	50,395	225,468	5,115	44,106	1,599,486	94,625	5,251
Additions	32,922	13,757	926	9,325		20,359	77,289	0	0
Depreciation written out	0	(9,917)	0	0	(11)	0	(9,928)	(1,746)	0
Revaluation increases (decreases) in the Revaluation Reserve	0	18,365	0	0	0	0	18,365	(2,125)	0
Revaluation increases (decreases) in the Surplus / Deficit on the Provision of Services	(145,957)	(289)	0	0	(4)	(514)	(146,764)	(45)	0
Derecognition - Disposals	(6,477)	(320)	(10,916)	0	0	(39,591)	(57,304)	(320)	0
Derecognition - Others	0	0	0	0	0	0	0	0	0
Reclassifications (to/from Investment Property)	0	0	0	0	0	0	0	0	0
Reclassifications (to/from Assets Held for Sale)	0	0	0	0	0	0	0	0	0
Other movements in Cost or Valuations	0	4,001	0	0	0	(4,001)	0	0	0
<b>At 31 March 2016</b>	<b>534,361</b>	<b>646,126</b>	<b>40,405</b>	<b>234,793</b>	<b>5,100</b>	<b>20,359</b>	<b>1,481,144</b>	<b>90,389</b>	<b>5,251</b>
<b>Depreciation and Impairments</b>									
At 1 April 2015	(10,495)	(34,556)	(30,689)	(52,266)	(81)	(1)	(128,088)	(15,856)	(2,739)
Charge for 2015/16	(10,160)	(12,220)	(6,164)	(5,561)	(13)	0	(34,118)	(3,023)	(970)
Depreciation written out	373	9,917	0	0	11	0	10,301	1,746	0
Depreciation charge written out to the Revaluation Reserve	0	0	0	0	0	0	0	0	0
Depreciation charge written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
Impairment written out	0	0	0	0	0	0	0	0	0
Impairment losses (reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0
Derecognition - Disposals	0	6	10,916	0	0	0	10,922	6	0
Derecognition - Others	0	0	0	0	0	0	0	0	0
Reclassifications (to/from Assets Held for Sale)	0	0	0	0	0	0	0	0	0
Other Movements in Depreciation & Impairments	0	0	0	0	0	0	0	0	0
Revaluations									
<b>At 31 March 2016</b>	<b>(20,282)</b>	<b>(36,853)</b>	<b>(25,937)</b>	<b>(57,827)</b>	<b>(83)</b>	<b>(1)</b>	<b>(140,983)</b>	<b>(17,127)</b>	<b>(3,709)</b>
Balance Sheet Amount at 31 March 2016	514,079	609,273	14,468	176,966	5,017	20,358	1,340,161	73,262	1,542
Balance Sheet Amount at 1 April 2015	643,378	585,971	19,706	173,202	5,034	44,105	1,471,398	78,769	2,512

**Note 1 – Significant movements on balances of property, plant and equipment**

Movements in 2014/15	Council Dwellings	Other Land and Buildings	Infra-structure Assets	Plant Vehicle & Equipment	Surplus Assets	Assets under Construction	Total	Of which PFI funded Assets	Intangible Assets
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>									
<b>At 1 April 2014</b>	<b>609,009</b>	<b>596,091</b>	<b>213,975</b>	<b>51,050</b>	<b>4,113</b>	<b>30,771</b>	<b>1,505,009</b>	<b>92,310</b>	<b>8,331</b>
Additions	8,327	26,724	11,493	8,233	0	13,335	68,112	108	12
Depreciation/ Impairment written out	(28,768)	(10,004)	0	0	(42)	0	(38,814)	(362)	0
Revaluation (Revaluation Reserve)	0	24,996	0	0	1,427	0	26,423	3,164	0
Revaluation Surplus/(Deficit) on the Provision of Services	74,459	(3,697)	0	0	(124)	0	70,638	0	0
Derecognition - disposals	(9,154)	(14,557)	0	(8,888)	0	0	(32,599)	(595)	(3,093)
Reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Reclassifications	0	713	0	0	0	0	713	0	0
Other movements in cost or valuation	0	263	0	0	(260)	0	3	0	1
<b>At 31 March 2015</b>	<b>653,873</b>	<b>620,529</b>	<b>225,468</b>	<b>50,395</b>	<b>5,114</b>	<b>44,106</b>	<b>1,599,485</b>	<b>94,625</b>	<b>5,251</b>
<b>Accumulated Depreciation/Amortisation and Impairment</b>									
<b>At 1 April 2014</b>	<b>(29,379)</b>	<b>(33,044)</b>	<b>(46,704)</b>	<b>(31,781)</b>	<b>(109)</b>	<b>0</b>	<b>(141,017)</b>	<b>(13,202)</b>	<b>(4,851)</b>
Depreciation/ amortisation	(10,259)	(12,232)	(5,561)	(7,581)	(14)	0	(35,647)	(3,028)	(981)
Depreciation written out	375	9,867	0	0	43	0	10,285	362	0
Impairment written out	28,768	137	0	0	0	0	28,905	0	0
Derecognition - disposals	0	716	0	8,670	0	0	9,386	11	3,094
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
Other	0	0	0	0	0	0	0	0	0
<b>At 31 March 2015</b>	<b>(10,495)</b>	<b>(34,556)</b>	<b>(52,265)</b>	<b>(30,692)</b>	<b>(80)</b>	<b>0</b>	<b>(128,088)</b>	<b>(15,857)</b>	<b>(2,738)</b>
<b>Net Book Value (Cost or Valuation less Accumulated Depreciation/Amortisation and Impairment)</b>									
<b>At 31 March 15</b>	<b>643,378</b>	<b>585,973</b>	<b>173,203</b>	<b>19,703</b>	<b>5,034</b>	<b>44,106</b>	<b>1,471,397</b>	<b>78,768</b>	<b>2,513</b>
<b>At 31 March 14</b>	<b>579,630</b>	<b>563,047</b>	<b>167,271</b>	<b>19,269</b>	<b>4,004</b>	<b>30,771</b>	<b>1,363,992</b>	<b>79,108</b>	<b>3,480</b>

**Current Assets**  
**Note 2 – Debtors**

<b>31-Mar-15</b>		<b>31-Mar-16</b>	
<b>£'000</b>		<b>£'000</b>	
15,406	Central government bodies	46,275	
3,922	Other local authorities	3,527	
8,584	NHS bodies	2,105	
3,164	Public corporations and trading funds	4,844	
36,516	Other entities and individuals	34,861	
<b>67,592</b>	<b>Total</b>	<b>91,612</b>	

**Note 3 – Cash and Cash Equivalents**

<b>31-Mar-15</b>		<b>31-Mar-16</b>	
<b>£'000</b>		<b>£'000</b>	
22,774	Bank current accounts	9,345	
9,107	Short-term deposits	22,811	
<b>31,881</b>	<b>Total</b>	<b>32,156</b>	

**Cash Flow Notes**

**Note 4 – Cash Flow Statement - Operating Activities**

<b>2014/15</b>		<b>2015/16</b>	
<b>£'000</b>		<b>£'000</b>	
3,141	Interest received-cash inflow	4,684	
(23,430)	Interest paid-cash (outflow)	(23,673)	

**Note 5 – Cash Flow Statement - Investing Activities**

<b>2014/15</b>		<b>2015/16</b>	
<b>£'000</b>		<b>£'000</b>	
(71,789)	Purchase of property, plant and equipment, investment property and intangible assets	(93,392)	
(64,448)	Net increase/(decrease) in short-term and long-term investments	(1,404)	
17,347	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	8,954	
29,050	Capital grants received	41,382	
<b>(89,840)</b>	<b>Net cash flows from investing activities</b>	<b>(44,460)</b>	

**Note 6 – Cash Flow Statement - Financing Activities**

<b>2014/15</b>		<b>2015/16</b>	
<b>£'000</b>		<b>£'000</b>	
(4,359)	Net increase/(decrease) in short-term and long-term borrowing	(4,332)	
(2,040)	Cash inflow/(outflow) relating to Private Finance Initiative schemes	(2,199)	
<b>(6,399)</b>	<b>Net cash flows from financing activities</b>	<b>(6,531)</b>	

## Liabilities

### Note 7 – Creditors

31-Mar-15		31-Mar-16
£'000		£'000
8,077	Central Government bodies	14,673
17,368	Other Local Authorities	15,267
2,562	NHS bodies	3,317
0	Public corporations and trading funds	296
69,737	Other entities and individuals	78,336
<b>97,744</b>	<b>Total</b>	<b>111,890</b>

### Note 8 – Long-Term Liabilities

31-Mar-15		31-Mar-16
£'000		£'000
725,020	Pension Fund Liability	635,984
24,131	Deferred Income	22,124
<b>749,151</b>	<b>Total</b>	<b>658,108</b>

**Note 9 – Provisions**

	<b>Outstanding Legal Cases £'000</b>	<b>Compensation Claims £'000</b>	<b>Other Provisions £'000</b>	<b>Total £'000</b>
<b><u>Short Term Provisions</u></b>				
<b>Balance at 1 April 2015</b>	<b>0</b>	<b>2,855</b>	<b>1,060</b>	<b>3,915</b>
Moved from long term				
Net additions to provisions made in 2015/16		2,470	7,229	9,700
<b>Balance at 31 March 2016</b>	<b>0</b>	<b>5,325</b>	<b>8,289</b>	<b>13,615</b>
<b><u>Long Term Provisions</u></b>				
<b>Balance at 1 April 2015</b>	<b>215</b>	<b>1,060</b>	<b>6,048</b>	<b>7,323</b>
Moved to short term				
Net additions to provisions made in 2015/16		3,379		3,379
<b>Balance at 31 March 2016</b>	<b>215</b>	<b>4,439</b>	<b>6,048</b>	<b>10,702</b>

**Outstanding legal claims**

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

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

**Corporate Leases** - Provision for photocopier leases

**NNDR Revaluations** - Provision for backdated NNDR appeals

**Affordable Housing PFI** - Provision for shortfall of income over the term of the contract

In addition to the Uninsured Losses provision detailed above, an earmarked reserve for insurance is maintained:

<b>31-Mar-15 £'000</b>		<b>31-Mar-16 £'000</b>
2,855	Uninsured Losses provision short term	2,855
1,060	Uninsured Losses provision long term	5,499
2,500	Earmarked insurance reserve	1,526
<b>6,415</b>	<b>Total</b>	<b>9,880</b>

## Earmarked Reserves

### Note 10 – Transfers to/from Earmarked Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and below. Movement in the unusable reserves are detailed in the technical reconciliation section.

	Balance at 31-Mar-15 £'000	Transfers in 2015/16 £'000	Transfers out 2015/16 £'000	Movement 2015/16 £'000	Balance at 31-Mar-16 £'000
<b>General Fund Capital Related</b>					
S106 and Community Infrastructure Levy	28,655	14,525	(3,059)	11,466	40,121
Capital Financing	5,300	41,049	0	41,049	46,349
Revenue Contribution to Capital	5,330	0	0	0	5,330
Pension Liabilities	4,466	0	0	0	4,466
Capital Funding	2,054	153	(1)	152	2,206
<b>Total</b>	<b>45,805</b>	<b>55,727</b>	<b>(3,060)</b>	<b>52,667</b>	<b>98,472</b>
<b>General Fund Revenue Reserves</b>					
<b>Technical and other obligations</b>					
Affordable Housing PFI	2,151	0	(2,151)	(2,151)	0
Transformation	6,266	0	(1,316)	(1,316)	4,950
Service Pressures	5,450	0	(3,450)	(3,450)	2,000
Future Funding Risks	5,100	0	0	0	5,100
Council Tax, Business Rates & Local Welfare	4,695	799	(607)	192	4,887
Redundancy & Restructuring	3,725	0	0	0	3,725
Welfare Reform	3,510	0	0	0	3,510
Other Central	1,979	416	(161)	255	2,234
JFS School PFI	2,860	114	0	114	2,974
Employment Initiatives	2,695	0	(988)	(988)	1,707
Insurance	2,500	0	(974)	(974)	1,526
Willesden Sports Centre PFI	2,186	0	0	0	2,186
Property & Civic Centre	2,070	0	(2,070)	(2,070)	0
Public Health	1,867	0	(162)	(162)	1,705
South Kilburn	1,800	700	0	700	2,500
HMO Licensing	1,365	102	0	102	1,467
Investment Reserve	0	12,000	0	12,000	12,000
<b>Total</b>	<b>50,219</b>	<b>14,131</b>	<b>(11,879)</b>	<b>2,252</b>	<b>52,471</b>
<b>Service Reserves</b>	<b>18,034</b>	<b>3,359</b>	<b>(8,259)</b>	<b>(4,900)</b>	<b>13,134</b>
<b>Joint Arrangements</b>					
Brent NHS Trust Joint Venture	9,410	0	0	0	9,410
Better Care Development Fund	2,200	0	(2,200)	(2,200)	0
Delayed Transfer of Care	325	0	0	0	325
<b>Total</b>	<b>11,935</b>	<b>0</b>	<b>(2,200)</b>	<b>(2,200)</b>	<b>9,735</b>
<b>Total General Fund Revenue Reserves</b>	<b>80,188</b>	<b>17,490</b>	<b>(22,338)</b>	<b>(4,848)</b>	<b>75,340</b>

Note 10 – Table Continued

	Balance at 31-Mar-15 £'000	Transfers in 2015/16 £'000	Transfers out 2015/16 £'000	Movement 2015/16 £'000	Balance at 31-Mar-16 £'000
Housing Revenue Account	1,825	0	(100)	(100)	1,725
School Balances	21,604	1,243	3,273	4,516	26,120
Total Revenue Reserves	103,617	18,733	(19,165)	(432)	103,185
Total Earmarked Reserves	149,422	74,460	(22,225)	52,235	201,657

DRAFT

## Comprehensive Income and Expenditure Notes

### Note 11 – Other Operating Expenditure

31-Mar-15		31-Mar-16	
£'000		£'000	
2,604	Levies	2,538	
975	Payments to the Government Housing Capital Receipts Pool	1,344	
3,735	Gains/(losses) on the disposal of non-current assets	35,547	
<b>7,314</b>	<b>Total</b>	<b>39,429</b>	

### Note 12 – Financing and Investment Income and Expenditure

31-Mar-15		31-Mar-16	
£'000		£'000	
24,212	Interest payable and similar charges	23,317	
25,428	Pensions interest cost and expected return on pensions assets	23,097	
(3,281)	Interest receivable and similar income	(4,488)	
41	(Surplus)/Deficit on Trading Accounts	49	
<b>46,400</b>	<b>Total</b>	<b>41,975</b>	

### Note 13 – Taxation and non-Specific Grant Incomes

31-Mar-15		31-Mar-16	
£'000		£'000	
(89,332)	Council tax income	(92,986)	
(47,439)	NNDR Top Up	(48,345)	
(34,937)	Business Rates	(33,363)	
(95,368)	Revenue Support Grant	(69,854)	
(12,116)	Other government grants & taxation	(15,771)	
(29,050)	Capital grants and contributions	(30,992)	
<b>(308,242)</b>	<b>Total</b>	<b>(291,311)</b>	

### Note 14 – Material items of Income and Expenses

All material items are disclosed in the statements for 2014/15 and 2015/16.

## Additional Disclosures

### Note 15 – Acquired and Discontinued Operations

The council has no transactions to disclose.

### Note 16 – Pooled Budgets

The Council entered into partnership agreements under Section 31 of the Health Act 1999 with NHS Brent CCG for the Integrated Community Equipment Service Partnership Board. The London Borough of Brent is the host partner for Occupational Therapy equipment. Funding for Occupational Therapy equipment is split 41% London Borough of Brent and 59% NHS Brent CCG. 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 funding split in this case is 30% London Borough of Brent and 70% CNWLNFT.

The Partnership's income and expenditure for 2015/16 was:

	<b>Mental Health £'000</b>	<b>Occupational Therapy £'000</b>	<b>The Better Care Fund £'000</b>
Funding: London Borough of Brent	(333)	(450)	0
NHS Brent CCG	0	(654)	0
NHS E	0	0	(19,832)
DCLG	0	0	(2,600)
CNWLNFT	(959)	0	0
<b>Total Funding</b>	<b>(1,292)</b>	<b>(1,104)</b>	<b>(22,432)</b>
Expenditure	1,263	1,760	22,432
<b>Net Overspend/(Underspend)</b>	<b>(29)</b>	<b>656</b>	<b>0</b>
<b>2014/15 Net Overspend/(Underspend)</b>	<b>(1)</b>	<b>280</b>	<b>0</b>

### Note 17 – Members' Allowances

Total payments including National Insurance costs in 2015/16 were £1m (£1m in 2014/15). Details of the Members' Allowances scheme are available on Brent's website ([www.brent.gov.uk](http://www.brent.gov.uk))

### Note 18 – External Audit Costs

<b>31-Mar-15 £'000</b>		<b>31-Mar-16 £'000</b>
266	Fees payable to KPMG with regard to external audit services carried out for the year	200
35	Fees payable to KPMG with regard to additional audit services carried out for the year	35
30	Fees payable to KPMG for the certification of grant claims and returns for the year	21
<b>331</b>	<b>Total</b>	<b>256</b>

### **Note 19 – Contingent Liabilities**

The Council has a number of contingent liabilities. The best estimate of the liability for all the issues could be in the region of £4.3m, but due to the nature of the contingent liabilities this is subject to significant change. Figures are not shown against contingent liabilities where there are legal proceedings or the disclosure would adversely affect the outcome.

### **Note 20 – Exceptional Items**

The Comprehensive Income and Expenditure Statement shows that there was an exceptional charge of £145.9m, represented by the downward revaluation of the housing stock. Last year this was revalued upward by £74.5m. This technical change has been separated out to make the like for like accounts easier to understand.

DRAFT

**Note 21 – Grant Income**

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

2014/15 £'000	Revenue Grants	2015/16 £'000
	<b>Housing Benefit:</b>	
294,858	Mandatory Rent Allowances: subsidy	317,999
24,121	Mandatory Rent Rebates outside HRA	20,910
29,741	Rent Rebates Granted to HRA Tenants: subsidy	29,022
3,355	Housing Benefit and Council Tax Benefit Administration	2,889
<b>352,075</b>		<b>370,820</b>
	<b>Schools:</b>	
200,296	Dedicated Schools Grant (DSG)	201,461
11,339	Pupil Premium Grants	10,129
5,567	Sixth forms funding from Learning and Skills Council (LSC)	4,722
1,867	Universal Infant School Meal	3,686
4,199	Central Education Services	3,345
<b>223,268</b>		<b>223,343</b>
	<b>Other:</b>	
3,468	Adult and Community Learning from Learning and Skills Council	3,121
4,261	Discretionary Housing payments	2,607
1,021	Local Welfare Programme Funding	51
3,418	Private Finance Initiative Housing Non HRA	3,418
18,848	Public Health	17,511
0	Public Health Children 0-5	2,763
1,242	Private Finance Initiative Willesden Sports Centre - PFI Reserve	1,242
11,930	REFCUS revenue grants	10,390
1,023	Troubled Families	1,308
95,368	Revenue Support Grant	69,854
2,215	Section 31	3,094
1,056	Council Tax Freeze Grant	1,078
6,198	New Homes Bonus	7,139
129	Care Bill Implementation	1,166
987	Asylum Leaving Care (Post 18) Grant	1,137
8,019	Other Miscellaneous Grants	7,460
<b>159,182</b>		<b>133,339</b>
<b>734,525</b>	<b>Total</b>	<b>727,502</b>

2014/15 £'000	Capital Grants	2015/16 £'000
	<b>Grants:</b>	
4,095	Basic Needs	5,943
0	School Condition Grant	2,560
6,051	Framework Academies	0
4,969	Transport for London	5,646
2,291	LA Capital Maintenance	0
10	Disabled Facilities	0
394	Other Grants	2,316
	<b>Contributions:</b>	
7,571	Section 106	7,524
3,669	Community Infrastructure Levy	7,003
<b>29,050</b>	<b>Total</b>	<b>30,992</b>

DRAFT

## Note 22 – Deployment of Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Education (DfE), the Dedicated Schools Grant (DSG).

The DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. In 2015-16, as in previous years, an element of the DSG was recouped by the DfE to fund academy schools in the borough.

The Schools Budget includes elements for a restricted range of services provided on an authority-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 (i.e. central expenditure and ISB) are accounted separately and the Council is able to (where it chooses) supplement the schools budget from its own resource.

### The DSG received in 2015/16 was deployed as follows:

	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2015-16 before Academy Recoupment	77,930	220,490	298,420
Academy figure recouped for 2015-16	(3,330)	(93,630)	(96,960)
<b>Total DSG after recoupment for 2015-16</b>	<b>74,600</b>	<b>126,860</b>	<b>201,460</b>
Brought Forward from 2015-16	0	0	349
Carry Forward to 2016-17 agreed in advance	0	0	(349)
<b>Agreed initial budgeted distribution in 2015-16</b>	<b>50,208</b>	<b>151,252</b>	<b>201,460</b>
In year adjustments	(4,175)	4,175	0
Final budgeted distribution for 2015-16	46,033	155,427	201,460
Less Actual Central Expenditure	(45,363)	0	(45,363)
Less Actual ISB deployed to schools	0	(155,427)	(155,427)
<b>Carry Forward to 2016-17 agreed in advance</b>	<b>670</b>	<b>0</b>	<b>1,019</b>

## Note 23 – 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.

Councillors and Chief Officers complete related party transactions forms each year.

A number of voluntary organisations which received grants from the London Borough of Brent in 2015/16 have Brent Members as Directors, Trustees or employees.

The following disclosures have been made where material transactions were made as obtained from Members' 2015/16 Declarations of Related Party Transactions (where the organisation received a significant amount of funding):

	2015/16 £'000
Community Voluntary Services (CVS) Brent	309
Brent Housing Partnership (management fee)	7,649
Brent Centre For Young People	14

London Borough of Brent Pension Fund - administrative support is provided to the Fund. The Pension Fund's accounts are shown separately in this document. The Council charged the Pension Fund £0.661m for administering the fund in 2015/16 (£0.741m was charged in 2014/15).

Pooled Budgets - Details of partnerships with NHS Brent CCG and the North West London Mental Health Trust are shown in Note 16 – Pooled Budgets 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 £7.649m in 2015/16 (£7.624m in 2014/15).

Barham Park Trust is a charity that is controlled by the council as a result of the council appointing all the trustees and is included in Brent's Group accounts as a subsidiary. Brent held £445k on behalf of the Barham Park Trust.

### LGA digital

The council entered into an agreement to partner with the Local Government Association for the provision of ICT services, including the implementation of new infrastructure for their offices, the hosting of their ICT services at the Brent Data Centres, and the ongoing provision of ICT support services on the 27th January 2016.

The council established a company that is 50% owned by the council and 50% by the Local Government Association to facilitate this arrangement.

The Group Accounts can be found later in this document and combine the accounts of Brent, BHP, Barham Park Trust and LGA Digital Services.

## 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.

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: [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk).

DRAFT

**Note 24 – Capital Expenditure and Capital Financing**

2014/15				2015/16		
GF	HRA	Total		GF	HRA	Total
£'000	£'000	£'000		£'000	£'000	£'000
			<b>Capital Investment</b>			
52,096	8,327	60,423	Property, Plant and Equipment	44,367	32,922	77,289
0	0	0	Investment Properties	0	0	0
12	0	12	Intangible Assets	0	0	0
14,917	0	14,917	Revenue Expenditure Funded from Capital under Statute	16,149	0	16,149
<b>67,025</b>	<b>8,327</b>	<b>75,352</b>	<b>Total Expenditure</b>	<b>60,516</b>	<b>32,922</b>	<b>93,438</b>
			<b>Sources of Finance</b>			
		(9,180)	Capital Receipts			(20,869)
		(47,005)	Government Grants and other Contributions			(25,735)
		(7,652)	Direct revenue contributions			(11,284)
		(6,282)	Major Repairs Reserve			(29,977)
		0	Earmarked Reserves			0
		(5,233)	Borrowing			(5,573)
		<b>(75,352)</b>	<b>Total Resources</b>			<b>(93,438)</b>
		<b>0</b>	<b>Net Balance</b>			<b>0</b>
			Calculation of Capital Financing Requirement			
		1,472,717	Fixed Assets			1,341,479
		2,513	Intangible Assets			1,542
		4,519	Assets Held for Sale			4,519
		(193,761)	Revaluation Reserve			(212,049)
		(682,786)	Capital Adjustment Account			(501,425)
		(24,131)	Deferred Income			(22,124)
		<b>579,071</b>	<b>Capital Financing Requirement</b>			<b>611,942</b>

## Financial Instruments

### Note 25 – 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 3 – Cash and Cash Equivalents.

	Long Term			Current		
	31-Mar 2016 £'000	31-Mar 2015 £'000	31-Mar 2014 £'000	31-Mar 2016 £'000	31 March 2015 £'000	31 March 2014 £'000
<b>Investments</b>						
Loans and receivables	0	0	5,000	141,077	139,673	70,226
Unquoted equity investment at cost	100	100	100		0	0
<b>Total investments</b>	<b>100</b>	<b>100</b>	<b>5,100</b>	<b>141,077</b>	<b>139,673</b>	<b>70,226</b>
<b>Debtors</b>						
Loans and receivables	54,958	59,646	54,008		0	0
Financial assets carried at contract amounts					36,516	28,575
<b>Total Debtors</b>	<b>54,958</b>	<b>59,646</b>	<b>54,008</b>	<b>0</b>	<b>36,516</b>	<b>28,575</b>
<b>Borrowings</b>						
Financial liabilities at amortised cost	(414,975)	(419,316)	(423,662)	(8,573)	(8,564)	(8,577)
<b>Total Borrowings</b>	<b>(414,975)</b>	<b>(419,316)</b>	<b>(423,662)</b>	<b>(8,573)</b>	<b>(8,564)</b>	<b>(8,577)</b>
<b>Other Long Term Creditors</b>						
PFI and finance lease liabilities	(31,507)	(34,182)	(33,444)	0	0	0
<b>Total Other Long Term Creditors</b>	<b>(31,507)</b>	<b>(34,182)</b>	<b>(33,444)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Creditors</b>						
Financial liabilities carried at contract amounts	0	0	0	0	(69,737)	(72,592)
<b>Total Creditors</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(69,737)</b>	<b>(72,592)</b>

### Note 26 – 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 2015 and 31 March 2016 consisted of loans from the Public Works Loan Board (PWL) and market loans. The PWL 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.

In the case of the Council's investments, these consisted almost entirely of term deposits with Banks and Building Societies. 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 impairments incurred as a result of the Icelandic situation

### Financial Liabilities

31-Mar-15			31-Mar-16	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£'000	£'000		£'000	£'000
8,564	8,564	Short Term Borrowing	8,573	8,573
323,816	536,138	Long Term Borrowing (PWLB)	319,475	463,495
95,500	125,849	Long Term Borrowing (LOBO)	95,500	163,712
34,182	34,182	Long Term Creditors	34,182	34,182

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

### Financial Assets

148,782	148,782	Loans and Receivables	141,077	141,077
59,646	59,646	Long Term Debtors	54,182	54,182

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

### Impairment of Deposits with Icelandic Banks

#### Heritable Bank

Heritable bank is a UK registered bank under Scots law. The company was placed in administration on 7th October 2008. As at 31 March 2016, the Council had recovered £9.8m of the original £10m deposit and a further repayment may arise subject to the result of court action. The impairment made by the Council is essentially the balance of the deposit outstanding.

### Note 27 – Leases

#### Authority 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-15		31-Mar-16
£'000		£'000
5,307	Plant, Furniture, Vehicles and Equipment	2,987

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-15 £'000		31-Mar-16 £'000	
1,151	Finance lease liabilities	1,192	
	Current		
4,155	Non-current	1,791	
215	Finance costs payable in future years	128	
<b>5,521</b>	<b>Minimum lease payments</b>	<b>3,111</b>	

These minimum lease payments are payable over the following periods

	Total Minimum Lease Payments		Present Value of Minimum Lease Payments Repayable	
	Payments		Minimum Lease Payments Repayable	
	2014-15 £'000	2015-16 £'000	2014-15 £'000	2015-16 £'000
Not Later than one year	1,237	1,255	1,151	1,192
Later than one year and not later than five years	4,283	1,833	4,155	1,791
	<b>5,520</b>	<b>3,088</b>	<b>5,306</b>	<b>2,983</b>

### 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:

2014-15 £'000		2015-16 £'000	
644	Not later than one year	653	
1,985	Later than one year and not later than five years	1,697	
6,861	Later than five years	6,282	
<b>9,490</b>	<b>Total</b>	<b>8,632</b>	

The expenditure charged to Comprehensive Income and Expenditure Statement for these leases is detailed below:

2014-15 £'000		2015-16 £'000	
1,355	Minimum Lease payments	1,554	
(103)	(Sublease payments receivable)	(103)	
<b>1,252</b>	<b>Total</b>	<b>1,451</b>	

## Authority as Lessor

### Finance Leases

Brent Council leases Northwick golf course to a commercial operator on a finance lease with a remaining term of 92 years.

The authority 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:

2014-15 £'000		2015-16 £'000	
1,249	Finance lease debtor	1,249	
	Non Current		1,249
<b>1,249</b>	<b>Gross Investment in Lease</b>	<b>1,249</b>	

The gross investment in the lease and the minimum lease payments will be received from the commercial operator over the following periods:

	Gross Investment in the Lease		Present Value of Minimum Lease Payments	
	2014-15	2015-16	2014-15	2015-16
	£'000	£'000	£'000	£'000
Later than five years	1,249	1,249	1,249	1,249
	<b>1,249</b>	<b>1,249</b>	<b>1,249</b>	<b>1,249</b>

In addition to the payments made by the commercial operator shown above, the council receives contingent rent based on the turnover of the golf course. In 2015-16, £22k contingent rent was receivable.

### Operating Leases

The council leases out a number of its properties both for commercial use and service provision.

Future minimum lease payments expected under these contracts are:

2014-15 £'000		2015-16 £'000	
1,009	Not later than one year	1,697	
3,176	Later than one year and not later than five years	3,489	
35,745	Later than five years	23,318	
<b>39,930</b>	<b>Total</b>	<b>28,504</b>	

The council receives additional contingent rent for one of its properties based on the turnover of the lessee's business. In 2015-16, £50k contingent rent was receivable.

### Note 28 – Private Finance Initiative (PFI) and 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, 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.

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.
- A provision of £5.6m is maintained to reflect changes in the PFI schemes agreed in prior years. Please refer to note 9.

The assets that have been recognised on the balance sheet funded by PFIs and service concessions are shown in Note 1 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.

2014-15 £'000		2015-16 £'000	
35,950	Balance outstanding at start of year	33,933	
(2,040)	Payments during the year	(2,166)	
22	Additional liabilities	0	
<b>33,932</b>	<b>Balance outstanding at end of year</b>	<b>31,767</b>	

The following future payments are expected to be made on the PFIs and Service Concessions:

	<b>Payment for Services £'000</b>	<b>Reimburse- ment of Capital Expenditure £'000</b>	<b>Interest £'000</b>	<b>Total £'000</b>
Payable in 2016/17	3,287	2,386	3,287	8,960
Payable with two to five years	11,741	10,092	11,780	33,613
Payable within 6 to 10 years	9,418	13,912	12,070	35,400
Payable within 11 to 15 years	9,346	15,936	9,260	34,542
Payable within 16 to 20 years	2,927	9,132	6,530	18,589
Payable within 21 to 25 years	432	2,011	1,198	3,641
<b>Total</b>	<b>37,151</b>	<b>53,469</b>	<b>44,125</b>	<b>134,745</b>

Where a PFI asset is paid for by third party payments, it is a requirement to recognise of deferred income: this recognises the expected future third party payments. Deferred income recognised on the balance sheet is:

<b>2014-15 £'000</b>		<b>2015-16 £'000</b>	
(31,738)	Deferred Income opening balance	(24,131)	
0	Additions	0	
7,607	Amortisation	2,007	
(24,131)	Deferred Income closing balance	(22,124)	

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 29 - Nature and extent of risks arising from Financial Instruments**

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the DCLG's *Guidance on Local Government Investments*. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

- *Credit Risk*: The possibility that one party to a financial instrument will fail to meet its contractual obligations, causing a loss for the other party.
- *Liquidity Risk*: The possibility that the Council might not have the cash available to make contracted payments on time.
- *Market Risk*: The possibility financial loss will materialise because of changes in market variables such as interest rates or equity prices.

#### **Credit Risk: Investments**

- The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.
- Up to £15m can be invested with a single pre-selected UK banking group (or individually rated banks within that group) for up to 100 days.
- Up to £10m can be invested with pre-selected overseas banks, or AAA rated money market funds for up to 190 days. Up to £10m can be invested in institutions that are supported by major international organisations such as the USA Federal Reserve or the European Central Bank for longer periods.
- Up to £20m can be invested with individual other local authorities or UK government bodies for terms that can exceed one year
- The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2016 that this was likely to crystallise.

- The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating:

Credit Rating	Long Term		Short Term	
	31-Mar-16 £'000	31-Mar-15 £'000	31-Mar-16 £'000	31-Mar-15 £'000
AAA	0	0	22,800	9,100
AA-	0	0	15,000	15,000
A	0	0	20,000	35,000
Unrated local authorities	0	0	91,000	89,400
Debt Management Office	0	0	15,000	0
Residual Icelandic banks	0	0	200	602
<b>Total Investments</b>	<b>0</b>	<b>0</b>	<b>164,000</b>	<b>149,102</b>

(Excludes interest and impairment)

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. To further reduce risk, the Council only makes new investments with financial institutions through marketable instruments which could be sold at short notice to minimise prospective losses.

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on the Council's experience of its default levels.

	Amount at 31 March 2016 £'000 (a)	Historical experience of default % (b)	Estimated maximum exposure to default £'000
Deposits with banks and financial institutions	2		2
Trade debtors	80,212	66.23%	53,124
	<b>80,214</b>		<b>53,126</b>

The short term investments are loans and receivables and shown at amortised cost.

The Council expects some losses from non-performance by its Icelandic counterparty 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 borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans and ensuring that no more than specified of the Council's borrowing matures in any period

The maturity analysis of the principal sums borrowed is as follows:

	£'000
Less than one year	4,341
Between one and two years	4,341
Between two and five years	18,515
Between five and ten years	9,662
Between ten and twenty years	25,158
Between 20 and 30 years	1,200
Between 30 and 40 years	154,396
More than 40 years	106,203
Uncertain date *	95,500
	<b>419,316</b>

\*The Council has £95.5m of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely repay these loans. The maturity date is therefore uncertain.

Investments of £169m are due to be repaid within one year.

### Market Risks: Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. However, more than 97% of the Council's long term borrowing is at fixed rates so the risk would arise when the need to refinance arises or on occasions when short term borrowing is required, which are small in relation to the Council's scale of operation. A rise in interest rates would lead to a fall in the fair value of borrowings but this would have no impact on the Income and Expenditure Account.

Investments classed as "loans and receivables" and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. Changes in interest receivable on investments will be posted to the Surplus or Deficit on the Provision of Services.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2016, all the principal borrowed was exposed to fixed rates.

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

	£'000
Increase in interest receivable on variable rate investments	(1,640)
Impact on Comprehensive Income and Expenditure	(1,640)
Decrease in fair value of fixed rate borrowings/liabilities*	<b>92,357</b>

\*No Impact on Comprehensive Income and Expenditure

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

## Employee Benefits

### Note 30 - Senior Employees' Remuneration

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

Postholder	2014/15					2015/16				
	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
	£	£	£	£	£	£	£	£	£	£
Interim Chief Executive – C. Gilbert (Until Sep-15)	193,698	0	193,698	0	193,698	91,863	0	91,863	0	91,863
Chief Executive – C. Downs (Started Sep-15)	0	0	0	0	0	108,919	0	108,919	0	108,919
Assistant Chief Executive (from Oct-13 to Dec-14)	104,322	84,793	189,115	21,282	210,397	0	0	0	0	0
Strategic Director Regeneration & Environment (from Feb-15)	20,719	0	20,719	0	20,719	146,981	0	146,981	0	146,981
Chief Finance Officer (Section 151 officer)	120,038	0	120,038	24,488	144,526	122,008	0	122,008	35,870	157,878
Strategic Director Children and Young People	132,049	0	132,049	26,938	158,987	147,259	0	147,259	42,640	189,899
Human Resources Director (Until Jun-15)	121,462	0	121,462	24,778	146,240	41,499	157,610	199,109	8,968	208,077
Strategic Director of Environment & Neighbourhood Services (Until May-15)	139,715	0	139,715	28,502	168,217	21,881	102,219	124,100	4,470	128,570

**Note 30 - Senior Employees' Remuneration (Continued)**

Postholder	2014/15					2015/16				
	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 Legal and Procurement (Until Dec-14)	109,274	55,451	164,725	22,292	187,017	0	0	0	0	0
Chief Legal Officer (Started Feb-15)	13,083	0	13,083	3,829	16,912	81,896	0	81,896	24,368	106,264
Strategic Director of Community & Well-being	131,567	0	131,567	26,840	158,407	139,144	0	139,144	40,153	179,297
Strategic Director of Regeneration and Growth (Until Jan-16)	144,715	0	144,715	29,522	174,237	117,170	0	117,170	33,794	150,964
Director of Public Health	109,746	0	109,746	22,388	132,134	111,566	0	111,566	32,800	144,366
Strategic Director of Resources (Started Feb-16)	0	0	0	0	0	21,521	0	21,521	0	21,521
Operational Director of Policy, Partnerships and Performance	0	0	0	0	0	122,508	0	122,508	35,870	158,378
<b>Total</b>	<b>1,340,388</b>	<b>140,244</b>	<b>1,480,632</b>	<b>230,858</b>	<b>1,711,490</b>	<b>1,274,215</b>	<b>259,829</b>	<b>1,534,044</b>	<b>258,933</b>	<b>1,792,977</b>

Page 57

**Note 30 - Senior Employees' Remuneration  
Brent Housing Partnership**

Position	2014/15					2015/16				
	Salary (inc Fees and allowances)	Compensation for loss of office	Total Remuneration excluding pension contributions	Employer's Pension contributions	Total Remuneration including pension contributions	Salary (inc Fees and allowances)	Compensation for loss of office	Total Remuneration excluding pension contributions	Employer's Pension contributions	Total Remuneration including pension contributions
Managing Director (Until Dec-15)	138,485	0	138,485	24,594	163,080	108,272	52,285	160,557	21,928	182,485
Finance Director (Until Nov-15)	97,665	0	97,665	16,354	115,127	78,352	0	78,352	16,353.84	94,706
Acting Managing Director (Dec-15 to Mar-16)	0	0	0	0	0	41,518	0	41,518	8,656.46	50,175
Operations Director (Apr-15 to Feb-16)	105,847	0	105,847	18,889	124,736	95,040	71,000	166,040	19,753	185,794
Development and Growth Director	105,847	0	105,847	18,889	124,736	105,194	0	105,194	22,136	127,330
Director of Transformation (From Jan-16)	0	0	0	0	0	30,715	0	30,715	0	30,715
Interim Director of Property Services	0	0	0	0	0	1,200	0	1,200	0	1,200
<b>Total</b>	<b>447,844</b>	<b>0</b>	<b>447,844</b>	<b>78,726</b>	<b>527,678</b>	<b>460,292</b>	<b>123,285</b>	<b>583,577</b>	<b>88,827</b>	<b>672,404</b>

Page 58

### Note 31 – Officers' Remuneration

The number of employees whose remuneration in 2015/16 and 2014/15, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:-

2014/15			Remuneration band £'s	2015/16		
Schools Staff	Officers	Total		Schools Staff	Officers	Total
138	75	213	50,000 - 54,999	129	64	193
63	28	91	55,000 - 59,999	64	23	87
28	11	39	60,000 - 64,999	32	21	53
30	16	46	65,000 - 69,999	22	11	33
19	13	32	70,000 - 74,999	27	12	39
14	5	19	75,000 - 79,999	12	8	20
10	1	11	80,000 - 84,999	5	5	10
10	3	13	85,000 - 89,999	11	5	16
2	0	2	90,000 - 94,999	4	2	6
6	1	7	95,000 - 99,999	1	2	3
1	2	3	100,000 - 104,999	2	1	3
2	5	7	105,000 - 109,999	2	2	4
1	4	5	110,000 - 114,999	1	4	5
1	0	1	115,000 - 119,999	1	0	1
0	2	2	120,000 - 124,999	0	2	2
0	0	0	125,000 - 129,999	0	0	0
0	2	2	130,000 - 134,999	0	0	0
0	1	1	135,000 - 139,999	0	1	1
0	1	1	140,000 - 144,999	0	0	0
0	0	0	145,000 - 149,999	0	2	2
0	0	0	155,000 - 160,000	0	1	1
0	1	1	160,000 - 164,999	0	0	0
0	0	0	175,000 - 179,000	0	1	1
0	1	1	185,000 - 189,999	0	0	0
0	1	1	190,000 - 194,999	0	1	1
325	173	498	Total	313	168	481

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.

The number of schools staff earning above £50,000 has reduced by 12. Academy conversions has resulted in a reduction of 26, which is offset by a net increase of 14 due to school expansions and re-organisations.

In 2014/15 and 2015/16 11 were in the £50K+ bands due to redundancy or termination agreements. Overall, officers earning over £50K has decreased by 3.5% primarily due to organisational restructures during 2014/15 & 2015/16.

**Note 32 – Exit Packages**

Exit Package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014/15	2015/16	2014/15	2015/16	(b) + (c)		£'000	
					2014/15	2015/16	2014/15	2015/16
£0 - £20,000	18	31	14	70	32	101	388	803
£20,001 - £40,000	5	16	11	31	16	47	460	1200
£40,001 - £60,000	1	3	7	5	8	8	392	371
£60,001 - £80,000	1	0	3	4	4	4	326	276
£80,001 - £100,000	0	2	0	1	0	3	0	268
£100,000 - £150,000	0	1	0	2	0	3	0	332
<b>TOTAL cost included in bandings</b>	<b>25</b>	<b>53</b>	<b>35</b>	<b>113</b>	<b>60</b>	<b>166</b>	<b>1,566</b>	<b>3,250</b>
<b>ADD: amounts provided for in CIES not included in bandings</b>							334	795
<b>TOTAL cost included in CIES</b>							1,900	4,045
<b>Average cost of exit packages</b>							32	24

The number of exit packages increased in 2015/16 to 166 from 60 in 2014/15 for a total cost of £4.0m. The council has managed to help control the overall cost of exit packages by reducing the average cost from £32k in 2014/15 to £24k in 2015/16.

## **Pension notes**

### **Note 33 – Pension Schemes Accounted for as Defined Contribution Schemes**

In 2015/16, the Council paid £9.3m to Teachers' Pensions (£8.8m 2014/15) in respect of teachers' retirement benefits, representing 16.48% (14.1% 2014/15) of pensionable pay. The Authority 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 36.

The Council also paid £36k in 2015/16 (£43k in 2014/15) to the NHS pension scheme representing 14.3% (14% in 2014/15) of pensionable pay related to Public Health responsibilities.

### **Note 34 – Defined Benefit Pension Schemes**

#### **Participation in Pension Schemes**

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 pension 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:

<b>31 March 2015 £'000</b>		<b>31 March 2016 £'000</b>
<b>Comprehensive Income and Expenditure Statement</b>		
<i>Cost of Services:</i>		
23,374	Current service cost	28,096
397	Past service costs (including curtailments)	486
(2,159)	Settlements and curtailments	0
<i>Financing and investment Income and Expenditure:</i>		
47,454	Interest cost	41,526
(22,026)	Expected return on scheme assets	(18,429)
<b>47,040</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>51,679</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>		
0	Changes in demographic assumptions	0
161,486	Changes in financial assumptions	(114,575)
(10,639)	Other experience	(20,417)
(37,637)	Return on assets excluding amounts in net interest	29,377
<b>160,250</b>	<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(53,936)</b>
<b>Movement in Reserves Statement</b>		
<b>29,127</b>	Employers' contributions payable to the scheme	<b>30,140</b>
<b>5,041</b>	Contributions in respect of unfunded benefits	<b>4,960</b>
<b>34,168</b>	<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>	<b>35,100</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	(51,679)
(47,040)		(51,679)
(12,872)		(16,579)

**Note 35 – Reconciliation of Assets and Liabilities in Relation to Post Employment Benefits**

To be included as an addendum for the audit committee.

DRAFT

Note 36 – Fair value of employers assets (bid value)

		31-Mar-15		Asset Category		31-Mar-16			
Quoted prices in active markets	Quoted prices not in active markets	Total	Percentage of Total Assets		Quoted prices in active markets	Quoted prices not in active markets	Total	Percentage of Total Assets	
£'000	£'000	£'000	%		£'000	£'000	£'000	%	
				<b>Private Equity</b>					
0	84,647	84,647	15%	All	0	74,111	74,111	13%	13%
				<b>Real Estate</b>					0%
30,319	0	30,319	5%	UK Property	29,873	0	29,873	5%	5%
3,474	0	3,474	1%	Overseas Property	3,052	0	3,052	1%	1%
				<b>Investment Funds &amp; Unit Trusts</b>					0%
278,871	0	278,871	49%	Equities	263,779	0	263,779	46%	46%
77,474	0	77,474	14%	Bonds	73,461	0	73,461	13%	13%
0	0	0	0%	Hedge Funds	58,589	0	58,589	10%	10%
0	0	0	0%	Commodities	0	0	0	0%	0%
61,687	0	61,687	11%	Infrastructure	0	34,961	34,961	6%	6%
0	25,696	25,696	4%	Other	0	0	0	0%	0%
				<b>Cash and cash equivalents</b>					0%
0	11,284	11,284	2%	All	0	29,619	29,619	5%	5%
<b>451,825</b>	<b>121,627</b>	<b>573,452</b>	<b>100%</b>	<b>Totals</b>	<b>428,754</b>	<b>138,691</b>	<b>567,445</b>	<b>100%</b>	

Sensitivity Analysis

Change in assumptions at 31 March 2016:	Approximate % increase to Employer Liability	Approximate monetary amount
	%	£'000
0.5% decrease in Real Discount Rate	10%	120,102
1 year increase in member life expectancy	3%	36,103
0.5% increase in the Salary Increase Rate	2%	28,732
0.5% increase in the Pension Increase Rate	7%	90,060

**Note 37 – Projected defined benefit cost for the period to 31-Mar-17**

<b>Period Ended 31-Mar-16</b>	Assets	Obligations	Net (liability)/asset	
	£'000	£'000	£'000	% of pay
Projected Current service cost	0	(24,057)	(24,057)	-25.70%
<b>Total Service Cost</b>	0	(24,057)	(24,057)	-25.70%
Interest Income on plan assets	19,913	0	19,913	21.30%
Interest cost on defined benefit obligation	0	(42,001)	(42,001)	-44.80%
<b>Total Net Interest Cost</b>	19,913	(42,001)	(22,088)	-23.50%
<b>Total Included in Surplus or Deficit</b>	19,913	(66,058)	(46,145)	-49.20%

DRAFT

**Note 38 – Basis for Estimating Assets and Liabilities**

The latest full actuarial valuation of the London Borough of Brent's liabilities took place as at 31 March 2013. 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:

2014-15		2015-16
	<b>Actuarial Assumptions:</b>	
	Longevity at 65 for current pensioners:	
22	Men	22
24.3	Women	24.3
	Longevity at 65 for future pensioners:	
24.4	Men	24.4
26.8	Women	26.8
4.1%	Rate of increase in salaries	4.0%
2.4%	Rate of increase in pensions	2.2%
3.2%	Rate for discounting scheme liabilities	3.5%
50.0%	Take-up of option to convert annual pension into retirement lump sum (pre-April 2008 service)	50.0%
75.0%	Take-up of option to convert annual pension into retirement lump sum (post-April 2008 service)	75.0%

DRAFT

**Housing Revenue Account  
Income and Expenditure Statement for the Year Ended 31 March 2016**

2014/15 Excluding Revaluations £'000	2014/15 Including Revaluations £'000		2015/16 Excluding Revaluations £'000	2015/16 Including Revaluations £'000
		<b>Income</b>		
(48,085)	(48,085)	Dwelling Rents	(48,718)	(48,718)
(269)	(269)	Non Dwelling Rents	(187)	(187)
(2,906)	(2,906)	Tenants Charges for Services and Facilities (Note 1)	(2,911)	(2,911)
(337)	(337)	Contribution Towards Expenditure	(335)	(335)
(2,663)	(2,663)	Leaseholders' Charge for Serviced and Facilities	(2,187)	(2,187)
(2,337)	(2,337)	Other Income	(492)	(492)
0	(74,459)	Upward revaluation of assets	0	0
<b>(56,597)</b>	<b>(131,056)</b>	<b>Total Income</b>	<b>(54,830)</b>	<b>(54,830)</b>
		<b>Expenditure</b>		
9,216	9,216	Repairs and Maintenance	10,303	10,303
11,561	11,561	Supervision and Management	10,495	10,495
4,892	4,892	Special Services	4,876	4,876
1,644	1,644	Rent and Rates and Others Charges	963	963
10,342	10,342	Depreciation of Fixed Assets	10,160	10,160
1,458	1,458	Bad or Doubtful Debts	31	31
9	9	Debt Management Expenses	11	11
0	0	Revaluation losses	0	145,957
<b>39,122</b>	<b>39,122</b>	<b>Total Expenditure</b>	<b>36,839</b>	<b>182,796</b>
<b>(17,475)</b>	<b>(91,933)</b>	<b>Net Cost of Services included in the Council's Income and Expenditure Account</b>	<b>(17,991)</b>	<b>127,966</b>
		<b>HRA share of the operating income and expenditure included in the Council's income and expenditure</b>		
975	975	Payment to capital receipts pool	1,344	1,344
(2,644)	(2,644)	(Gain) or Loss on Sale of HRA fixed Assets	6,477	6,477
6,133	6,133	Interest payable and similar charges	6,126	6,126
64	64	Amortised Payment and Discount	38	38
(52)	(52)	HRA Investment Income/Mortgage Interest	(67)	(67)
<b>(12,999)</b>	<b>(87,457)</b>	<b>Surplus/or Deficit for the Year on HRA Services</b>	<b>(4,073)</b>	<b>141,884</b>

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

## Movement on the HRA Statement

2014/15 £'000	Movement on the HRA Statement	2015/16 £'000
(949)	<b>Housing Revenue Account brought forward</b>	<b>(4,483)</b>
(87,457)	Surplus/or Deficit on the provision of services	141,884
<b>(88,406)</b>	<b>Total comprehensive income and expenditure</b>	137,401
83,923	Adjustment between accounting basis and funding basis under regulations	(143,594)
<b>(4,483)</b>	<b>Net increase/decrease before transfers to earmarked reserves</b>	<b>(6,193)</b>
<b>(4,483)</b>	<b>Balance as at 31 March carried forward</b>	<b>(6,193)</b>

### HRA adjustments between accounting basis and funding basis under regulations

2014/15 £'000		2015/16 £'000
2,644	Gain/loss on sale of HRA non-current assets	(6,477)
1,368	Capital expenditure funded by HRA	2,128
1,516	Amortised payment and discount	708
74,459	Exceptional items-downward revaluation of assets	(145,957)
(975)	Payments to the capital receipts pool	(1,344)
(222)	Pooled capital receipts-contribution to administration costs	(165)
14	Pension interest cost and expected return on pension costs	0
15,461	Transfers to/from Major Repairs Reserve	17,674
(10,342)	Transfers to/from Capital Adjustment Account	(10,160)
<b>83,923</b>	<b>Total adjustments between accounting basis and funding basis under regulations</b>	<b>(143,593)</b>

## Notes to the Housing Revenue Account

### Note 1 – Housing Stock

The Council's stock of dwellings reduced during the year from 8,429 to 8,314, a net reduction of 115 Dwellings. These reductions resulted from Right to Buy sales and transfer of dwellings from the HRA to the General Fund to be used for Temporary Accommodation.

The stock at the end of the year was made up as follows:

31-Mar-15		31-Mar-16	
261	Leasehold	261	
8,168	Freehold	8,053	
<b>8,429</b>	<b>Total</b>	<b>8,314</b>	

### Note 2 – Rent Arrears

The level of rent arrears at 31st March 2016 was £3.575m. Movement on the arrears and related provisions are shown below.

31-Mar-15 £'000		31-Mar-16 £'000	
2,983	Arrears from tenants	3,575	
5,029	Arrears from Right to Buy Leaseholders	4,252	
(6,644)	Provision	(6,675)	
<b>1,368</b>	<b>Total Arrears</b>	<b>1,152</b>	

### Note 3 – Non-current Assets

	Council Dwellings £'000	Non- Operational £'000	Total £'000
Gross Book Value at 1 April 2015	682,642	7,021	689,663
Revaluation in 2015/16	(145,957)	0	(145,957)
Expenditure during the Year	32,922	0	32,922
Disposals	(6,477)	0	(6,477)
<b>Gross Book Value at 31 March 2016</b>	<b>563,130</b>	<b>7,021</b>	<b>570,151</b>
Accumulated Depreciation B/fwd.	(39,263)	(275)	(39,538)
Write out of Accumulated Depreciation	373	0	373
(Depreciation)/adjustment for current year	(10,160)	(83)	(10,243)
<b>Net Book Value at 31 March 2016</b>	<b>514,080</b>	<b>6,663</b>	<b>520,743</b>

#### Note 4 – Vacant Possession Value of HRA Dwellings

The vacant possession value of dwellings within the HRA at 31st March 2016 was £2.097 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.

#### Note 5 – HRA Capital Receipts

2014/15		2015/16	
£'000		£'000	
12,750	Houses	9,212	
12,750	<b>Total</b>	9,212	

#### Note 6 – Net Interest Charged to the HRA

The net interest charge to the HRA, is calculated in accordance with government regulation.

2014/15		2015/16	
£000's		£000's	
6,134	Interest on HRA mid year Capital Financing Requirement	6,126	
6,134		6,126	

#### Note 7 – 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 8 – Revaluation of HRA Dwellings in 2015/16

HRA dwellings are valued at Existing Use Value. The Council calculates any arising revaluation loss or gain on the properties held within the HRA through the application of a regional annual housing indexation factor. In addition there was an instruction from Central Government to reduce the social housing factor. The HRA Non Operational Assets have been revalued by the Council's Internal Valuers. The revaluation values have been incorporated into the value of HRA Non Operational Assets shown in Note 3.

## 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. Administrative costs are borne by the General Fund.

From 1 April 2013, local authorities have kept a proportion of the income raised from Non Domestic Rates (in London the local authority keeps 30%, 50% is paid over to central government, and 20% to the Greater London Authority (GLA). This transfers some of the benefits and risks directly to local authorities, as they now benefit from a share of the increased income if their business base grows, but there is also a risk if the total income falls, either due to businesses closing, or if successful appeals are made against rateable valuations, and bills drop as a result. As of 31 March 2016 there were still over a thousand valuation appeals outstanding in Brent, and although many of these will be unsuccessful, there will be a reduction in income as a result of successful appeals. An allowance has been made for this in finalising the figures for 2015/16, but the authority has no influence over decisions made by the Valuation Office.

In addition to its 30% share of income raised from Non Domestic Rates, the Council also receives a "Top-up" payment from central government, to bring it back to the income figure it would have received for 2015/16 had the previous system remained unchanged. This income is credited to the General Fund rather than the Collection Fund.

For Council Tax, 95.87% of the debit relating to the 2015/16 financial year had been collected by March 31<sup>st</sup> 2016. This is fractionally up from the 95.60% achieved in 2014/15. For Non Domestic Rates the in-year collection rate increased from 98.11% to 98.32%

## Collection Fund Account for the Year ended 31 March 2016

2014/15 £'000		Notes	2015/16 £'000
	<b>Income</b>		
(116,931)	Income from Council Tax payers	1	(120,782)
(110,186)	Income from Non Domestic Rates	2	(113,548)
(3,026)	NNDR Crossrail Levy (to GLA)		(3,017)
<b>(230,143)</b>	<b>Total Income</b>		<b>(237,347)</b>
	<b>Expenditure</b>		
	<b>Council Tax:-</b>		
	Payment to GLA		
23,682	- precept	3	24,426
712	- share of surplus		1,101
	Payment to Brent		
83,874	- precept	3	87,679
2,488	- share of surplus		3,899
2,465	Provisions for uncollectable amounts		1,830
(13)	less (write back)/add write off		12
	<b>Non-Domestic Rates:-</b>		
110,711	- Payment to National Pool / Preceptors	3	114,490
417	- Cost of Collection Allowance		420
3,026	NNDR Crossrail Levy (to GLA)		3,017
<b>227,362</b>	<b>Total Expenditure</b>		<b>236,874</b>
	<u>Council Tax</u>		
(3,723)	Surplus in year		(1,787)
(6,200)	Surplus brought forward		(9,923)
(9,923)	Surplus carry forward		(11,710)
	<u>Non Domestic Rates</u>		
942	Deficit in year (2015/16 only)		1,362

### 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 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 (for Brent this is the GLA) 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 82,799 for 2015/16. This basic amount of Council Tax for a Band D property £1,353.94 for 2015/16 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	1,214	
Band B	0.78	5,429	
Band C	0.89	20,210	
Band D	1.00	24,333	
Band E	1.22	21,478	
Band F	1.44	7,785	
Band G	1.67	4,927	
Band H	2.00	<u>426</u>	
		<u>85,802</u>	x 96.5% Collection Rate = 82,799

The final income of £120.734m for 2015/16 includes adjustments to debits during the year.

### Note 2 – National Non-Domestic Rates (NNDR)

Non Domestic Rates are organised on a national basis. The Government specified a rate of 49.3p in the £ for 2015/16 (48.0p for small businesses having a rateable value of below £12,000) 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 April 2010. From 2013/14, the Council retains 30% of the income due, 20% goes to the Greater London Authority and 50% to Central Government. The Government redistributes the sums paid to it back to local authorities on the basis of a Formula Grant calculation. The amounts collected from the ratepayers and paid between the three preceptors can be analysed as follows:

2014/15 £'000		2015/16 £'000
127,240	<b>Gross Debit</b>	134,666
(7,283)	Charitable Relief	(8,218)
(2,813)	Provision for Uncollectable Amount	(1,934)
(334)	Provision for Rate Appeal Reductions (movement)	(4,693)
(2,098)	Other Adjustments	(1,462)
(3,047)	Empty/Void Relief	(3,104)
(1,479)	Retail Relief	(2,527)
110,186	Net NNDR Income	112,728
(417)	Cost of Collection Allowance Payable to the General Fund	(420)
<b>109,769</b>	Amount Payable to NNDR Pool/Preceptors	<b>112,308</b>

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 April 2010, and for 2015/16 £3.017m was due to the GLA.

**Note 3 – Precepts**

<b>2014/15 £'000</b>	<b>Council Tax</b>	<b>2015/16 £000</b>
83,874	London Borough of Brent	87,679
23,682	Greater London Authority	24,426
<b>107,556</b>		<b>112,105</b>

The Greater London Authority (GLA) functions include London’s policing, fire and emergency planning services, and transport.

<b>2014/15 £'000</b>	<b>NNDR</b>	<b>2015/16 £000</b>
55,356	Central Government	57,245
33,213	London Borough of Brent	34,023
22,142	Greater London Authority	22,898
<b>110,711</b>		<b>114,166</b>

**Note 4 – Estimated Surplus and Deficit**

By 15 January each year, the Council estimates what the surplus or deficit on the collection fund will be as at 31 March. These estimates are set out below. The estimate is different to the final outturn figure.

<b>31-Mar-15 £000</b>		<b>31-Mar-16 £'000</b>
(3,899)	London Borough of Brent	(2,503)
(1,101)	Greater London Authority	(697)
<b>(5,000)</b>	<b>Deficit / (Surplus)</b>	<b>(3,200)</b>

## Note 5 – Collection Fund Debtors and Creditors

Brent Council businesses and residents, the Greater London Authority (GLA) and central government share the outstanding liabilities and assets of the Collection Fund. The balances are as follows:

### Debtors

2014/15 £'000		2015/16 £'000	
2,569	Other entities and individuals	3,425	
4,245	Central Government	1,869	
2,189	Other local authorities	1,484	
<b>9,003</b>		<b>6,778</b>	

### Creditors

2014/15 £'000		2015/16 £'000	
(5,833)	Other entities and individuals	(7,074)	
(5,167)	Central Government	(6,892)	
(3,006)	Other local authorities	(3,625)	
<b>(14,006)</b>		<b>(17,591)</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 Ian Rooney, Head of Financial Services, 6<sup>th</sup> Floor, Brent Civic Centre, Engineers Way, Wembley HA9 0FJ, e-mail address [ian.rooney@bhphousing.co.uk](mailto:ian.rooney@bhphousing.co.uk).

The group accounts also consolidate the accounts of the Barham Park Trust. Barham Park Trust is a charity that is controlled by the council as a result of the council appointing all the trustees.

The accounts of BHP & Barham Park Trust have been consolidated as a subsidiaries using the acquisition basis of combination.

The following group financial statements have been prepared:

- Group Movement in Reserves Statement
- Group Comprehensive Income and Expenditure Account
- 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	School Balance	Earmarked General Fund Reserves	HRA	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance as at 31 March 2014 carried forward</b>	<b>35,112</b>	<b>0</b>	<b>104,404</b>	<b>949</b>	<b>1,824</b>	<b>46,172</b>	<b>12,713</b>	<b>87,068</b>	<b>288,242</b>	<b>137,702</b>	<b>425,945</b>
<b>Movement in reserves during 2014/15:</b>											
Surplus or (deficit) on the provision of services	32,684	0	0	88,831	0	0	0	0	121,515	0	121,515
Other comprehensive income & expenditure	0	0	0	0	0	0	0	0	0	(89,701)	(89,701)
<b>Total comprehensive income &amp; expenditure</b>	<b>32,684</b>	<b>0</b>	<b>0</b>	<b>88,831</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>121,515</b>	<b>(89,701)</b>	<b>31,814</b>
Adjustments between accounting basis & funding basis under regulations	(7,018)	0	0	(78,721)	0	6,746	3,977	(9,127)	(84,143)	84,143	0
<b>Net increase/(decrease) before transfers to earmarked reserves</b>	<b>25,666</b>	<b>0</b>	<b>0</b>	<b>10,110</b>	<b>0</b>	<b>6,746</b>	<b>3,977</b>	<b>(9,127)</b>	<b>37,372</b>	<b>(5,558)</b>	<b>31,814</b>
Transfers (to)/from earmarked reserves	(21,589)	0	21,589	(5,202)	0	0	5,202	0	0	0	0
Increase/(decrease) in 2014/15	4,077	0	21,589	4,908	0	6,746	9,179	(9,127)	37,372	(5,558)	31,814
<b>Balance as at 31 March 2015</b>	<b>39,189</b>	<b>0</b>	<b>125,993</b>	<b>5,857</b>	<b>1,824</b>	<b>52,918</b>	<b>21,892</b>	<b>77,941</b>	<b>325,614</b>	<b>132,144</b>	<b>457,759</b>
<b>Movement in reserves during 2015/16:</b>											
Surplus or (deficit) on the provision of services	(22,476)	0	0	(139,991)	0	0	0	0	(162,467)	0	(162,467)
Other comprehensive income & expenditure	0	0	0	0	0	0	0	0	0	128,934	128,934
<b>Total comprehensive income &amp; expenditure</b>	<b>(22,476)</b>	<b>0</b>	<b>0</b>	<b>(139,991)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(162,467)</b>	<b>128,934</b>	<b>(33,533)</b>
Adjustments between accounting basis & funding basis under regulations	82,315	0	0	143,594	0	(11,915)	(19,817)	896	195,073	(195,074)	(1)
<b>Net increase/(decrease) before transfers to earmarked reserves</b>	<b>59,839</b>	<b>0</b>	<b>0</b>	<b>3,603</b>	<b>0</b>	<b>(11,915)</b>	<b>(19,817)</b>	<b>896</b>	<b>32,606</b>	<b>(66,140)</b>	<b>(33,534)</b>
Transfers (to)/from earmarked reserves	(59,751)	4,516	47,821	0	(100)	0	7,514	0	0	0	0
<b>Increase/(decrease) in 2015/16</b>	<b>88</b>	<b>4,516</b>	<b>47,821</b>	<b>3,603</b>	<b>(100)</b>	<b>(11,915)</b>	<b>(12,303)</b>	<b>896</b>	<b>32,606</b>	<b>(66,140)</b>	<b>(33,534)</b>
<b>Balance as at 31 March 2016</b>	<b>39,277</b>	<b>4,516</b>	<b>173,814</b>	<b>9,460</b>	<b>1,724</b>	<b>41,003</b>	<b>9,589</b>	<b>78,837</b>	<b>358,220</b>	<b>66,004</b>	<b>424,225</b>

**GROUP COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2016**

Page 78

2014/15			2015/16			
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
27,728	(13,134)	14,594	Central services to the public	27,293	(17,613)	9,680
17,493	(4,721)	12,772	Culture and related services	13,791	(4,644)	9,147
34,625	(5,771)	28,854	Environment and Regulatory services	36,968	(7,046)	29,922
7,339	(4,132)	3,207	Planning	7,834	(4,962)	2,872
40,720	(6,421)	34,299	Children's Social Care	47,798	(7,434)	40,363
279,783	(264,704)	15,079	Education and Children's services	297,537	(277,643)	19,894
54,281	(35,569)	18,712	Highways and transport services	56,273	(28,783)	27,491
39,101	(134,623)	(95,522)	Local authority housing (HRA)	235,300	(111,410)	123,890
448,018	(428,097)	19,921	Other housing services	457,952	(435,223)	22,730
102,566	(28,571)	73,995	Adult social care	101,938	(27,737)	74,201
9,457	(159)	9,298	Corporate and democratic core	10,283	(187)	10,095
(2,245)	(55)	(2,300)	Non distributed costs	284	(46)	238
16,748	(18,848)	(2,100)	Public Health	20,494	(20,824)	(330)
<b>1,075,614</b>	<b>(944,805)</b>	<b>130,809</b>	<b>Cost of Services</b>	<b>1,313,746</b>	<b>(943,552)</b>	<b>370,194</b>
		7,314	Other operating expenditure			39,428
		48,615	Financing and investment income and expenditure			44,158
		(308,243)	Taxation and non-specific grant income			(291,314)
		<b>(121,505)</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>162,467</b>
		(28,585)	Surplus or deficit on revaluation of Property, Plant and Equipment assets			(106,923)
		118,275	Actuarial gains/losses on pension assets and liabilities			(22,011)
		<b>89,690</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(128,934)</b>
		<b>(31,815)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>33,533</b>



## Group Balance Sheet

31 March 2015 £'000		31 March 2016 £'000
1,519,101	Property, Plant & Equipment	1,388,289
498	Heritage Assets	498
10,490	Investment Property	11,232
2,513	Intangible Assets	1,542
100	Long Term Investments	100
19,842	Long Term Debtors	54,957
<b>1,552,544</b>	<b>Long Term Assets</b>	<b>1,456,618</b>
139,673	Short Term Investments	141,077
4,519	Assets Held for Sale	4,519
226	Inventories	95
69,217	Short Term Debtors	105,867
36,512	Cash and Cash Equivalents	35,470
<b>250,147</b>	<b>Current Assets</b>	<b>287,028</b>
(8,564)	Short Term Borrowing	(8,573)
(103,689)	Short Term Creditors	(126,683)
(2,265)	Provisions	(13,761)
	Deferred income	
<b>(114,518)</b>	<b>Current Liabilities</b>	<b>(149,017)</b>
(34,182)	Long Term Creditors	(70,673)
(8,952)	Provisions	(10,701)
(419,316)	Long Term Borrowing	(414,975)
(767,964)	Other Long Term Liabilities	(674,131)
(1,230,414)	<b>Long Term Liabilities</b>	(1,170,479)
<b>457,759</b>	<b>Net Assets</b>	<b>424,150</b>
325,573	Usable Reserves	356,390
132,186	Unusable Reserves	67,760
<b>457,759</b>	<b>Total Reserves</b>	<b>424,150</b>

## Group Cash Flow Statement

2014/15 £'000		2015/16 £'000
121,505	Net surplus or (deficit) on the provision of services	(159,119)
(95,881)	Adjustments for non-cash movements	161,538
46,397	Adjustments for investing and financing activities	50,336
<b>72,021</b>	Net cash inflows/(outflow) from Operating Activities	<b>52,756</b>
(92,056)	Net cash inflows/(outflow) from Investing activities	(47,270)
(6,399)	Net cash inflows/(outflow) from Financing activities	(6,533)
<b>(26,434)</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>(1,047)</b>
62,946	Cash and cash equivalents at the beginning of the reporting period	36,512
<b>36,512</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>35,465</b>

## Notes to the 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.

### 2015/16

	Brent	BHP	Barham Park	LGA	Adjustments	Group
	£'000	£'000	£'000	£'000	£'000	£'000
Financing and investment income	41,975	2,183	0	0	0	44,158
Local Authority housing (HRA)	127,966	(4,076)	0	0	0	123,890
Property plant and equipment	1,340,159	47,185	945	0	0	1,388,289
Investment properties	822	10,410	0	0	0	11,232
Long term debtors	54,958	0	0	0	(39,166)	15,792
Inventories	55	41	0	0	0	95
Short term debtors	91,612	13,810	445	0	0	105,867
Cash and cash equivalents in hand	32,156	2,148	0	1,165	0	35,470
Short term creditors	(111,890)	(13,628)	0	(1,165)	0	(126,683)
Other long term liabilities	(31,507)	(39,166)	0	0	39,166	(31,507)
Usable reserves	347,895	8,051	445	0	0	356,390
Unusable reserves	70,236	(3,421)	945	0	0	67,760
Cash flow from investing activities	(44,460)	(2,215)	0	0	0	(46,675)

### 2014/15

	Brent	BHP	Barham Park	LGA	Adjustments	Group
	£'000	£'000	£'000	£'000	£'000	£'000
Financing and investment income	46,400	2,215	(9)	0	9	48,615
Local Authority housing (HRA)	(91,933)	(3,589)	0	0	0	(95,522)
Property plant and equipment	1,471,895	46,759	945	0	0	1,519,599
Investment properties	822	9,668	0	0	0	10,490
Long term debtors	59,646	0	0	0	(39,804)	19,842
Inventories	66	160	0	0	0	226
Short term debtors	67,592	6,299	445	0	(5,119)	69,217
Cash and cash equivalents in hand	31,881	4,631	0	0	0	36,512
Short term creditors	(97,744)	(11,064)	0	0	5,119	(103,689)
Long term creditors	(34,182)	(39,804)	0	0	39,804	(34,182)
Usable reserves	318,893	6,235	445	0	0	325,573
Unusable reserves	139,619	(8,377)	944	0	0	132,186
Cash flow from investing activities	(89,840)	(2,215)	0	0	9	(92,055)

DRAFT

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

**Conclusion on the London Borough of Brent's arrangements for securing economy, efficiency and effectiveness in the use of resources**

**To be inserted at completion of audit.**

DRAFT

DRAFT

## 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 Chief Finance Officer;
- ◆ 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 Chief Finance Officer

The Chief Finance Officer 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 March 2016.

In preparing this statement of accounts, the Deputy 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.

### Certificate of the Chief Finance Officer

I certify that the accounts set out on pages 6 to 87 give a true and fair view of the financial position of the London Borough of Brent as at 31 March 2016 and its income and expenditure for the year then ended, and that the accounts set out on pages 88 to 122 give a true and fair view of the net assets of the London Borough of Brent Pension Fund as at 31 March 2016 and its income and expenditure for the year then ended.

Conrad Hall  
Chief Finance Officer  
30<sup>th</sup> June 2016

## Statement of Accounting Policies

### 1. Code of Practice

The general policies adopted in preparing these accounts are in accordance with the 2015-16 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).

Accounts drawn up under the Code assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government).

#### 1.1 Materiality

The Council has presented information in the accounts to provide a full picture of its performance and financial health, any of which, if omitted, might influence decisions made on the basis of these accounts. Information about transactions and balances of low financial value and which are non-influential for decision-makers (immaterial) have been omitted where possible to improve the readability of the statements.

### 2. Comprehensive Income and Expenditure Statement

#### 2.1 Accruals of Expenditure and Income

The Statement of Accounts is prepared on an accruals basis with the effects of transactions and other events being recognised when they occur, and recorded in the accounting records and reported in the financial statements of the periods to which they relate.

The exception to this is the Cash Flow Statement which is prepared in accordance with 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 Grants

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 Comprehensive Income and Expenditure Statement (CIES) account is Brent's accrued income for the year including its share of the surplus or deficit arising. The collection of Council Tax on behalf of the Greater London Authority (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.

The income collected from NNDR is shared between the Council, Central Government and the Greater London Authority (GLA) rather than being paid over to government and redistributed (so is now acting as principal and agent.) Apart from its own share of NNDR transactions, Brent accounts only for the effects of timing differences between the collection of NNDR attributable to major precepting authorities and central government and paying it across.

In terms of its own share and any top-up or levy from Central Government, income from the collection of NNDR will be shown in the taxation and non-specific grant section of the Comprehensive Income and Expenditure Statement. Similarly Brent's attributable share of NNDR debtor and creditor balances with taxpayers are recognised in the balance sheet. In addition and Brent's share of the net cash collected from NNDR taxpayers is included in Brent's cash flow statement.

## **2.7 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.

## **2.8 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.

## **2.9 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 the initial year of its second phase which ends on 31 March 2019. The authority is required to purchase allowances, either currently or retrospectively, and surrender them 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 authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

## **2.10 Jointly Controlled Operations**

The council has jointly controlled operations in the form of pooled budgets in conjunction with Brent CCG and Central North West London Mental Health Trust. The councils joint operations with Brent CCG relate to the Better Care Fund and the Brent Integrated Community Equipment Service. The councils joint operation with the Central North West London Mental Health Trust relate the management of the joint Mental Health Service in Brent The authority recognises the income that it gains and expenditure that it incurs on the Comprehensive Income and Expenditure Statement. The Balance sheet recognises any assets and liabilities resulting to the council from the pooled budget.

### 3. Balance sheet – Long Term Assets

#### 3.1 Plant, Property and Equipment

All expenditure on the acquisition, creation or enhancement of fixed assets above the Council's de minimis 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
- 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.
- 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.
- 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 April 2009 those land and building assets held at 1 April 2004 values were revalued completing that 5 year cycle. There has been subsequent revaluation of elements of the asset base at 1 April each year in line with the five year cycle. Council dwellings have been revalued at 1 April 2011 in line with the separate 5 year cycle, and their values have been up-rated to 31 March 2016 using information from right to buy sales 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**

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.

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.

The Code of Practice requires that investment properties are not depreciated, but instead held at fair value, in this case OMV, 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**

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.

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. 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.

Amortisation is 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.

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

##### **4.1 Inventories and Long Term Contracts**

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

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year

##### **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 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 9 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 2 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 Employee benefits**

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 April for the previous financial year.

Regulations prohibit Council tax payers from being charged for this provision, so any movement in this provision is transferred to the Accumulated Absences Account.

The Council accounts for employee benefits in accordance with the Code which is based on IAS 19. The underlying principle of IAS 19 is that an organisation should account for employment and post-employment benefits when employees earn them and the authority is committed to providing them, even if the actual provision might be many years into the future.

## **5.3 Reserves**

Reserves are divided into usable and unusable reserves. Within the usable reserves there are amounts set aside for earmarked purposes out of the balances on the Council's funds.

# **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 – the Council does not hold any of these assets
- 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 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 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. 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 a 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 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.

The Greater London Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The income from the levy is accounted with Brent Council as agent under IAS 18 as the council collects these funds on behalf of the Greater London Authority.

### **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.

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. 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, the Code of Practice and the additional provisions of IPSAS 32 Service Concession Arrangements: Grantor.

Where new assets are identified these assets are recognised at fair value being the relevant elements of the capital cost in the PFI operators’ financial model.

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 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 a 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.

### **7.4 Minimum Revenue Provision**

The Minimum Revenue Provision (MRP) included within the 2015/16 Accounts has been calculated on the basis of the 2013/14 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 current regulations for the calculation of MRP the following policy for non-HRA assets has been applied:

*For supported borrowing, the Council will use the asset life method (Option 3) and an ‘annuity’ approach for calculating repayments. Based on the useful economic lives of the council’s assets a single annuity has been calculated, which results in the outstanding principal being repaid over the course of one hundred years.*

*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 – 50-100 years (unless there is a structure on the land with an asset life of more than 100 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 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 HRA capital receipts is determined by the Local Government Act 2003 as amended from 1 April 2012 in order to make new provision for the pooling of housing receipts by

- The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012 (SI 2012/711); and
- The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012 (SI 2013/1424)

As a result of these amendments, local authorities are able to retain the receipts generated by Right to Buy sales for replacement housing provided they can sign up to an agreement with Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of the replacement homes within a 3 year period from the point of receipt. The London Borough of Brent has elected to enter into agreement with the Government to retain the net receipts from Right to Buy sales.

The regulations provide that receipts from Right to Buy sales will in future be applied as follows:

- the council may deduct certain costs, namely: an amount to cover the housing debt supportable from the income on the additional Right to Buy sales; transaction and administration costs; and an amount which reflects the income the council might reasonably have expected from Right to Buy sales prior to the new scheme;

- The council must also pay the Government an amount which reflects the income which the Treasury expected from Right to Buy sales prior to the new scheme;
- Once these costs are deducted, the remaining net receipts are available to fund (and must be applied to) replacement affordable rented homes.

### **7.6 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, its subsidiary Brent Housing Partnership (BHP) Limited, the Barham Park Trust and LGA Digital Services Limited. BHP is an Arms Length Management Organisation (ALMO). Barham Park Trust is a charity that is controlled by the council as a result of the council appointing all the trustees. LGA Digital Service Limited is 50% owned by the council and 50% owned by the Local Government Association. The financial statements in the Group Accounts are prepared in accordance with the policies set out above.

### **Additional Supporting Information and reconciliation disclosures**

#### **Key Judgements and Material Estimates.**

In preparing the Statement of Accounts, the authority 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, including the recovery of amounts due to the council, 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 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:

. Retirement Benefit Obligations – The authority 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 authority with expert advice about the assumptions to be applied. Changes in these

assumptions can have a significant effect on the value of the authority's retirement benefit obligation. The key assumptions made are set out in Note 36 - Defined Benefit Pension Schemes.

. Provisions – The authority 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 authority also exercises some judgement; they are measured at the authority's best estimate of the costs required to settle the obligation at the Balance Sheet date. The level of the authority's provisions and details of its contingent liabilities are set out in Note 9 – Provisions and Note 19 – Contingent Liabilities 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 authority's usage of the asset. The authority 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 authority has set aside amounts in provisions, working balances and 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 provisions and the authority's track record in financial management.

. Classification of Leases – The authority has entered into a number of lease arrangements in respect of property and other assets. The authority has exercised judgement in the classification of leases (i.e. operating or finance lease) using such factors as the length of the lease and rent levels and in reviewing contractual arrangements having the substance of a lease (e.g. contract values and length of contract). Details of the authority's leases and lease type arrangements are set out in note 28.

. Treatment of PFI arrangements – The authority has entered into a number of PFI arrangements in respect of infrastructure. The authority 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 authority's PFI liabilities are estimated using the same model. Subsequent changes in the authority'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 29.

. Deposits with Icelandic banks – The authority originally deposited £15m with the Glitnir and Heritable banks. In 2014/15 the Glitnir deposit was repaid so based on the latest information from the administrators an impairment of £0.6m has been recognised to cover reasonably expected losses relating to Heritable Bank. Further information on deposits with Icelandic Banks is included in Note 29 - Nature and extent of risks arising from Financial Instruments

. 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

. Bad Debt Provision – The anticipated recovery of outstanding amounts due to the authority is calculated based on the experience of recovery of debt over the previous twelve months, categorised according to the age profile of that debt

#### **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.

### **Accounting Standards that have been issued but have not yet been adopted**

#### **Events after the reporting period**

#### **Descriptions of Earmarked Reserves**

**Section 106 and CIL** - Amounts received under Section 106 of the Town and Country Planning Act 1990 which are earmarked for particular purposes arising from the related developments and the Community Infrastructure Levy 2010.

**Property** - Monies earmarked to be spent on repairs, maintenance and dilapidations to council freehold and leasehold buildings.

**Civic Centre** - Monies earmarked to be spent on costs associated with the move to the Civic Centre including any shortfall income generation. This will support more efficient use of office accommodation and new ways of working.

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

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

**Welfare Reform** – Monies identified centrally to help with the impact of the welfare reforms

**Capital Financing** -These are monies identified to smooth the impact of capital financing costs following the completion of the Civic Centre.

**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.

**Revenue Contribution to Capital** – Monies to reduce the costs of the Authority's minimum revenue contribution in future years.

**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.

**Service Pressures** - A centrally held fund created to meet service pressures

**Insurance** – Monies to meet the unknown insurance liabilities including the historic costs arising from MMI

**Future Funding Risks** – Monies set aside to reflect the potential deterioration in 2016/17 central government funding compared to the assumptions in the medium term financial strategy.

**Pension Liability** – Monies to mitigate the impact of low interest rates on the measurement of pension fund liabilities at the forthcoming actuarial valuation

**South Kilburn** – Monies provided to support meanwhile use projects on vacant sites, independent advice and support for residents and administrative costs associated with delivering the project.

**Other Central** – Various reserves held centrally less than £1m.

**Other Corporate** – Various reserves held by the corporate units of less than £1m.

**Council Tax, Business Rates & Local Welfare** - Various reserves relating to the costs of the Council's local taxation and benefits operation

**Employment Initiatives** - Monies set aside for employment schemes and initiatives.

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

**Other Regeneration & Growth** – Various reserves held by the service area of less than £1m.

**Other Environment & Neighbourhoods** – Various reserves held by the service area of less than £1m.

**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.

**Brent NHS Trust Joint Venture**- This reserve is used to fund joint initiatives between the Council and Brent NHS that are beneficial to the social care and health needs of the client base and is spent according to decisions by the joint board.

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

**Other Adults & Children & Young People** – Various reserves held by the service area of less than £1m.

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

Reconciliation between Brent's management structure and the Comprehensive Income and Expenditure Statement

2014/15	Adult Social Services	Children & Young People	Environment & Neighbourhood Services	Regeneration & Growth	Corporate Departments	Housing Revenue Account	Central Budgets	Employee Benefits	Pension Costs	Capital	Total
Central services to the public	0	352	257	0	11,234	0	2,751	0	0	0	14,594
Cultural and related services	0	0	7,382	0	3,233	0	0	0	0	2,157	12,772
Environmental and regulatory services	0	0	25,836	78	2,286	0	0	0	0	654	28,854
Planning	0	0	0	514	1,215	0	0	0	0	1,478	3,207
Children's social care	0	32,389	0	0	1,918	0	(16)	0	0	8	34,299
Education and children's services	0	(3,270)	0	-9	11,947	0	(1,986)	(1,203)	(1,274)	10,874	15,079
Highways and transport services	15,914	0	(3,411)	30	2,664	0	767	0	0	2,748	18,712
Local authority housing (HRA)	0	0	0	0	0	(27,816)	0	0	0	(64,117)	(91,933)
Other housing services	0	0	0	17,892	6,117	0	(2,952)	0	0	(1,136)	19,921
Adult social care	66,857	0	0	0	5,944	0	0	0	0	1,194	73,995
Corporate and democratic core	0	0	422	7,986	(15,596)	0	10,886	0	0	5,600	9,298
Non distributed costs	0	0	0	0	0	0	(532)	(6)	(1,762)	0	(2,300)
Public Health	14	0	0	0	16,734	0	(18,848)	0	0	0	(2,100)
<b>Cost of Services</b>	<b>82,785</b>	<b>29,471</b>	<b>30,486</b>	<b>26,491</b>	<b>47,696</b>	<b>(27,816)</b>	<b>(9,930)</b>	<b>(1,209)</b>	<b>(3,036)</b>	<b>(40,540)</b>	<b>134,398</b>

Reconciliation between Brent's management structure and the Comprehensive Income and Expenditure Statement (continued)

2014/15	Adult Social Services	Children & Young People	Environment & Neighbourhood Services	Regeneration & Growth	Corporate Departments	Housing Revenue Account	Central Budgets	Employee Benefits	Pension Costs	Capital	Total
<b>Cost of Services</b>	<b>82,785</b>	<b>29,471</b>	<b>30,486</b>	<b>26,491</b>	<b>47,696</b>	<b>(27,816)</b>	<b>(9,930)</b>	<b>(1,209)</b>	<b>(3,036)</b>	<b>(40,540)</b>	<b>134,398</b>
Other operating expenditure	0	0	0	0	0	0	2,603	0	0	4,711	<b>7,314</b>
Financing and investment income and expenditure	0	736	-3	0	11	6,132	10,813	0	25,428	3,283	<b>46,400</b>
Taxation and non-specific grant income	0	0	0	0	0	0	(286,763)	0	0	(21,480)	<b>(308,243)</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>82,785</b>	<b>30,207</b>	<b>30,483</b>	<b>26,491</b>	<b>47,707</b>	<b>(21,684)</b>	<b>(283,277)</b>	<b>(1,209)</b>	<b>22,392</b>	<b>(54,026)</b>	<b>(120,131)</b>
<b>Additional lines from Movement in Reserves Statement</b>											
Adjustments between accounting basis & funding basis under regulations	543	9,744	612	3043	2,457	24,660	10,251	1,209	(22,392)	54,026	<b>84,153</b>
Transfers to/from earmarked reserves	6,337	3,499	1,038	(4,391)	449	0	25,414	0	0	0	<b>32,346</b>
<b>Total</b>	<b>89,665</b>	<b>43,450</b>	<b>32,133</b>	<b>25,143</b>	<b>50,613</b>	<b>2,976</b>	<b>(247,612)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(3,632)</b>

Page 101

2015/16 To be included as an addendum for the audit committee.

General Fund + HRA Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Capital Adjustment Account	Pensions Reserve	Financial Instruments Adjustment Account	Accumulated Absences Account	Revaluation Reserve	Collection Fund Adjustment Account	Deferred Capital Receipts Reserve	Total
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Depreciation and impairment of non-current assets and amortisation of intangible assets	(35,648)	0	0	0	33,117	0	0	2,531	0	0	0
Revaluation losses on Property Plant and Equipment	70,852	0	0	0	(70,906)	0	0	54	0	0	0
Movements in the market value of Investment Properties	150	0	0	0	(150)	0	0	0	0	0	0
Amortisation of intangible assets	(980)	0	0	0	980	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	(14,916)	0	0	0	14,916	0	0	0	0	0	0
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	(20,568)	0	0	0	18,682	0	0	1,886	0	0	0
Statutory provision for the financing of capital investment	21,647	0	0	0	(21,647)	0	0	0	0	0	0
Capital expenditure charged against the General Fund and HRA balances	13,219	0	0	0	(13,219)	0	0	0	0	0	0
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	32,368	0	0	(32,368)	0	0	0	0	0	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	41,495	(41,495)	0	0	0	0	0	0
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	17,347	(17,347)	0	0	0	0	0	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	9,180	0	0	(9,180)	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(222)	222	0	0	0	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,198)	1,198	0	0	0	0	0	0	0	0	0
Reversal of Major Repairs Allowance credited to the HRA	10,259	0	(10,259)	0	0	0	0	0	0	0	0

2014/15

## Useable Reserves

## Unusable Reserves

Use of the Major Repairs Reserve to finance new capital expenditure

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  
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement

Employer's pensions contributions and direct payments to pensioners payable in the year

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

Revaluation reserve written off to the capital adjustment account  
Surplus or (deficit) on the provision of services

**Actuarial gains or losses on pensions assets and liabilities**

**Surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of service**

**Transfers to earmarked reserves**

**Total Adjustments**

Opening Balance

Closing Balance

	Useable Reserves				Unusable Reserves						Total £'000	
	General Fund + HRA Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Capital Adjustment Account	Pensions Reserve	Financial Instruments Adjustment Account	Accumulated Absences Account	Revaluation Reserve	Collection Fund Adjustment Account		Deferred Capital Receipts Reserve
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	6,282	0	(6,282)	0	0	0	0	0	0	0
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 Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	2,126	0	0	0	0	0	(2,126)	0	0	0	0	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(47,040)	0	0	0	0	47,040	0	0	0	0	0	0
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	34,168	0	0	0	0	(34,168)	0	0	0	0	0	0
Revaluation reserve written off to the capital adjustment account	1,209	0	0	0	0	0	0	(1,209)	0	0	0	0
Surplus or (deficit) on the provision of services	2,971	0	0	0	0	0	0	0	0	(2,971)	0	0
<b>Actuarial gains or losses on pensions assets and liabilities</b>	(120,131)	0	0	0	0	0	0	0	0	0	0	(120,131)
<b>Surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of service</b>	0	0	0	0	0	113,210	0	0	0	0	0	113,210
<b>Transfers to earmarked reserves</b>	0	0	0	0	0	0	0	0	(26,424)	0	0	(26,424)
<b>Total Adjustments</b>	<b>30,759</b>	<b>0</b>	<b>(5,202)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25,557</b>
Opening Balance	<b>(3,628)</b>	<b>(6,747)</b>	<b>(9,179)</b>	<b>9,127</b>	<b>(95,184)</b>	<b>126,082</b>	<b>(2,126)</b>	<b>(1,209)</b>	<b>(21,953)</b>	<b>(2,971)</b>	<b>0</b>	<b>(7,788)</b>
Closing Balance	(13,085)	(46,173)	(12,714)	(87,067)	(587,642)	598,938	19,175	5,071	(171,808)	(4,744)	(1,250)	(301,299)

2015/16

## Useable Reserves

## Unusable Reserves

	Useable Reserves				Unusable Reserves							Total £'000
	General Fund + HRA Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Capital Adjustment Account	Pensions Reserve	Financial Instruments Adjustment Account	Accumulated Absences Account	Revaluation Reserve	Collection Fund Adjustment Account	Deferred Capital Receipts Reserve	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Depreciation and impairment of non-current assets and amortisation of intangible assets	(35,089)	0	0	0	32,358	0	0	0	2,730	0	0	0
Revaluation losses on Property Plant and Equipment	(146,770)	0	0	0	146,770	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	(16,660)	0	0	0	16,660	0	0	0	0	0	0	0
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	(46,011)	0	0	0	48,663	0	0	0	(2,652)	0	0	0
Statutory provision for the financing of capital investment	(24,821)	0	0	0	24,821	0	0	0	0	0	0	0
Capital expenditure charged against the General Fund and HRA balances	11,284	0	0	0	(11,284)	0	0	0	0	0	0	0
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	26,631	0	0	(26,631)	0	0	0	0	0	0	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	25,735	(25,735)	0	0	0	0	0	0	0
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	10,131	(10,131)	0	0	0	0	0	0	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	20,869	0	0	(20,869)	0	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(165)	165	0	0	0	0	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,011)	1,011	0	0	0	0	0	0	0	0	0	0
Reversal of Major Repairs Allowance credited to the HRA	10,160	0	(10,160)	0	0	0	0	0	0	0	0	0

2015/16

## Useable Reserves

## Unusable Reserves

	Useable Reserves				Unusable Reserves							Total £'000
	General Fund + HRA Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Capital Adjustment Account	Pensions Reserve	Financial Instruments Adjustment Account	Accumulated Absences Account	Revaluation Reserve	Collection Fund Adjustment Account	Deferred Capital Receipts Reserve	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	29,977	0	(29,977)	0	0	0	0	0	0	0
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	1,318	0	0	0	0	0	(1,318)	0	0	0	0	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(51,679)	0	0	0	0	51,679	0	0	0	0	0	0
Employer's pensions contributions and direct payments to pensioners payable in the year	35,100	0	0	0	0	(35,100)	0	0	0	0	0	0
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	345	0	0	0	0	0	0	(345)	0	0	0	0
Amount by which council tax and NNDR income credited to the CIES is different from statutory charge	1,323	0	0	0	0	0	0	0	0	(1,323)	0	0
Revaluation reserve written off to the capital adjustment account	(0)	0	0	0	0	0	0	0	0	0	0	0
Surplus or (deficit) on the provision of services	164,360	0	0	0	0	0	0	0	0	0	0	164,360
Actuarial gains or losses on pensions assets and liabilities	0	0	0	0	0	(105,615)	0	0	0	0	0	(105,615)
Surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of service	0	0	0	0	0	0	0	0	(18,365)	0	0	(18,365)
Transfers to earmarked reserves	59,751	0	(7,514)	0	0	0	0	0	0	0	0	52,237
<b>Total Adjustments</b>	<b>(1,803)</b>	<b>11,915</b>	<b>12,303</b>	<b>(896)</b>	<b>181,407</b>	<b>(89,036)</b>	<b>(1,318)</b>	<b>(345)</b>	<b>(18,287)</b>	<b>(1,323)</b>	<b>0</b>	<b>92,617</b>
Opening Balance	(16,713)	(52,920)	(21,893)	(77,940)	(682,826)	725,020	17,049	3,862	(193,761)	(7,715)	(1,250)	(309,087)
Closing Balance	(18,516)	(41,005)	(9,590)	(78,836)	(501,419)	635,984	15,731	3,517	(212,048)	(9,038)	(1,250)	(216,470)

## Pension Fund Accounts

### Pension Fund Accounts for 2015/16

Brent Pension Fund Account		2014/15	2015/16
	Notes	£'000	£'000
<b>Dealings with members, employers and others directly involved in the fund</b>			
Contributions	7	(45,371)	(46,387)
Transfers in from other pension funds	8	(1,782)	(2,455)
		<b>(47,153)</b>	<b>(48,842)</b>
Benefits	9	36,392	37,918
Payments to and on account of leavers	10	1,427	4,221
Administration and Management expenses	11	7,615	7,664
		<b>45,434</b>	<b>49,803</b>
Net (additions)/withdrawals from dealings with members		<b>(1,719)</b>	<b>961</b>
<b>Returns on investments</b>			
Investment income	12	(2,097)	(2,728)
Taxes on income	13	554	686
(Profits) and losses on disposal of investments and changes in the market value of investments	15a	(72,673)	(17,806)
Net return on investments		(74,216)	(19,848)
Net (increase)/decrease in the net assets available for benefits during the year		<b>(75,935)</b>	<b>(18,887)</b>
<b>Net Assets Statement</b>			
		<b>31 March 2015</b>	<b>31 March 2016</b>
	Notes	£'000	£'000
Investment assets	15	639,487	638,051
		<b>639,487</b>	<b>638,051</b>
Current assets	20	18,504	38,117
Non-current assets	21	100	0
Current liabilities	22	(1,041)	(231)
Net assets of the fund available to fund benefits at the period end		<b>657,050</b>	<b>675,937</b>

## Notes to the Brent Pension Fund accounts

### 1. Description of Fund

The Brent Pension Fund (the 'Fund') is part of the Local Government Pension Scheme and is administered by Brent Council. The Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Brent Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

#### a) General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by Brent Council to provide pensions and other benefits for pensionable employees of Brent Council and a range of other scheduled and admitted bodies within the borough area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Brent Pension Fund Sub-Committee, which is a committee of Brent Council.

#### b) Membership

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

Organisations participating in the Brent Pension Fund include:

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

There were 37 employer organisations with active members within the Brent Pension Fund at 31 March 2016, listed below:

**Scheduled bodies**

London Borough of Brent  
Alperton High School  
ARK Academy  
ARK Franklin Academy  
ARK Elvin Academy  
Brent Housing Partnership  
Capital City Academy  
Claremont High School  
College of North West London  
Convent of Jesus & Mary Language College  
Crest Academy  
Gladstone Park School  
Islamia Primary School  
Kingsbury High School  
Michaela Community School  
North West London Jewish day School  
Preston Manor High School  
Queens Park Community School  
St Andrews and St Francis School  
St Gregory's RC High School  
Sudbury Primary School  
Wembley High Technology College  
Woodfield School

**Admitted bodies**

Brent MENCAP  
Capita Business Services Limited  
Civica  
Europa Facility Services Limited  
National Autistic Society  
Local Employment Access Project (LEAP)  
Sudbury Neighbourhood Centre  
Wetton Cleaning Services  
Thames Reach  
Conway Aecom Limited  
Sanctuary Housing  
Veolia  
Xerox (UK) Limited  
Barnados

<b>Brent Pension Fund</b>	<b>31 March 2015</b>	<b>31 March 2016</b>
Number of employers with active members	34	37
<b>Number of employees in scheme</b>		
Brent Council	4,179	4,236
Other employers	1,724	1,904
<b>Total</b>	<b>5,903</b>	<b>6,140</b>
<b>Number of pensioners</b>		
Brent Council	5,311	5,414
Other employers	761	827
<b>Total</b>	<b>6,072</b>	<b>6,241</b>
<b>Deferred pensioners</b>		
Brent Council	5,601	6,603
Other employers	1,127	1,202
<b>Total</b>	<b>6,728</b>	<b>7,805</b>

**c) Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. During 2015/16, the most commonly applied employer contribution rate within the Brent Pension Fund was 29.4% of pensionable pay.

**d) Benefits**

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Brent Pension Fund's website: <https://www.mylgspension.co.uk>

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). This change took effect from 1 April 2011.

## **LGPS 2014**

A reformed Local Government Pension Scheme (LGPS) was introduced from April 2014. Further details can be found on the LGPS website: <http://www.lgps2014.org/> The main elements of the new scheme are:

- a pension scheme design based on career average;
- 1/49<sup>th</sup> accrual rate with revaluation of active members' benefits based on Consumer Prices Index (CPI);
- scheme normal pension age to be equal to the state pension age for both active members and deferred members;
- the earliest point at which retirement benefits can be taken is age 55;
- contributions based on actual pay (including part time employees) with an average member contribution yield of 6.5%, as now, with tiered contributions. Higher earners paying a higher proportion of their earnings in contributions than lower earning colleagues;
- a low cost option allowing members to pay 50% contributions for half the main benefits;
- all accrued rights are protected and benefits built up to April 2014 will be linked to final salary when members leave the scheme;
- vesting period when members can get a refund on their contributions if they leave the scheme will be increased from three months to two years.

## **2. Basis of preparation**

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

### **3. Summary of significant accounting policies**

#### **Fund Account – revenue recognition**

##### **a) Contribution income**

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

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

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

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

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

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

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

**c) Investment income**

**i) Interest income**

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

**ii) Dividend income**

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

**iii) Distributions from pooled funds**

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

**iv) Movement in the net market value of investments**

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

**Fund Account – expense items**

**d) Benefits payable**

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

**e) Taxation**

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

**f) Administration expenses**

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions' administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

**g) Investment management expenses**

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

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

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

**Net Assets Statement**

**h) Financial assets**

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

The values of investments as shown in the Net Assets Statement have been determined as follows:

- i) Market-quoted investments  
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) Fixed interest securities  
Fixed interest securities are recorded at net market value based on their current yields.
- iii) Unquoted investments  
The fair value of investments for which market quotations are not readily available is determined as follows:
  - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
  - Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
  - Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
  - Investments in private equity/infrastructure funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity/infrastructure fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.
- iv) **Limited partnerships**  
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- v) **Pooled investment vehicles**  
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

**i) Foreign currency transactions**

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

**j) Derivatives**

The Fund does not use derivative financial instruments to manage its exposure to specific risks arising from its investment activities in its own name. Neither does it hold derivatives for speculative purposes.

**k) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits.

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

#### **l) Financial liabilities**

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

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

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

#### **n) Additional voluntary contributions**

Brent Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

### **4. Critical judgements in applying accounting policies**

#### **Unquoted private equity/infrastructure investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities and infrastructure investments at 31 March 2016 was £129m (£126m at 31 March 2015).

## Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The items in the Net Assets Statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £89m. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £12m, and a one-year increase in assumed life expectancy would increase the liability by approximately £30m.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Private equity/infrastructure</b>	Private equity/infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity/infrastructure investments in the financial statements are £126m. There is a risk that this investment may be under- or overstated in the accounts.

## 6. Events after the Balance Sheet date

There have been no events since 31 March 2016, and up to the date when these accounts were authorised that require any adjustments to these accounts.

## 7. Contributions receivable

### By category

	2014/15 £'000	2015/16 £'000
Employers	37,028	37,961
Members	8,343	8,426
<b>Total</b>	<b>45,371</b>	<b>46,387</b>

### By authority

	2014/15 £'000	2015/16 £'000
Scheduled bodies	43,648	44,625
Admitted bodies	1,723	1,762
<b>Total</b>	<b>45,371</b>	<b>46,387</b>

## 8. Transfers in from other pension funds

	2014/15 £'000	2015/16 £'000
Individual transfers	1,782	2,455
<b>Total</b>	<b>1,782</b>	<b>2,455</b>

## 9. Benefits payable

### By category

	2014/15 £'000	2015/16 £'000
Pensions	30,674	32,037
Commutation and lump sum retirement benefits	5,409	5,293
Lump sum death benefits	309	588
<b>Total</b>	<b>36,392</b>	<b>37,918</b>

### By authority

	2014/15 £'000	2015/16 £'000
Scheduled bodies	35,055	36,365
Admitted bodies	1,337	1,553
<b>Total</b>	<b>36,392</b>	<b>37,918</b>

## 10. Payments to and on account of leavers

	2014/15 £'000	2015/16 £'000
Payments to and on account of leavers	1,427	4,221
<b>Total</b>	<b>1,427</b>	<b>4,221</b>

## 11. Administration expenses

	2014/15 £'000	2015/16 £'000
Administration costs	662	643
Investment management expenses	6,861	6,903
Oversight and Governance costs	92	118
<b>Total</b>	<b>7,615</b>	<b>7,664</b>

## 12. Investment income

	2014/15 £'000	2015/16 £'000
Fixed interest securities	0	0
Equity dividends	0	0
Pooled property investments	1,645	2,069
Interest on cash deposits	48	62
Private equity/infrastructure	404	597
<b>Total</b>	<b>2,097</b>	<b>2,728</b>

## 13. Taxes on income

	2014/15 £'000	2015/16 £'000
Withholding tax - equities	554	686
<b>Total</b>	<b>554</b>	<b>686</b>

## 14. Investment management expenses

	2014/15 £'000	2015/16 £'000
Administration costs	662	643
Investment management expenses	6,861	6,903
Oversight and governance costs	92	118
<b>Total</b>	<b>7,615</b>	<b>7,664</b>

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

NB Management fees 2014/15 have been amended to reflect the reporting of Management fees as per CIPFA recommendation.

## 15. Investments

	Market value 31 March 2015 £'000	Market value 31 March 2016 £'000
<b>Investment assets</b>		
Pooled investments	476,369	469,432
Pooled property investments	37,006	39,269
Private equity/infrastructure	126,112	129,350
<b>Total investments</b>	639,487	638,051

### a) Investments

	Market value 1 April 2015 £'000	Purchases during the year £'000	Sales during the year £'000	Change in market value during the year £'000	Market value 31 March 2016 £'000
Pooled investments	476,369	34,150	34,779	(5,946)	469,432
Pooled property investments	37,006	0	0	2,263	39,269
Private equity/infrastructure	126,112	10,628	27,817	21,851	129,350
<b>Net investment assets</b>	<b>639,487</b>	<b>44,778</b>	<b>62,596</b>	<b>18,168</b>	<b>638,051</b>

### a) Investments

	Market value 1 April 2014 £'000	Purchases during the year £'000	Sales during the year £'000	Change in market value during the year £'000	Market value 31 March 2015 £'000
Pooled investments	414,424	20,012	672	42,967	476,369
Pooled property investments	34,944	0	216	2,278	37,006
Private equity/infrastructure	112,715	17,215	31,246	27,428	126,112
<b>Net investment assets</b>	<b>562,083</b>	<b>37,227</b>	<b>32,34</b>	<b>72,673</b>	<b>639,487</b>

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the Fund, such as commissions, stamp duty and other fees.

**b) Analysis of investments**

	31 March 2015 £'000	31 March 2016 £'000
<b>Fixed interest securities</b>		
<b>UK</b>		
Public sector quoted	0	0
Corporate quoted	0	0
<b>Overseas</b>		
Public sector quoted	0	0
	<b>0</b>	<b>0</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	0	0
	<b>0</b>	<b>0</b>
<b>Pooled funds – additional analysis</b>		
<b>UK</b>		
Fixed income unit trust	86,005	86,592
Unit trusts	116,646	113,700
Diversified growth funds	69,376	68,793
<b>Overseas</b>		
Unit trusts	204,342	200,347
	<b>476,369</b>	<b>469,432</b>
Pooled property investments	37,006	39,269
Private equity/infrastructure	126,112	129,350
	<b>163,118</b>	<b>168,619</b>
	<b>639,487</b>	<b>638,051</b>

## Investments analysed by fund manager

### Market value

31 March 2015			31 March 2016	
£'000	%		£'000	%
254,280	39.8	Legal & General	287,596	45.1
0	0	London CIV	150	0
113,334	17.7	Henderson	112,893	17.7
94,321	14.7	Capital Dynamics	96,199	15.1
798	0.1	Yorkshire Fund Managers	645	0.1
69,376	10.9	Baillie Gifford	68,793	10.8
37,006	5.9	Aviva	39,269	6.2
40,708	6.4	Dimensional	0	0
29,664	4.6	Alinda	32,506	5.1
<b>639,487</b>	<b>100.0</b>		<b>638,051</b>	<b>100.0</b>

All the above companies are registered in the United Kingdom.

### Concentration of investments

During the year, no individual investment exceeded 5% of the total value of the Fund's net assets.

#### c) Stock lending

The Brent Pension Fund does not operate a Stock Lending programme.

## 16. Financial instruments

### a) Classification of financial instruments

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

31 March 2015

31 March 2016

Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
<b>Financial assets</b>					
476,369			Pooled investments	469,432	
37,006			Pooled property investments	39,269	
126,112			Private equity/infrastructure	129,350	
	17,080		Cash		36,184
	1,489		Debtors		1,933
<b>639,487</b>	<b>18,569</b>	<b>0</b>		<b>638,051</b>	<b>38,117</b>
<b>Financial Liabilities</b>					
		(1,041)	Creditors		(231)
<b>639,487</b>	<b>18,569</b>	<b>(1,041)</b>	<b>Totals</b>	<b>638,051</b>	<b>38,117</b>

**b) Net gains and losses on financial instruments**

31 March 2015		31 March 2016
£'000		£'000
<b>Financial assets</b>		
72,673	Fair value through profit and loss	17,806
<b>72,673</b>	<b>Total</b>	<b>17,806</b>

**c) Fair value of financial instruments and liabilities**

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

<b>31 March 2015</b>			<b>31 March 2016</b>	
<b>Carrying value</b>	<b>Fair value</b>		<b>Carrying value</b>	<b>Fair value</b>
<b>£'000</b>	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>				
639,487	639,487	Fair value through profit and loss	638,051	638,051
18,604	18,604	Loans and receivables	38,117	38,117
<b>658,091</b>	<b>658,091</b>	<b>Total financial assets</b>	<b>676,168</b>	<b>676,168</b>
<b>Financial liabilities</b>				
(1,041)	(1,041)	Financial liabilities at amortised cost	(231)	(231)
<b>(1,041)</b>	<b>(1,041)</b>	<b>Total financial liabilities</b>	<b>(231)</b>	<b>(231)</b>

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

#### **d) Valuation of financial instruments carried at fair value**

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

##### **Level 1**

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

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

## **Level 2**

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

## **Level 3**

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

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

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Brent Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	508,701		129,350	638,051
Loans and receivables	38,117			38,117
<b>Total financial assets</b>	<b>546,818</b>	<b>0</b>	<b>129,350</b>	<b>676,168</b>
<b>Financial liabilities</b>				
Financial liabilities at amortised cost	(231)			(231)
<b>Total financial liabilities</b>	<b>(231)</b>	<b>0</b>	<b>0</b>	<b>(231)</b>
<b>Net financial assets</b>	<b>546,587</b>	<b>0</b>	<b>129,350</b>	<b>675,937</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	513,375		126,112	639,487
Loans and receivables	18,604			18,604
<b>Total financial assets</b>	<b>531,979</b>	<b>0</b>	<b>126,112</b>	<b>658,091</b>
<b>Financial liabilities</b>				
Financial liabilities at amortised cost	(1,041)			(1,041)
<b>Total financial liabilities</b>	<b>(1,041)</b>	<b>0</b>	<b>0</b>	<b>(1,041)</b>
<b>Net financial assets</b>	<b>530,938</b>	<b>0</b>	<b>126,112</b>	<b>657,050</b>

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

### Risk and risk management

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

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

**a) Market risk**

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

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

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

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

### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

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

### Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with WM Company plc, the Pension Fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset type	Potential market movements (+/-)
Not received as yet Provided by Statestreet/WM	
Fixed interest	1.9%
UK equities	9.5%
Overseas equities	9.1%
Property	2.6%
Alternative investments	4.5%
Cash	0.0%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

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

Asset type	Value at 31 March 2015	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Cash and cash equivalents	17,080	0.0	17,080	17,080
<b>Investment portfolio assets:</b>				
Fixed interest	86,005	1.9	87,699	84,311
UK equities	116,646	9.5	127,727	105,565
Overseas equities	204,342	9.1	222,917	185,797
Property	37,006	2.6	37,964	36,048
Alternative investments	195,488	4.4	204,426	186,730
<b>Total</b>	<b>656,567</b>		<b>697,634</b>	<b>615,500</b>

Asset type	Value at 31 March 2014	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Cash and cash equivalents	18,265	0.0	18,265	18,265
<b>Investment portfolio assets:</b>				
Fixed interest	84,058	2.1	85,823	82,293
UK equities	111,992	11.4	124,759	99,225
Overseas equities	173,593	12.4	195,119	152,067
Property	34,944	2.3	35,748	34,140
Alternative investments	157,496	6.1	167,103	147,889
<b>Total</b>	<b>580,348</b>		<b>626,817</b>	<b>533,879</b>

## Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	<b>31 March 2015</b>	<b>31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>
Cash balances	17,080	36,184
Fixed interest securities	86,005	86,592
<b>Total</b>	<b>103,085</b>	<b>122,776</b>

<b>Asset type</b>	<b>Carrying amount as at 31 March 2016</b>	<b>Change in year in the net assets available to pay benefits</b>	
		<b>+100 BPS</b>	<b>-100 BPS</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash balances	38,184	380	-380
Fixed interest securities	86,592	865	-865
<b>Total change in assets available</b>	<b>124,776</b>	<b>1,245</b>	<b>-1,245</b>

<b>Asset type</b>	<b>Carrying amount as at 31 March 2015</b>	<b>Change in year in the net assets available to pay benefits</b>	
		<b>+100 BPS</b>	<b>-100 BPS</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash balances	17,080	170	-170
Fixed interest securities	86,005	860	-860
<b>Total change in assets available</b>	<b>103,085</b>	<b>1,030</b>	<b>-1,030</b>

## Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in

currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2016 and as at the previous period end:

<b>Currency exposure – asset type</b>	<b>Asset value at 31 March 2015 £'000</b>	<b>Asset value at 31 March 2016 £'000</b>
Overseas unit trusts	204,342	200,347
Overseas pooled property investments	3,424	3,748
Overseas private equity/infrastructure	126,112	129,350
<b>Total overseas assets</b>	<b>333,878</b>	<b>333,445</b>

#### **Currency risk – sensitivity analysis**

Following analysis of historical data in consultation with WM Company plc, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 8%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 8% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Asset value as at 31 March 2016	Change to net assets available to pay benefits	
		8%	-8%
		£'000	£'000
Overseas unit trusts	200,347	216,375	184,319
Overseas pooled property investments	3,748	4,048	3,448
Overseas private equity/infrastructure	129,350	139,698	119,002
<b>Total change in assets available</b>	<b>333,445</b>	<b>360,121</b>	<b>306,769</b>

	Asset value as at 31 March 2015	Change to net assets available to pay benefits	
		+8%	-8%
		£'000	£'000
Overseas unit trusts	204,342	220,689	187,995
Overseas pooled property investments	3,424	3,698	3,150
Overseas private equity/infrastructure	126,112	136,516	116,023
<b>Total change in assets available</b>	<b>333,878</b>	<b>360,588</b>	<b>307,168</b>

#### b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund's cash balance is held in an interest bearing instant access deposit account with NatWest plc, which is rated independently and meets Brent Council's credit criteria. Given the relatively low level of cash held by the Pension Fund at any one time, it is not considered necessary to place deposits with other banks and financial institutions to provide diversification.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2016 was £36.1m (31 March 2015: £17.0m). This was held with the following institutions:

	Rating	Balances as at 31 March 2015 £'000	Balances as at 31 March 2016 £'000
<b>Bank deposit accounts</b>			
NatWest	A-	17,080	36,184
<b>Total</b>		<b>17,080</b>	<b>36,184</b>

### c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its pensioner payroll costs and investment commitments.

The Pension Fund has immediate access to its cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. At 31 March 2016 the value of illiquid assets was £168.6m, which represented 26% (31 March 2015: £163.1m, which represented 26%) of the total fund assets.

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

All financial liabilities at 31 March 2015 are due within one year.

### Refinancing risk

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

## 18. Funding arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding

valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 22 years from 1 April 2013 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2013 actuarial valuation, the Fund was assessed as 56% funded (61% at the March 2010 valuation). This corresponded to a deficit of £442m (2010 valuation: £294m) at that time.

Contribution increases were phased in over the three-year period ending 31 March 2017 for both Scheme employers and admitted bodies. The most commonly applied employer contribution rate within the Brent Pension Fund is:

<b>Year</b>	<b>Employers' contribution rate</b>
2014/15	28.4%
2015/16	29.4%
2016/17	30.0%

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the funding strategy statement on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

The main actuarial assumptions used for the March 2013 actuarial valuation were as follows:

Discount rate	4.6% p.a.
Price inflation	3.3% p.a.
Pay increases	4.1% p.a.
Pension increases	2.5% p.a.

#### **Mortality assumptions**

Future life expectancy based on the Actuary's fund-specific mortality review was:

<b>Mortality assumption at age 65</b>	<b>Male</b>	<b>Female</b>
Current pensioners	22.0 years	24.3 years

## Commutation assumption

It is assumed that 50% of future retirements will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

## 19. Actuarial present value of promised retirement benefits

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

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The Actuary has also used valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2016 was £1,307m (31 March 2015: £1,396m). The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2013 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

## Financial assumptions

Inflation/pensions increase rate	2.2%
Salary increase rate	4.0%
Discount rate	3.5%

## Longevity assumption

The average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.0 years	24.3 years
Future pensioners*	24.4 years	26.8 years

\* Future pensioners are assumed to be currently aged 45

## Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

## 20. Current assets

	31 March 2015 £'000	31 March 2016 £'000
Debtors:		
- Contributions due – employees	249	331
- Contributions due – employers	1,140	1,342
- Sundry debtors	35	260
Cash balances	17,080	36,184
<b>Total</b>	<b>18,504</b>	<b>38,117</b>

## Analysis of debtors

	31 March 2015 £'000	31 March 2016 £'000
Central government bodies	0	0
Other local authorities	1,388	1,932
Other entities and individuals	1	1
<b>Total</b>	<b>1,389</b>	<b>1,933</b>

## 21. Non current assets

	31 March 2015 £'000	31 March 2016 £'000
Non- current assets	100	0
<b>Total</b>	<b>100</b>	<b>0</b>

Non- current assets comprises of contributions due from employers, repayable later than a year of the Balance Sheet date.

## 22. Current liabilities

	31 March 2015 £'000	31 March 2016 £'000
Sundry creditors	1,041	231
<b>Total</b>	<b>1,041</b>	<b>231</b>

## Analysis of creditors

	31 March 2015 £'000	31 March 2016 £'000
Central government bodies	12	67
Other entities and individuals	1,029	164
<b>Total</b>	<b>1,041</b>	<b>231</b>

## 23. Additional voluntary contributions

	Market value 31 March 2015 £'000	Market value 31 March 2016 £'000
Clerical Medical	1,303	1,221
Equitable Life	173	167
Prudential	15	15
<b>Total</b>	<b>1,491</b>	<b>1,403</b>

AVC contributions of £34k were paid to Clerical Medical during the year (2014/15: £26k). The Pension Fund's former provider, Equitable Life, no longer accepts AVC contributions from Scheme members.

For information, Prudential has since replaced Clerical Medical as the Fund's AVC provider with effect from 1 April 2014.

## **24. Related party transactions**

### **Brent Council**

The Brent Pension Fund is administered by Brent Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.652m (2014/15: £0.732m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £31.1m to the Fund in 2015/16(2014/15: £31.4m). All monies owing to and due from the Fund were paid in year.

### **Governance**

There are no members of the Pension Fund Sub-Committee who are either in receipt of pension benefits from or active members of the Brent Pension Fund.

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

### **Key management personnel**

Paragraph of the *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14* (the Code) exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Brent Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Brent Council.

## **25. Contingent liabilities**

The Fund had no contingent liabilities at 31 March 2016.

## 26. Contractual commitments

Outstanding capital commitments (investments) at 31 March 2016 totalled £40.2m (31 March 2015: £30.5m).

	31 March 2015 £'000	31 March 2016 £'000
Capital Dynamics	28,001	23,260
Alinda	2,517	16,992
<b>Total</b>	<b>30,518</b>	<b>40,252</b>

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

## 27. Contingent assets

Seven non-associated admitted body employers in the Brent Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

	31 March 2015 £'000	31 March 2016 £'000
Bilfinger (previously Europa)	136	136
Capita Business Services Limited	123	123
Conway Aecom	111	111
Xerox (UK) Limited	29	29
Sanctuary	8	8
ThamesReach	5	5
<b>Total</b>	<b>412</b>	<b>412</b>

## 28. Impairment losses

The Fund had no impairment losses at 31 March 2016.

DRAFT

## Glossary

### ACCRUALS

Amounts charged to the accounts for goods and services received during the year for which payments have not been made.

### 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.

### COLLECTION FUND ADJUSTMENT ACCOUNT

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

### CREDITORS

Amounts owed by the Council at 31 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 March.

## **GLOSSARY (Continued)**

### **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.

### **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.

### **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.

## **GLOSSARY (Continued)**

### **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.

### **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.

### **REVALUATION RESERVE**

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment.

### **REVENUE SUPPORT GRANT**

A general grant paid to local councils from national taxation.

## ABBREVIATIONS

ALMO	Arms Length Management Organisation
AVC	Additional Voluntary Contribution
BHP	Brent Housing Partnership
CIL	Community Infrastructure Levy
CIPFA	Chartered Institute of Public Finance and Accountancy / Code of Practice on Local Authority Accounting in the United Kingdom
DCLG	Department for Communities and Local Government
CIES	Comprehensive Income and Expenditure Statement
DfE	Department for Education
FTE	Full Time Equivalent
GAAP	Generally Accepted Accounting Principles./ Practice
GF	General Fund
GLA	Greater London Authority
HRA	Housing Revenue Account
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LGPS	Local Government Pension Scheme
MRA	Major Repairs Allowance
MRP	Minimum Revenue Provision
NNDR	National Non Domestic Rates (also called Business Rates)
PFI	Private Finance Initiative
PWLB	Public Works Loans Board

**This page is intentionally left blank**

 <b>Brent</b>	<b>Audit Committee</b> <b>30 June 2016</b>
	<b>Report from the Chief Finance Officer</b>  Wards Affected: ALL
<b>2015/16 Treasury Management Outturn Report</b>	

## 1. INTRODUCTION

- 1.1 This report updates members on Treasury Management activity and confirms that the Council has complied with its Prudential Indicators for 2015/16.

## 2. RECOMMENDATION

- 2.1 The Committee is asked to consider the 2015/16 Treasury Management outturn report, which will be presented to the Cabinet and Council, in compliance with CIPFA's Code of Practice on Treasury Management (the Code).

## 3. BACKGROUND

- 3.1 The Council's treasury management activity is underpinned by the Code, which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.
- 3.2 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Investment Guidance.
- 3.3 The Council has borrowed money over the long term to support investment in the Council's infrastructure and also invests balances held for short periods. It is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are central to the Council's treasury management strategy.

### **Economic background**

- 3.4 The recovery in the UK continued with steady, though slowing, economic activity and growth. Q4 2016 GDP showed year-on-year growth of 2.1%, almost entirely from the service sector. The Consumer Price Index (CPI) of inflation increased to 0.5%, and is expected to increase further as the price of oil starts to rise from its current low level, but inflation is not expected to exceed the Bank of England's target this year or next. While employment is currently at a record level of 74.2% of the working age population, pay has grown at a more modest rate than in previous recoveries, limiting the potential of future economic growth. The Eurozone has maintained its low level of economic growth and geopolitical tensions seem to have diminished, though they have not completely dissipated.
- 3.5 Due to differing perspectives on the potential impact of the upcoming EU referendum, there is uncertainty in the marketplace. Furthermore, potential effects of an exit from the EU are unpredictable, because they depend significantly on subsequent actions and reactions by a wide range of individuals and organisations, and it is not known how they will react till after the outcome.

#### **Gilt Yields and Money Market Rates**

- 3.6 Gilt yields (the rate of interest on UK government borrowing) rose in the first quarter of 2015-16 and then fell in over the rest of the year. 10 year yields ended the year at 1.42% and 20 years at 2.14%, both slightly lower than the at the start of the year.
- 3.7 Interest rates on short term inter-bank lending remained below 1% through the year.

#### **The Borrowing Requirement and Debt Management**

- 3.8 The table below summarises the Council's borrowing activity during 2015/16. The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31/03/2016 was estimated to be £612 million.

	Balance 01/04/2015 (£m)	New Borrowing (£m)	Borrowing Repaid (£m)	Balance 31/03/2016 (£m)	Average Rate (%)	Average Life (Years)
CFR	579			612		
Short Term Borrowing	0	0	0	0	0	
Long Term Borrowing	424	0	5	419	4.76	35.4

- 3.9 At 1 April 2015 the Council had £424 million of long-term borrowing, to finance its previous years' capital programmes. With short-term interest rates being much lower than long-term rates, it was more cost effective in the short-term to use internal resources rather than undertake further long-term borrowing. By doing so, the Council has been able to reduce net borrowing costs and reduced overall treasury risk, because overall borrowing has been reduced slightly. No temporary borrowing was required during the year. The average rate of 4.76% was higher than last year's

rate of 4.72% and this was due to the redemption of £5m of PWLB loans that are paid back steadily over their lifetime.

- 3.10 The Treasury Management Strategy approved by the Council in February 2015 states that the Council will maintain borrowing at the lowest level consistent with prudent management of the Council's finances. This implies that, at present discount rates, we will not undertake premature repayment of debt but that, in conjunction with our Treasury Management advisers, Arlingclose, we will remain abreast of developments and be prepared to borrow up to the level of CFR if a significant permanent rate rise appears likely. These circumstances did not arise during the year.
- 3.11 No debt was restructured during the year and no lenders exercised options to vary the terms of loans on LOBO (Lender Option, Borrower Option) terms. The Council has borrowed £95.5m under LOBO transactions, all of which were entered into in the period November 2002 to April 2010. Unlike PWLB loans, there is no formula for the cost of redemption of LOBOs, and the price quoted would depend on any bank's view on its commercial advantage. The banks' positions have been insured through the derivatives markets and to renegotiate these arrangements would be very expensive. The average premium on our LOBO portfolio is about 68%: this would mean that it would cost £8.4m to redeem a LOBO with a nominal value of £5m. However, there is no established formula for the redemption price and the actual cost be higher.
- 3.12. There are complex arguments made about LOBOs, by their supporters and by their detractors. The Council's position is simply that the LOBOs are part of its portfolio, and must therefore be managed as effectively as possible. There are no plans to enter into further LOBO contracts. However, it should be noted that the average rate of interest being paid on LOBOs is little different to that on PWLB debt (4.75% compared to 4.71% at 31 March) and the range of rates lower. The most expensive LOBO was at 6.234% on 31 March, compared with the most expensive PWLB at 8.875%.
- 3.13 In January 2015 the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the Public Works Loans Board. The proposal is to transform PWLB from being an arms-length organization to being part of the Treasury in order to simplify structures in Central Government. HMT has confirmed however that its lending function will continue unaffected and local authorities will retain access to borrowing rates which offer good value for money. The authority intends to use the PWLB's replacement as a potential source of borrowing if required. As this is the sole impact of the proposals and Brent's interest is protected, Brent chose not to comment, except via Arlingclose.

### **Investment Activity**

- 3.14 Both CIPFA and the CLG Investment Guidance require the Council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield. The table below summarizes investment activity during 2015/16.

Investments	Balance on 01/04/2015 (£m)	Investments made (£m)	Investments repaid (£m)	Balance on 31/03/2016 (£m)	Average Rate (%)
Fixed Term Deposits	125	397	431	91	0.5
Marketable instruments		328	278	50	0.6
Money Market Funds and notice deposits	24	623	624	23	0.4
<b>TOTAL INVESTMENTS</b>	<b>149</b>	<b>1348</b>	<b>1333</b>	<b>164</b>	<b>0.5</b>

3.15 Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16 which defined "high credit quality organisations" as those having a long-term credit rating of A- or higher that are domiciled in the UK or overseas where the sovereign rating is AA+ or higher.

3.16 The growth of bail-in risk gave rise to the decision to restrict the maximum maturity with market financial institutions to three months and use only marketable instruments issued by them. Bail-in means that long-term loans in financial institutions are converted into equity (shares) that are not easily convertible for many years, preventing Brent from accessing the resources, and potentially giving them a hefty cut in their value.

3.17 New investments with banks and Building Societies have been undertaken by means of marketable instruments and the Treasury bill market has also been used. Treasury bills have largely replaced the use of the UK Debt Management Office (the Bank of England's temporary borrowing team, who are effectively a deposit taker of last resort, borrowing at 0.25%) which has been used on rare occasions to invest large receipts at short notice. The risk of bail in has recently declined for many UK institutions, but investment decisions still need to be made on a case by case basis.

#### **Credit developments and credit risk management**

3.18 The Council assessed and monitored counterparty credit quality with reference to credit ratings, credit default swaps (a means of insuring loans), perceived credit-worthiness of the country in which the institution is registered and its share price. The minimum long-term counterparty credit rating determined by the Council for the 2015/16 treasury strategy was A- across rating agencies Fitch, S&P and Moody's.

3.19 The mechanism for dealing with a failed bank, which was brought into effect through the Financial Services (Banking Reform) Act 2013, is now in operation. The Council

has taken a number of actions in response to this, and continues to monitor risks, with advice from Arlingclose.

- 3.20 The Council did not make any deposits with institutions in the Eurozone during the year and took the action noted above on UK banks. Two very conservative Swedish banks (Svenska Handelsbanken and Nordea) were added to our lending list, with a limit of six months, in accordance with Arlingclose's guidance

### **Liquidity Management**

- 3.21 Combining changes to the regulatory environment and our adoption of a mainly three month lending limit, investments with financial institutions are now normally by means of purchasing 3 month Certificates of Deposit (CDs). Longer maturities can be obtained by depositing with the two Swedish banks, government bodies, with Central Government, via Treasury Bills up to 6 months, or locally. Attractive rates can be obtained from Local Authorities, though these will depend on being able to satisfy demand when it arises. At peak periods, mindful of the primacy of security as a criterion for decision making, substantial balances may be held in short term investments, particularly Money Market Funds. The use of short term borrowing at times of lower cash balances is judged to maintain a prudent balance between maintaining security and liquidity and achieving a reasonable yield on investments, though this was not required in 2015-16.

### **Yield**

- 3.22 The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at low levels which continued to have a significant impact on investment income. The average 3-month LIBID rate during 2015/16 was 0.53%, the 6-month LIBID rate averaged 0.73% and the 1-year LIBID rate averaged 1.03%. The low rates of return on the Council's short-dated money market investments reflect prevailing market conditions and the Council's objective of optimising returns commensurate with the principles of security and liquidity.
- 3.23 The Council's budgeted investment income for the year had been estimated at £0.7m. The average cash balance during the year was £186m during the period and interest earned was £0.9m. The interest earned in 2014-15 was £0.9m on an average cash balance of £153m.

### **Update on Investments with Icelandic Banks**

- 3.24 The Council has now recovered 98% of its £10 million deposit with Heritable Bank. The administrators have not made any further estimate of final recoveries yet, though a further distribution is expected, subject to the outcome of a legal case.

### **Compliance**

- 3.25 The Council confirms that it has complied with its Prudential Indicators for 2015/16, which were approved by the Council on 2 March 2014 as part of the Council's Treasury Management Strategy Statement.
- 3.26 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2015/16. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. Further information is set out in Appendix 2.

### **Investment Training**

- 3.27 The needs of the Council's treasury management staff for training in investment management are kept under review and considered as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
- 3.28 During 2015/16 staff attended training courses, seminars and conferences provided by Arlingclose and CIPFA and opportunities which may arise with other organisations are considered.
- 3.29 A member training session on treasury management was held on 19 November 2015 which outlined the overall treasury management framework.

## **4. FINANCIAL IMPLICATIONS**

- 4.1 Already noted within the report as this is the Treasury Management Outturn Report.

## **5. LEGAL IMPLICATIONS**

- 5.1 None identified.

## **6. DIVERSITY IMPLICATIONS**

- 6.1 None identified.

## **7. STAFFING IMPLICATIONS**

- 7.1 None identified.

## **8. BACKGROUND INFORMATION**

Treasury Management Strategy Report to Council – 2 March 2016  
2015/16 Mid-Year Treasury Report to Council – 8 September 2015

## **9. CONTACT OFFICERS**

Gareth Robinson  
Tel: 020 8937 6567

**Appendix 1 - Debt and Investment Portfolio Position 31/3/2016**

	<b>31/3/2016 Actual Portfolio £m</b>	<b>31/3/2016 Average Rate %</b>
<b>External Borrowing:</b>		
PWLB – Maturity	288	5.0
PWLB – Equal Instalments of Premium	36	2.6
LOBO Loans	95	4.8
<b>Total External Borrowing</b>	<b>419</b>	<b>4.7</b>
<b>Other Long Term Liabilities:</b>		
PFI	32	9.5
<b>Total Gross External Debt</b>	<b>451</b>	<b>5.0</b>
<b>Investments:</b>		
Deposits	91	0.5
Marketable Instruments	50	0.6
Money Market Funds	23	0.4
<b>Total Investments</b>	<b>164</b>	<b>0.5</b>
<b>Net Debt</b>	<b>287</b>	<b>7.6</b>

## Appendix 2 – Prudential Indicators

### (a) Capital Financing Requirement (CFR)

The Council's cumulative maximum external borrowing requirement for 2015/16 is shown in the table below:

<b>Capital Financing Requirement</b>	31/03/2016 Estimate £m	31/03/2016 Actual* £m
General Fund	459	471
HRA	137	141
<b>Total CFR</b>	<b>596</b>	<b>612</b>

\*Uses provisional estimates from Draft Statement of Accounts

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

<b>Debt</b>	31/03/2016 Estimate £m	31/03/2016 Actual £m
Borrowing	419	419
PFI liabilities	33	32
<b>Total Debt</b>	<b>452</b>	<b>451</b>
<b>Borrowing in excess of CFR?</b>	<b>No</b>	<b>No</b>

### (b) Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The Director of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2015/16.

	Operational Boundary (Approved) 31/03/2016	Authorised Limit (Approved) 31/03/2016	Actual External Debt 31/03/2016
Borrowing			419
Other Long-term Liabilities			32
<b>Total</b>	<b>680</b>	<b>780</b>	<b>451</b>

**(c) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed.

	Approved Limits for 2015/16 Proportion %	Maximum during 2015/16 Proportion %
<b>Upper Limit for Fixed Rate Exposure</b>	100	100
Compliance with Limits:	Yes	Yes
<b>Upper Limit for Variable Rate Exposure</b>	40	0
Compliance with Limits:	Yes	Yes

**(d) Maturity Structure of Fixed Rate Borrowing**

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>	<b>Actual Fixed Rate Borrowing at 31/03/2016 £m</b>	<b>% Fixed Rate Borrowing at 31/03/2016</b>	<b>Compliance with Set Limits?</b>
under 12 months	40	0	29	7	Yes
12 months and within 24 months	20	0	34	8	Yes
24 months and within 5 years	20	0	60	14	Yes
5 years and within 10 years	60	0	10	2	Yes
10 years and within 20 years	100	0	25	6	Yes
20 years and within 30 years	100	0	1	0	Yes
30 years and within 40 years	100	0	154	37	Yes
40 years and within 50 years	100	0	106	26	Yes
50 years and above	100	0	0	0	Yes

**(e) Capital Expenditure**

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels.

<b>Capital Expenditure</b>	<b>31/03/2016 Estimate £m</b>	<b>31/03/2016 Actual £m</b>
Non-HRA	68	60
HRA	34	33
<b>Total</b>	<b>102</b>	<b>93</b>

**(f) Ratio of Financing Costs to Net Revenue Stream**

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>31/03/2016 Estimate %</b>	<b>31/03/2016 Actual %</b>
Non-HRA	10.49	8.08
HRA*	12.35	12.50
<b>Total</b>	<b>10.60</b>	<b>8.64</b>

**(g) Adoption of the CIPFA Treasury Management Code**

This indicator demonstrates that the Council adopted the principles of best practice.

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2013

**(h) Upper Limit for Total Principal Sums Invested Over 364 Days**

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

	<b>31/03/2016 Approved £m</b>	<b>31/03/2016 Actual £m</b>
	20	0

**(i) HRA Limit on Indebtedness**

HRA Debt Cap (as prescribed by CLG)	£199m	
	<b>31/03/2016 Estimate £m</b>	<b>31/03/2016 Actual £m</b>
HRA CFR	137	141*

\*Provisional Based on Draft Accounts

**This page is intentionally left blank**

 <b>Brent</b>	<b>Audit Committee</b> 30 June 2016  <b>Report from the Chief Finance Officer</b>
For Information	Wards Affected: ALL
<b>Report Title: Draft Annual Governance Statement 2015/16</b>	

## 1. Summary

- 1.1. This report sets out the draft Annual Governance Statement (AGS) for 2015/16 as required by the Accounts and Audit Regulations 2015.

## 2. Recommendations

- 2.1. The Audit Committee consider whether any changes are required to the draft AGS as set out in appendix 1 and approve the AGS for submission to the Chief Executive and Leader for signature.

## 3. Detail

- 3.1. The council is required to prepare an Annual Governance Statement and have it approved by a committee. The statement must be signed prior to the signing of the accounts. The statement must be signed by the Chief Executive and Leader of the Council.
- 3.2. CIPFA produced a framework document in 2007 setting out how local authorities could comply with the requirements to conduct a review and produce the AGS. In 2012, CIPFA issued an update to the framework<sup>3</sup>, together with an associated guidance note. In summary, the requirement is for the AGS to be a public statement setting out how the authority is governed and manages its operations and identifies any significant failures or weaknesses in governance.
- 3.3. The guidance determines that the AGS should be, "...high level, strategic and written in an open and readable style focused on outcomes and value for money and relate to the authority's vision for the area." The guidance also requires that the AGS sets out the key elements of the governance framework and that the review of the governance arrangements needs to make, "...appropriate reference to these elements".
- 3.4. The AGS has been discussed in detail by the council's corporate management

team.

- 3.5. The final part of the statement sets out the significant governance issues to be reported has been drafted following consideration by Strategic and Operational Directors drawn from each Department and the Corporate Management Team. Three significant issues were highlighted for 2015/16.
- 3.6. The following factors should be considered in determining significant issues:  
The issue has seriously prejudiced or prevented the achievement of a principal objective:
- The need to seek additional funding or divert funding to resolve the issue.
  - The issue has had a material impact on the accounts.
  - The issue has attracted significant public interest or has damaged the reputation of the organisation.
  - The issue has resulted in formal action being taken by the CFO or Monitoring Officer.

#### **4. Financial Implications**

- 4.1. None.

#### **5. Legal Implications**

- 5.1. The Accounts and Audit Regulations 2015 require the council to prepare and annual governance statement and have this reviewed by a committee.

#### **6. Diversity Implications**

- 6.1. None.

#### **7. Background Papers**

1. Accounts and Audit Regulations 2015
2. CIPFA, SOLACE (2007), Delivering Good Governance in Local Government.
3. CIPFA, (2012), Delivering Good Governance in Local Government: Framework (Addendum)

#### **8. Contact Officer Details**

Steve Tinkler, Head of Internal & Audit & Investigations Shared Service, 1<sup>st</sup> Floor, Civic Centre.

Telephone – 07525 893458

**Conrad Hall**  
**Chief Finance Officer**

## Brent Council Annual Governance Statement 2015/16

### 1. Scope of Responsibility

- 1.1 Brent Council ('The Council') is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, 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.
- 1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.3 The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Council's code is contained in part 7 of the council's Constitution and can be found on our website at <http://www.brent.gov.uk/your-council/about-brent-council/council-structure-how-we-work/our-constitution/>
- 1.4 This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 6(2), which requires all relevant bodies to prepare an annual governance statement. It also highlights how the council's financial management arrangements conform to the governance requirements of CIPFA's *Statement on the Role of the Chief Finance officer in Local Government (2010) as set out in the December 2012 Addendum / delivering good governance in Local Government: Framework*.

### 2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. 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 services and value for money. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
- 2.2 The governance framework has been in place for the year ended 31 March 2016

and up to the date of approval of the statement of accounts.

### **3. The Governance Framework**

**3.1** The Borough Plan sets out the council's vision for the area, underpinned by a Corporate Plan which identifies the key tasks from which team plans and individual objectives are set.

**3.2** The key elements of the systems and processes that comprise the Council's governance arrangements are based on the six core principles of the CIPFA/SOLACE Governance Framework. The six core principles are 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 the 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.

**3.3** The arrangements for reviewing the effectiveness of the governance framework are detailed in section 4 of this statement.

#### **3.4 Creating and Implementing a Vision for the Local Area**

**3.4.1** The Council has a Borough Plan for the period of 2015 to December 2019 agreed by the Cabinet, the Local Strategic Partnership and Full Council. This document includes the corporate objectives of the Council and our shared partnerships priorities with other public agencies. The delivery of the Borough Plan is supported by a detailed Corporate Plan setting out key activities and milestones. Progress against the milestones is monitored on a six monthly basis and reported to the Corporate Management Team (CMT). Key performance indicators which relate to the targets in the plan are monitored on a monthly and quarterly basis and reported to CMT and the Cabinet. The Borough Plan references other key relevant documents, including the following:

- Local Development Framework;

- Climate Change Strategy;
- Housing Strategy;
- Sports and Physical Activity Strategy;
- Cultural Strategy;
- Health and Wellbeing Strategy;
- Engagement Strategy; and
- Brent 2020 Vision;
- Children and Young Peoples Plan;
- Child Poverty Strategy.

**3.4.2** The priorities of the Borough Plan are regularly set out in The Brent Magazine, its website, press releases and targeted campaigns. Service priorities are extensively consulted on with users and other relevant stakeholders. Departmental Service Plans are discussed annually with Lead Members prior to finalisation. The Corporate Plan feeds into team plans and individual objectives.

### **3.5 Roles and Responsibilities of Members and Officers**

**3.5.1** A Scheme of Delegation sets out the powers delegated to officers as part of the Constitution. The Financial Regulations are also part of the Constitution, together with the Code of Corporate Governance and the Contract Procedure Rules. The Constitution is reviewed regularly, with all changes approved by the Council and published on the external website.

- 3.5.2** The Member Code of Conduct set is out in the Constitution, together with other codes. These have been reviewed and the updated codes of Conduct have been agreed by the Standards Committee. The council has a Standards Committee to deal with member conduct issues and this Committee is politically balanced and consists of five members and an independent co-opted member. Two separate independent individuals are involved in dealing with complaints against members. The Committee has an annual work programme and is supported by the Chief Legal Officer. There is a register of member interests and gifts and hospitality.
- 3.5.3** All councillors receive training on the requirements of the Code of Conduct and related issues. Monitoring Officer Advice Notes give advice to members on decision making and standards of conduct.
- 3.5.4** The Code of Conduct for Officers was updated and re-issued in 2010, and is currently being reviewed. Other codes include the IT Usage Policy, Data and Information Security and Grievance Policy, Disciplinary Policy, Capability Policy and Probation Policy and these are all held on the intranet and are subject to regular review. HR policies have all been recently reviewed following an independent review by LGA. An antifraud and bribery policy was issued in July 2013. Staff are made aware of their responsibilities through general communications, such as Esight lite, manager briefings and at corporate induction. The Conflict of Interest Policy for staff provides clear guidance regarding contractual and other potential conflicts, and there is a Gifts and Hospitality policy.
- 3.5.5** The statutory Forward Plan is published monthly on the internet, and details all key decisions proposed to be made by the council during the relevant period. Any key decision which is not on the Forward Plan may not be taken within that period, unless the report author is able to demonstrate to the Monitoring Officer and relevant members that urgency procedure requirements are met. All urgent decisions taken are monitored by the Monitoring Officer and regular reports taken to Full Council.
- 3.5.6** Members are required to make sound decisions based on written reports which are prepared in accordance with the report writing guide and have to be cleared by both Finance and Legal. The Cabinet receives a briefing (Leader's Briefing) two weeks prior to the Cabinet meeting when members can ask detailed technical questions of officers. All reports must be reviewed and signed-off by the Chief Finance Officer and the Chief Legal Officer and contain clear financial and legal advice to help members arrive at decisions.

**3.5.7** 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 Cabinet. These mechanisms involve the Scrutiny process including call-in. The conduct of the Council's business is governed by the Constitution, which includes Standing Orders and Financial Regulations.

### **3.6 Standards of Conduct and Behaviour**

**3.6.1** Good governance means promoting appropriate values for the council and demonstrating the values of good governance by upholding high standards of conduct and behaviour. The following describes how the council achieve this:

**3.6.2** All members and chief officers are required to complete an annual statement relating to third party transactions and a register of members' interests, which is updated by members, is maintained and published on the Council's website.

**3.6.3** The Brent Council Code of Conduct for Members, revised in 2015, defines the standards of conduct expected of elected representatives, based on the principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

**3.6.4** In addition, the following codes, protocols and systems are well established within the council. All are regularly reviewed and updated to account for developments in governance arrangements and changes in local government.

These include:

- A declaration of interest process for members and senior officers as described above;
- Rules and protocols are in place and are being further developed for all partnership working;
- Organisation-wide performance appraisal and employee development schemes are in operation;
- There is a corporate complaints procedure in place in line with Ombudsman good practice requirements;
- Whistle-blowing, anti-fraud and anti-corruption / bribery policies are in place and publicised in compliance with the national transparency agenda; senior officers' remuneration is published on the council website.

### **3.7 Decision Making, Scrutiny and Risk Management**

- 3.7.1** Good governance means taking informed and transparent decisions that are effectively scrutinised and which manage risk. The following describes how the Council achieves this:
- 3.7.2** Decision making arrangements are set out in the Constitution. The Council operates a Leader and Cabinet model of decision making. Although some decisions are reserved for Full Council, most are made by the Cabinet or by committees, sub-committees or officers. There are currently no decision making powers delegated to individual Members.
- 3.7.3** All forthcoming Key decisions by Cabinet are published in the Cabinet's Forward plan and republished every month on the Council's website.
- 3.7.4** Reports and minutes of meetings are also published on the council's website and are available through the Libraries. This includes urgent decisions, which are reported to the next formal meeting of Cabinet.
- 3.7.5** The council has an Audit Committee which meets at least four times during the year, with clear terms of reference and an annual work programme for internal audit and risk management.
- 3.7.6** The Council maintains an Internal Audit service that operates in accordance with the published internal audit standards expected of a local authority in the United Kingdom. The Head of Internal Audit has direct access to the Chief Executive, the Section 151 Officer and the Chair of the Audit Committee.
- 3.7.7** The Cabinet consider risks as part of their decision making role on corporate policies, including the annual budget setting processes, major policy decisions and major projects. The Corporate Management Team review corporate risks through regular monitoring reports. Risks are identified within Service Plans and considered on a regular basis within departmental management teams and key operational risks are reported through to the Corporate Management Team.
- 3.7.8** Robust business continuity management arrangements exist within the council, with all critical services having business continuity plans in place.
- 3.7.9** The Council has a three year Medium Term Financial Strategy, which is reviewed and updated annually as part of the budget setting process to support the achievement of the council's corporate priorities. The budget and policy framework outlines the process and timetable to be followed each year when setting the council's budget. The financial management framework includes regular budget monitoring reports to departmental management teams, Corporate Management Team and Cabinet.

### **3.8 Developing the Capacity & Capability of Members and Officers**

- 3.8.1** Good governance means developing the capacity and capability of members and officers to be effective. The following describes how the council achieves this:
- 3.8.2** A full member training and development programme is in place and there is a comprehensive induction programme for all councillors within the first few weeks of their election to office. Training on the Council's Code of Conduct for Councillors is compulsory. The council has adopted specific codes of conduct for councillors involved in planning or licensing decision-making and these councillors receive additional training in these areas as a pre-condition of their participation.
- 3.8.3** There is a corporate induction programme in place for staff, which is largely e-learning based, and one for new managers, supplemented by various internal training courses. Within the New Manager Essential Programme the key objectives are for delegates to understand the roles and responsibilities (core standards and expectations) of the Brent Manager and the Management competencies. Key information and policies are highlighted to new staff and managers and held on the intranet.

### **3.9 Engaging with Local people and Stakeholders**

- 3.9.1** The Chief Executive's Department is responsible for supporting local partnership arrangements, known as Partners for Brent. The Partnership Team co-ordinates a broad range of collaborative activities, which stem from the Council's engagement with local public, private and voluntary sector organisations.
- 3.9.2** Partners for Brent is an advisory body which allows for wider involvement and engagement in the delivery of public services. The Partners for Brent Strategic Forum is made up of eight organisations.
- 3.9.3** At a service area level, the objectives of partnerships are documented in the Service Plans and within contract documentation. They are then reflected in staff's individual objectives.
- 3.9.4** Commitments to deliver against our responsibilities in relation to equality and diversity feature strongly in the Council's Corporate Plan. Regard to equality, diversity and human rights duties is embedded in the budget setting and business planning process, and templates for each require that officers and members take into consideration in an appropriate manner the equality, diversity and human rights impacts of proposed decisions. The Council's

approach is to embed equality and diversity within all of its work so that equality considerations are part of day-to-day management.

#### **4 Review of Effectiveness**

- 4.1** The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. 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's annual report and also by comments made by the external auditors and other review agencies and inspectorates.
- 4.2** The Council's review of the effectiveness of its system of internal control is informed by:
- Annual Assurance Opinion of the Head of Internal Audit.
  - Performance against targets;
  - Annual Assurance Statement;
  - LGA Peer Review; and
  - A review of the previous year's Annual Governance Statement.
- 4.3** The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is described below:

##### **4.3.1 Performance Management**

The Council has a Performance Management Framework, overseen by the Corporate Performance Team (CPT), within the Chief Executive's Department. The CPT works with Departmental Management Teams to strategically align all the Council's performance monitoring and reporting and coordinate the production of three main reports:

- The Quarterly Performance Report for Cabinet;
- The Quarterly Departmental Scorecards for the Corporate Management Team.

Members play a regular role in performance management, providing challenge to officers. Cabinet receives a report on performance each quarter. Cabinet portfolio holders have weekly meetings with Executive Directors and review finance and performance indicators each month.

##### **4.3.2 Statutory Officers**

The Constitution sets out how the council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution comprises eight

parts which sets out the basic rules for governing the council's business, as well as detailed procedures and codes of practice.

The Constitution is regularly reviewed and was last updated in April 2016. The Constitution sets out the responsibilities of both members and officers. In particular the council has identified the following six statutory posts:

- Head of Paid Service – Chief Executive
- Chief Financial Officer (Section 151)
- Chief Legal Officer – Monitoring Officer
- Strategic Director Children and Young People
- Strategic Director Community and Wellbeing
- Director of Public Health.

### **4.3.3 Management**

Each Strategic Director has provided a self-assurance statement in respect of 2015/16, supported by assurances received from their direct reports, that:

- They fully understand their roles and responsibilities;
- They are aware of the principal statutory obligations and key priorities of the Council which impact on their services;
- They have made an assessment of the significant risks to the successful discharge of the Council's key priorities; and
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks.

All staff, in particular managers, are responsible for ensuring that laws and regulations are complied with and that the authority's policies are implemented in practice. Strategic Directors, operational directors and heads of service are responsible for monitoring implementation of the council's policies.

One of the key elements in obtaining the required internal controls assurance for the Annual Governance Statement is the completion of the Annual Assurance Statement by senior officers. The Statement noted that for the year ended 31 March 2016, senior officers were aware of their responsibilities and had complied with the council's policies and procedures.

Strategic Directors were asked to compile their statement after reviewing the statements from their direct reports. Direct reports were asked to compile their statement after taking assurance from their senior management teams.

#### **4.3.4 The Cabinet**

The Cabinet makes key decisions in accordance with the Budget and Policy Framework. They conduct joint planning sessions with the Corporate Management Team to consider the council's policy priorities and its linkages with the medium term financial strategy. The Cabinet meets regularly with the Corporate Management Team to develop policy and to receive operational and financial performance information.

#### **4.3.5 The Standards Committee**

The Standards Committee receives reports from the Council's Monitoring Officer on issues concerning member conduct and would consider reports referred from the Monitoring Officer which require investigation and/or determination. The role and effectiveness of the Standards Committee has recently been enhanced.

#### **4.3.6 Scrutiny Committee**

The council had one Scrutiny Committee meeting in 2015/16. The committee is responsible for developing a robust work programme which covers both the council's statutory responsibilities with regard to Health and Community Safety. The committee deals with call-in of Cabinet decisions, reviewing the council's performance against its objectives and scrutiny of local partners where appropriate. In addition the Scrutiny function undertakes a programme of 6 in depth task groups each year on matters of local concern. The views of local residents and service users are sought as part of the evidence gathering for these scrutiny task groups. These arrangements have been enhanced as part of the Annual General Meeting (AGM) in May 2016 to strengthen the role of scrutiny.

#### **4.3.7 The Audit Committee**

The Audit Committee met five times during 2015/16 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. The Committee monitors the effective development and operation of risk management. It 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 audits that need to be brought to the attention of the Council. The Audit Committee also considers the Treasury Management Strategy and the Annual Investment Strategy and reviews treasury management activity during the year.

#### 4.3.8 Internal Audit

The council takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole range of the Council's activities. It is the duty of the Head of Audit and Investigations to give an opinion, at least annually, on the adequacy and effectiveness of internal control within the Council. This opinion has been used to inform the Annual Governance Statement.

The Head of Audit & Investigations provided his annual report to the Audit Committee on the 13<sup>th</sup> June 2016. This report outlined the key findings of the audit work undertaken during 2015-16, including areas of significant weakness in the internal control environment.

An assurance mechanism is used to reflect the effectiveness of the council's internal control environment. The table below details the four levels of assurance provided:

Level	Definition
Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Substantial	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.
Limited	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.
None	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.

It is the opinion of the Head of Audit and Investigations that, taking into account all available evidence, there is **Substantial Assurance** over the adequacy and effectiveness of the council's overall internal control environment during the financial year 2015-16.

#### 4.3.9 External Audit

KPMG LLP is currently the Council's appointed external auditor. As well as an examination of the Council's financial statements, the work of the council's external auditor includes an assessment of the degree to which the council delivers value for money in its use of resources.

#### **4.3.10 Risk Management**

The Council managed its risks during 2015-16 in accordance with the approved Risk Management Policy. The Corporate Management Team formally considers risks, with quarterly reports also being presented to the Audit Committee.

#### **4.3.11 Developing Capacity**

The Council has operated procedures during the period covered by this statement to ensure the training needs of staff are assessed against core competencies and any key training needs are met. Additionally the Council has provided and makes available ongoing training opportunities to councillors to enable them to effectively fulfil their duties.

#### **4.3.12 Engagement**

Regular consultation is also undertaken with residents to ensure that the authority makes decisions based on resident requirements and feedback regarding general provision and quality of service.

## 5 Significant Governance Issues

5.1 Set out below is the significant governance issue which was identified in 2014/15 and the progress against these together with the new issues identified for 2015/16.

### 2014/15 Issues and Progress

- **Contractor management.** As the council increases its contracting activity, strong negotiating and contract management skills are essential. The council needs to ensure that contractor pricing and performance proposals are robust and the analysis of these is rigorous pre-contract award. This action is ongoing to 2017.

### 5.2 2015/16 Significant Governance Issues

2015/16 Significant Governance Issues			
Issue	Actions	Officer Responsible	Timescale
<p><b>1. Financial Service Centre – Internal Control Failure</b></p> <p>Following a failure to follow defined systems and processes in September 2015, a payment of a batch of invoices to a range of suppliers totally £2.1m was duplicated. The duplication was identified very quickly and recovery activity instigated immediately. As at the end of the financial year less than £10,000 remained outstanding and is subject to ongoing recovery action.</p>	<p>An independent review by KPMG was conducted, reporting directly to the Chief Executive. The results of this were reported directly to the Audit Committee</p> <p>Financial control procedures have been thoroughly revised and staff have been trained to work in new ways. This also included specifically commissioned anti-fraud training to heighten awareness of the importance of financial controls</p> <p>Competency based selection was undertaken throughout the finance service centre as part of a wider</p>	<p>Chief Finance Officer / Strategic Director of Resources</p>	<p>Ongoing</p>

	reorganisation, resulting in a number of staff leaving and new appointments being made		
<p><b>2. Statutory Compliance - Health &amp; Safety</b></p> <p>On 21<sup>st</sup> January 2016 the Council was served with two improvement notices from the Health &amp; Safety Executive (HSE) following a serious assault on two employees which raised concerns about the quality of the risk assessment process. Other Health &amp; Safety policies were also out of date leaving weaknesses where operational practice had not been updated to reflect new organisational structures.</p>	<ol style="list-style-type: none"> <li>1. A full review of the council's health and safety system has been undertaken by suitably qualified and experienced experts. Their report will come to CMT in June and the recommendations will be delivered as set out, and all by 31/03/2017.</li> <li>2. Weaknesses identified by the HSE in their notice of compliance have been met in full and will be monitored by the Corporate Health and Safety Committee with quarterly reports to CMT</li> <li>3. Action Plan Developed</li> <li>4. Children &amp; Young People Department now fully compliant.</li> </ol>	<p>Strategic Director, Regeneration &amp; Environmental Services</p> <p>Strategic Director, Children &amp; Young People Department</p> <p>Strategic Director, Children &amp; Young People Department</p> <p>Strategic Director, Children &amp; Young People Department</p>	<p>By 31/03/2017</p> <p>March 2016 – May 2017</p> <p>March 2016</p> <p>May 2016</p>

<p><b>3. Brent Housing Partnership – Integrated Asset Management Partnership</b>  Inadequate client / BHP board / BHP management oversight of key areas of work led to:</p> <ul style="list-style-type: none"> <li>• Significant delays in the stock investment programme</li> <li>• Inadequate contract administration and compliance by BHP in respect of maintenance as confirmed through Audit</li> <li>• Poor customer service and therefore customer satisfaction</li> </ul>	<p>Recovery plan put in place from January 2016:</p> <ul style="list-style-type: none"> <li>• BHP management team has been changed</li> <li>• BHP board set up a Transformation board to oversee recovery</li> <li>• Client / BHP governance revised</li> <li>• Recovery plan in place (based on Audit evidence, customer feedback and other external challenge) and being monitored as described above, and</li> <li>• All action being reported to Cabinet in June 2016 and October 2016.</li> </ul>	<p>Operational Director of Housing, Community &amp; Wellbeing Department</p>	<p>September 2016</p>
<p><b>4. Relationship between Officers and Members</b>  Whilst working relationships between Officers and Members are generally strong, the LGA peer review carried out in January 2016, identified areas where these could be strengthened. In particular, greater clarity is required around respective roles in decision making.</p>	<p>Officers and Members, through the Constitutional Working Group (CWG) are conducting a thorough review of the Council's constitution to ensure that it reflects the proper balance between effective control and democratic oversight and reasonable delegation making, to enable effective service delivery.</p>	<p>Chief Executive</p>	<p>The review of the constitution by the CWG will be concluded in the third quarter of 2016 to enable adoption of its recommendations, if considered appropriate, by full Council in February 2017 as part of the budget setting meeting.</p>

<p><b>5. Exit packages and settlement arrangements</b> During the year a high profile employment tribunal case concerning a former employee was resolved, and a settlement agreement reached with the council's former HR Director, resulting in substantial costs to the council.</p>	<p>The council instituted a review into equalities, led by the then Deputy Leader, and the recommendations that came out of that review have been enacted.</p>	<p>Chief Executive</p>	<p>Completed, but ongoing monitoring will be maintained.</p>
--	--	------------------------	--

**5.3** 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. Conclusion and Evaluation**

As Leader and Chief Executive, we have been advised of the implications of the results of the review of the effectiveness of the Council's governance framework.

Our overall assessment is that this Annual Governance Statement is a balanced reflection of the governance environment and that an adequate framework exists within the London Borough of Brent to ensure effective internal control is maintained.

We are also satisfied that there are appropriate plans in place to address the weaknesses and ensure continuous improvement in the system of internal control.

Signed: ..... ..

Muhammed Butt

Carolyn Downs

Leader of the Council

Chief Executive

Dated: ..... ..

**This page is intentionally left blank**



# Progress report

**Incorporating our technical update**

**Brent Council**

**June 2016**

# Contents

**The contacts at KPMG  
in connection with this  
report are:**

**Phil Johnstone**  
Director  
KPMG LLP (UK)  
Tel: 020 7311 2091  
Philip.Johnstone@kpmg.co.uk

**Steve Lucas**  
Senior Manager  
KPMG LLP (UK)  
Tel: 020 7311 2091  
Stephen.lucas@kpmg.co.uk

**External audit progress report**

**Technical update**

**Appendices**

1. 2015/16 audit deliverables

**Page**

3

4

8

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors. The report also highlights technical issues which are currently having an impact in local government and may interest the Audit Committee. If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

June 2016

# External audit progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

We completed our initial planning work and in line with auditing standards, we presented our audit plan to the Audit Committee meeting in March 2016. This highlighted the significant risks to our audit at the planning stages, the first two which are standard risks for all organisations:

- Management override of controls;
- Fraudulent revenue recognition – certain elements including s106 monies, fees etc;
- Oracle General Ledger and Purchase Ledger;
- Fair value of Property, Plant and Equipment; and
- Actuarial valuation -pension assets and liabilities.

We believe these risks remain valid and no further significant risks have been identified.

Since preparing the plan we have completed an interim audit visit. We updated our knowledge of the overall control environment and completed walk through tests to determine that the key controls we are planning on placing reliance on were operating as designed. We are meeting the Chief Executive and Chief Finance Officer on 27 June to obtain an update on how the Council is addressing the key challenges it is facing which will assist us in completing our work on our Value for Money conclusion.

We are also starting the detailed planning for our audit opinion visit that is due to start on 4 July 2016.

A summary of the timing of the deliverables we provide is included in Appendix 1 of this report.

# Technical developments

Elector rights – 2015/16 changes	KPMG perspective
<p>Authorities may be aware that the <i>Accounts &amp; Audit Regulations 2015</i> have introduced new arrangements for the exercise of electors' rights, which take effect from the 2015/16 financial statements. One of the most significant changes is that the auditor is no longer required to 'call the audit' and specify a date upon which electors can meet with the auditor and ask questions about the accounts.</p> <p>Regulation 15 requires the Responsible Financial Officer (RFO), after signing and dating the draft accounts on behalf of the Authority, to commence the period for the exercise of electors' rights. This period is limited to 30 working days, and for 2015/16 must include the first 10 working days of July.</p> <p>Authorities should also note that Regulation 9(2) is clear that the authority's meeting to consider and approve the accounts should take place after the period for the exercise of electors' rights has ended. Due to the requirement in Regulation 15 for a common inspection period during July, the inspection period this year cannot end before 14 July 2016. This means that authorities should not approve and publish their accounts before 15 July 2016.</p> <p>Electors' rights are important, and the courts have in the past been critical of those who have not ensured that adequate provision for the exercise of these rights is made.</p> <p>Auditors are mindful that they may be contacted by electors or their representatives during the 30 working day inspection period. Given the limited time available, auditors will ensure that they have adequate arrangements in place during the prescribed period for receiving and identifying promptly whether any correspondence received includes formal questions under the <i>Local Audit and Accountability Act 2014</i>, and/or objections to the accounts.</p>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>
Highways	KPMG perspective
<p>Authorities will be aware that the CIPFA/LASAAC consultation on the Draft Code of Practice on the Highways Network Asset (HNA Code) closed in April 2016.</p> <p>Following the consultation, the second in a series of Briefings on the Highways Network Asset has been made available on the CIPFA website at: <a href="http://www.cipfa.org/policy-and-guidance/local-authority-highways-network-asset">http://www.cipfa.org/policy-and-guidance/local-authority-highways-network-asset</a>.</p> <p>The Briefing covers the HNA Code consultation, the definition of the Highways Network Asset, 2015/16 reporting requirements and the Central Assurance process. Further guidance, and future briefings, on this topic are also available on this same webpage.</p>	<p><i>The Committee may wish to understand the progress their Authority has made in its plans to meet the new reporting requirements.</i></p>

Page 182

# Technical developments

Councillors' mileage expenses	KPMG perspective
<p>HM Revenue and Customs (HMRC) are in the process of contacting Local Authorities to commence PAYE and NIC compliance reviews focusing on the historic treatment of councillors' mileage expenses. Those authorities that are unable to demonstrate they have reported payments correctly face a tax and NIC charge, with interest and potentially penalties applying.</p> <p><b>The previous rules</b></p> <p>Up until 5 April 2016, HMRC could agree that for some councillors, home is a place of work and therefore the cost of journeys to council offices could be paid free of tax and NIC. This could have been the case where, for example, councillors were required to see constituents at home. HMRC do not accept however that working from home out of choice makes home a place of work and in these cases, any expenses reimbursed in respect of travel to council offices should have been subject to tax and NIC.</p> <p><b>HMRC Compliance Reviews</b></p> <p>Those local authorities that are unable to support their historic treatment of councillor mileage expenses face a liability to unpaid PAYE, NIC, interest and potentially penalties going back four, and possibly six years. It will be important for local authorities to review their expenses records to determine how travel expenses have been treated and the processes and rationale behind that treatment. Given that different councillors can have different working patterns it will be important to review the treatment on a case by case basis.</p> <p><b>The new rules</b></p> <p>With effect from 6 April 2016, a new exemption has been introduced for councillors' travel expenses. From this date, a councillor's journey between their home and their office will be treated as 'business travel' which means that any mileage expenses reimbursed for this journey will, up to certain limits, be free of tax and NIC (subject to their home not being more than 20 miles outside the relevant authority boundary).</p>	<p><i>The Committee may wish to seek assurances how their Authority is progressing with the new requirements.</i></p>

Page 183

# Technical developments

## 2016/17 Work Programme and Scale of Fees

Following consultation, Public Sector Audit Appointments Ltd (PSAA) has published the work programme and scale fees for the audits of the 2016/17 accounts of principal audited bodies. There are no changes to the overall work programme for 2016/17. The audit fee for the Council will remain at £199,590.

The 2016/17 work programme documents and scale fees for individual audited bodies are now available to view on the PSAA website at <http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees>

## Business rates proposal

The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall.

Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved.

The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at £0.02 on the rate.

The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.

Page 184

# Technical developments

## Publication 'Reimagine – Local Government'

KPMG have published a number of reports under the headline of *Reimagine – Local Government*. These are summarised below:

### **Council cash crunch: New approach needed to find fresh income**

- By 2020, councils must generate all revenue locally.
- More and more are looking towards diversifying income streams as an integral part of this.
- Councils have significant advantages in becoming a trusted, independent supplier.
- To succeed, they must invest in developing commercial capability and capacity.

### **Councils can save more than cash by sharing data**

- Better data sharing in the public sector can save lives and money.
- The duty to share information can be as important as the duty to protect it.
- Local authorities are yet to realise the full value of their data and are wary of sharing information.
- Cross-sector structures and the right leadership is the first step to combating the problem.

### **English devolution: Chancellor aims for faster and more radical change**

- Experience of Greater Manchester has shown importance of strong leadership.
- Devolution in areas like criminal justice will help address complex social problems.
- Making councils responsible for raising budgets locally shows the radical nature of these changes.
- Cuts to business rates will stiffen the funding challenge, even for the most dynamic councils.

### **Senior public sector pensions**

- Recent changes to pensions taxation have particularly affected the public sector, with fears senior staff may quit as pension allowances bite.
- 'Analyse, control, engage' is the bedrock of an effective strategy.

### **Time for the Care Act to deliver**

- Momentum behind last year's Care Act risks stalling.
- Councils are struggling to create an accessible care market with well-informed consumers.
- Local authorities must improve digital presence and engage providers.

The publications can be found on the KPMG website <https://home.kpmg.com/uk/en/home/insights/2016/04/reimagine-local-government.html>

## Appendix 1

# 2015/16 audit deliverables

Deliverable	Purpose	Timing
<b>Planning</b>		
Fee letter	Communicate indicative fee for the audit year	April 2015
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2016
<b>Substantive procedures</b>		
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016
<b>Completion</b>		
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Providing an opinion on your Pension Fund Annual Report Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016
Audit certificate	Providing a certificate to close the audit	September 2016
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016

## Appendix 1

# 2015/16 audit deliverables (Continued)

Deliverable	Purpose	Timing
Certification of claims and returns		
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2016

**This page is intentionally left blank**

 <b>Brent</b>	<b>Audit Committee</b> 30 June 2016  <b>Report from the Chief Finance Officer</b>
For Information <span style="float: right;">Wards Affected: ALL</span>	
<b>Report Title: Internal Audit Annual Report – 2015/16</b>	

## 1. Summary

- 1.1. This report is the annual report from the Head of Internal Audit. The report includes an opinion on the overall adequacy and effectiveness of the Council's internal controls and presents a summary of the audit work undertaken during the year.

## 2. Recommendations

- 2.1. The Audit Committee note the content of the report.

## 3. Detail

- 3.1. The Accounts and Audit Regulations 2015 require the Council to undertake an internal audit of its control systems, taking into account public sector internal audit standards or guidance. That guidance is set out within the Public Sector Internal Audit Standards (PSIAS). These require the Head of Audit to:
- Deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
  - The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
  - The annual report must incorporate: the opinion; a summary of the work that supports the opinion; and a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

## Opinion of the Head of Audit and Investigation

- 3.2. This report gives a summary of the work carried out by Internal Audit and Investigations in the financial year 2015/16 and the results of that work. From the work undertaken during the year, my overall opinion on the Council's system of internal control is that:

I have considered all of the work conducted by internal audit staff, the Council's audit contractor and fraud investigation staff for the year ended 31 March 2016. This includes oversight of all internal audit reports, fraud investigations and specific projects across the Council, schools and Brent Housing Partnership (BHP). In my opinion, with the exception of those areas in which limited assurance reports have been issued (as set out below), the controls in place in those areas reviewed are adequate and effective. Where weaknesses have been identified within internal audit reports and investigations, these are being addressed by management. There has been a slight increase compared to the previous year in the number of limited assurance reports. The numbers remains high and is of some concern. The framework for governance is set out in the annual governance statement and, in my view, this is an accurate description of the governance arrangements.

In relation to risk management, I have had oversight of the risk management process and conclude that the usual range of significant risks for a local authority have been identified.

## Summary of Work Undertaken – Audit

- 3.3. The 2015/16 Audit Plan was approved by the Audit Committee on 24 March 2015. The plan for 2015/16 had a total of 79 audits, including 14 school based reviews.
- 3.4 We have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high risk areas and, in the light of new and ongoing developments in the organisation, ensure the most appropriate use of resources. As a result of this, some changes were agreed to the plan during the year, with some audits added or deleted. The total number of projects completed in 2015/16 was 62, against a revised total plan of 66. The remaining plan could not be completed during 2015/16 due to resourcing pressures within the in-house team, however, these have been scheduled to be completed during 2016/17.
- 3.5 Audit work focused on the reliability of the financial and operational information, management accounting controls, safeguarding of assets, economy and efficiency of operations and review of compliance with relevant statutes and Council regulations.
- 3.6 For each audit where controls have been analysed, an assurance statement is issued. This simple grading mechanism provides an indication of the level of confidence in the controls in operation and the extent to which they are being applied. Each category is defined below:

	Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Substantial	While there is basically a 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 processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the systems of internal control are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	None	Control processes are generally weak leaving the systems / processes open to significant error or abuse. Significant non-compliance with basic control leaves the systems / processes open to error or abuse.

3.7 There has been a slight deterioration in the balance between limited/nil and substantial assurance opinions across the Council, Schools and BHP as set out below. The number of limited reports remains high. This increase is, in part, due to an increase in the number of limited/nil audit opinions provided in schools audits, rather than the Council as a whole. Significant procurement and governance issues have been identified at a number of schools during this year's plan.

	Full	Substantial	Limited	Nil
2015/16	0%	63%	31%	6%
2014/15	3%	66%	28%	3%
2013/14	1%	56%	43%	0%
2012/13	2%	63%	32%	3%

3.7. The following table indicates the audits completed and relevant levels of assurance (where applicable) during the 2015-16 financial year:

<b><u>Audit</u></b>	<b>Assurance Opinion</b>
<b>Key Financials</b>	
General Ledger & Cash Management	Substantial
Payroll	Limited
Housing Benefits	Substantial
Budget Management	Substantial
<b>Other Council Systems</b>	
<b>Community &amp; Wellbeing</b>	
Quality Assurance Meeting	Substantial
Financial Assessments & Charging	Substantial
Houses in Multiple Occupation (HMO) and Private Sector Licensing	Substantial
Private Sector Procurement	Substantial
Private Sector Renewal & Disabled Facilities Grant	Substantial
Public Health – Contract Management	Substantial
<b>Children &amp; Young People</b>	
Safeguarding (LADO)	Substantial
Residential Placements	Limited
Special Education Needs	Substantial
Payments to Foster Carers	Limited
Home to School Transport	Limited
Direct Payments & Short Breaks	Substantial
<b>Regeneration &amp; Environmental Services</b>	
Willesden Green Cultural Centre	Substantial
Development & Planning Control & Enforcement	Substantial
Building Control	Substantial
START	Limited
Byron Court School Expansion – Phase 3 (Capital Project)	Substantial
South Kilburn Regeneration – Cambridge Wells and Eli Court	Limited

Regulatory Services (Trading Standards)	Substantial
Government Procurement Cards	Limited
Community Safety Strategy – Anti Social Behaviour	Substantial
Brent Transport Service	Limited
START	Limited
<b>Resources</b>	
Government Procurement Cards	Limited
Conflicts of Interest and Gifts and Hospitality	Substantial
Recruitment	Substantial
Registrars	Substantial
<b>IT Audits</b>	
Tribal System (Application audit)	Substantial
Perception System (Application audit)	Limited
Community Access Portal	Substantial
Mosaic (Application audit)	Substantial
<b>Schools</b>	
Brentfield Primary School	Limited
Chalkhill Primary School	Substantial
Salisbury Primary School	Limited
Leopold Primary School	Limited
Torah Temimah	Nil
John Keble	Limited
Wykeham Primary School	Substantial
Mitchell Brook Primary School	Limited
Mora Primary School	Substantial
Stonebridge Primary School	Limited
Ashley College	Substantial
<b>Brent Housing Partnership</b>	
Data Quality	Substantial
Housing Repairs & Maintenance	Substantial
Major Contracts - Communal Waters	Nil
Major Contract – Fire Servicing Maintenance & Responsive Repairs	Nil
Community Grant Fund	Substantial

Safeguarding Review	Non Assurance
V5 Housing System (IT)	Substantial

- 3.8. In addition to assurance work, the following projects were also completed. Although they contain no assurance rating the work has informed the overall opinion:

Audit	Opinion
Troubled Families Grant Claim Certification (May 2015)	Claim Certified
Troubled Families Grant Claim Certification (January 2016)	Claim Certified
Schools Summary Report & Head Teachers Pay Summary	Non Assurance
Disabled Facilities Grant Determination	Grant Certified
Potholes Grant Determination	Grant Certified
Procurement Review – Gym Equipment	Non Assurance
Barham Park Accounts	2014/15 Accounts signed off
Pre – ICO Audit	Non Assurance
Health & Safety	Non Assurance
BHP – Review Proposed Safeguarding Arrangements	Non Assurance

- 3.9 Included in the Appendix 1 to this report is a summary of priority 1 recommendations for the audits finalised since the last report to the Committee in March 2016 where an assurance opinion of limited has been given.

### 3.10 Follow up Reviews

Internal Audit complete a programme of follow up reviews to ensure that agreed management actions in respect of significant recommendations made have been implemented. The status of the Priority One recommendations raised during 2014/15 and 2015/16 is as outlined within the table below:

Number of P1 recommendations to follow up	78
Number of P1 recommendations due to be implemented by 31/05/2016	78
Number of P1 recommendations fully implemented	50
Number of P1 recommendations partially implemented	5
Number of P1 recommendations where the status has not been updated by management or evidence of	23

implementation has not been provided	
--------------------------------------	--

For those P1 recommendations for which the implementation status has not been updated, this means that the Infostore system that is used to monitor the progress of recommendations has not been updated by the relevant action managers, or sufficient evidence of implementation provided. Action managers are regularly reminded of their responsibilities in this area by the audit team, but there are still 23 recommendations for which updates have not been provided. This has been escalated to senior management.

### 3.11 Internal Audit Performance

The performance against the agreed performance indicators is as follows:

Measure	31 March 2015	
	Target	Actual
% of draft reports issued 10 days after fieldwork.	95	90%
% of draft reports completed within budget	95	94%
% of final reports issued 5 days after responses.	100	100%
% of Plan Completion (draft reports issued)	100	93%

#### **Summary of Work Undertaken – Fraud**

Fraud affecting the council can be split between internal, committed by staff, or external, committed by third parties. As with all other large institutions in both the public and private sector, the council suffers from both. The team has conducted both reactive and proactive work during the year as set out below.

The team also recovered 63 properties which had been sublet. Again, sub-letting fraud is has been identified as a national problem and this does not indicate any specific control weaknesses within the council.

A number of other cases of external fraud were identified, including false claims for council tax discount and blue badge misuse and direct payments.

In relation to internal fraud/irregularity there were 31 investigations completed during the year. Fraud or irregularity was established in 9 of these cases resulting in 3 dismissals at disciplinary, 5 resignations and 1 warning. These cases are summarised below:

<b>Fraud / Irregularity</b>	<b>Number</b>	<b>Dismissed</b>	<b>Resigned</b>	<b>Warning</b>	<b>No Sanction</b>
External Offences	1	0	1	0	0
Wilful Breach of Regulations/ Procedures	2	1	0	1	0
Conflict of Interest	1	0	0	1	0
Payroll Fraud	3	1	2	0	0
False Benefit Claim	1	0	1	0	0
Illegal Working	1	1	0	0	0

None of the above cases give cause to raise an adverse opinion on the control environment.

#### **4. Diversity Implications**

4.1. None

#### **5. Background Papers**

5.1. None

#### **6. Contact Officer Details**

Steve Tinkler, Head of Internal & Audit & Investigations Shared Service, 1<sup>st</sup> Floor, Civic Centre.

Telephone – 07525 893458

**Conrad Hall**  
**Chief Finance Officer**



**Internal Audit**  
**Final Internal Audit & Counter Fraud**  
**Progress Report – 2015/16**  
**London Borough of Brent**  
**June 2016**

## Contents

## Page No

Executive Summary	1
Detailed summary of work undertaken	2
Counter Fraud Summary	13
Appendix A – Definitions	16
Appendix B – Audit Team and Contact Details	18

## Executive Summary

### Introduction

This report sets out a summary of the work completed against the 2015/16 Internal Audit Plan, including the assurance opinions awarded and any high priority recommendations raised.

Those audits reported on at previous Audit Committee meetings are not included, but reference can be made to the full list of assurance opinions in the cover report.

### Summary of Work Undertaken

The Final Reports in respect of the 2015/16 period and issued since the last meeting relate to the following areas, with further details of these provided in the remainder of this report:

- Financial Assessments & Charging
- START
- Direct Payments & Short Breaks
- Byron Court School Expansion – Phase 3
- South Kilburn Regeneration – Cambridge Wells & Ely Court
- Public Health – Contract Monitoring
- Housing Benefits
- Wykeham Primary School
- Ashley College
- Responsive Repairs & Maintenance (BHP)
- Major Contract – Communal Water (BHP)
- Major Contract – Fire Servicing Maintenance & Responsive Repairs (BHP)
- BHP Safeguarding Review
- Avigdor Hirsh Torah Temimah Primary School

## Detailed summary of work undertaken

### FULL / SUBSTANTIAL ASSURANCE REPORTS: 2015/16

Audit	Assurance Opinion and Direction of Travel
<b>General Audits</b>	
Financial Assessments & Charging	
Direct Payments & Short Breaks	
Byron Court School Expansion – Phase 3	

Audit	Assurance Opinion and Direction of Travel
Public Health – Contract Monitoring	
Housing Benefits	
<b>Schools</b>	
Wykeham Primary School	
Ashley College	

## LIMITED ASSURANCE REPORTS – General Audits

### START

Brent Start (START) offers a wide range of long and short term courses to help residents develop their skills further and gain new qualifications. Courses include English for Speakers of Other Languages (ESOL), mathematics, English, beauty, health and social care, business and ICT and languages.

It also provides free jobs search support and employability training. START is developing a 'Traineeship offer', which is effectively a pre-apprenticeship training programme for 19 to 24 year old Brent residents with little or no work experience who are interested in a career in childcare, construction, adult social care and/or business administration.

Dependent on your circumstances and benefits, you may be entitled to full funding for some of the courses.

**Three priority 1, six priority 2 and one priority 3 recommendations were raised as a result of this audit. The three priority 1 recommendations are set out below.**



Recommendation	Management Response
<p>A fee policy for courses provided by STARTS should be put in place which outlines the calculation and determination of course fees. The policy should be finalised and approved by cabinet. The policy should be reviewed and updated on a yearly basis.</p> <p>The STARTS Debt Management policy should be reviewed, updated where appropriate and finalised by the Quality Manager. The policy should be reviewed and updated on a yearly basis.</p> <p>A copy of the attendance policy should be incorporated into all learner handbooks. The attendance policy available to tutors should be revised and updated to include the correct information.</p>	<p>Agreed.</p> <p>The Brent Start management team will review current procedures in discussion with Brent Council.</p> <p>Policy to be reviewed by the Employment &amp; Skills Management Team (ESMT) and incorporated into all learner handbooks.</p>
<p>The Management Information System's Team should ensure that only individuals who are owing outstanding fees are included on the report generated by EBS system. The team should also ensure that data is accurately populated onto the system and that the correct fee code is applied. The Customer Support Team should ensure that once individuals have been flagged as having money outstanding that the recovery process is initiated immediately.</p> <p>The Management Information Systems team should ensure that all data populated into the system is accurate and correct and that the correct fee code is applied.</p>	<p>Agreed.</p> <p>The current report on outstanding fees looks at the link between learner and course, if the fee is not matched against the course, for validation reasons that learner record is displayed on the report as a safety check. A review of <u>all</u> Brent Start fee payers (approx. 250), is in progress.</p>
<p>Managers should ensure that warning and withdrawal letters are being sent to learners as per the attendance policy. Tutors should ensure that where a learner has been withdrawn this is correctly changed on the EBS system in a timely manner to ensure that there is no adverse impact on the funding received from the Skills Funding Agency</p>	<p>Agreed.</p> <p>Processes will be clarified with all managers in order to improve consistency.</p> <p>Problems due to the introduction of the new EBS system will be resolved for 2016/17.</p>

**South Kilburn Regeneration – Cambridge Wells and Ely Court**

**Two priority 1 and two priority 2 recommendations were raised as a result of this audit. The two priority 1 recommendations are set out below.**



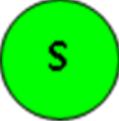
Definitive signed copies of agreements should be retained.  
 The Borough Solicitor should verify and obtain evidence that the contracts listed in this report exist and are available from the external solicitors.  
 The Borough Solicitor should verify with the external solicitors the process for sealing contracts, providing these to the Council, and archiving contracts to confirm whether these procedures are robust enough to protect the Council's interests.  
 The Borough Solicitor should also ascertain whether this may be a Council wide issue or an isolated issue in respect of the contracts listed in this report.  
 Where the Council has paid for external archiving services, it should investigate the possibility of clawing-back monies if the archiving service is deemed inadequate

Agreed.

Consideration should be given to including a provision for remedies, penalties and/or liquidated and ascertained damages where it is appropriate to do so taking into account the level of risk, value and complexity of development agreements.  
 Where such remedies are specified these should be estimated using different calculation options where available. The most suitable result taking into account commercial and market factors amongst others should be selected.  
 The consideration of the above should be undertaken prior to entering into contracts/agreements.

Agreed.

**BHP**

<b>Responsive Repairs &amp; Maintenance</b> Details reported separately to BHP Audit Committee	
<b>Major Contract – Communal Water</b> Details reported separately to BHP Audit Committee	
<b>Major Contract – Fire Servicing Maintenance &amp; Responsive Repairs</b> Details reported separately to BHP Audit Committee	

**Non-Assurance Work**

<b>BHP – Safeguarding Review</b> Details reported separately to BHP Audit Committee	Non - Assurance
--	-----------------

**LIMITED/NIL ASSURANCE REPORTS – Schools**

**Torah Temimah**

<b>Avigdor Hirsh Torah Temimah Primary School</b>	
<p>Eleven priority 1, sixteen priority 2 and five priority 3 recommendations were raised as result of this audit. The eleven priority 1 recommendations are set out below.</p>	
	
Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>The Governing Body and Head teacher should ensure the following:</p> <ul style="list-style-type: none"> <li>• That responsibility for review and approval of the draft budget is formally delegated to the Finance Committee (this should be set out in the terms of reference of the Committee);</li> <li>• That the draft budget is prepared on a timely basis (ideally before the start of the relevant financial year). Where final income figures are yet to be provided by the Council the school should use best estimates;</li> <li>• That the draft budget is in future reviewed and discussed by all members of the Finance Committee prior to being approved;</li> <li>• That the timing of the Finance Committee and Governing Body meetings are scheduled to allow sufficient time for the review and approval of both the draft and final budgets for submission to the Council and within the specified timeframes;</li> </ul> <p>That the final budget and the carry forward surplus and its intended use is formally approved by the full governing body.</p>	<p>Responses from the School are still outstanding.</p>

<p>The Head teacher and School Business Manager should ensure the following:</p> <ul style="list-style-type: none"> <li>• That the formulae used to calculate percentage variances on the budget monitoring spreadsheets are checked to ensure that they are correct;</li> <li>• That payroll costs and income from donations are being promptly and correctly posted on SIMS and in a timely manner;</li> <li>• Where any significant variances are identified between the budget and the position to date or between the budget and year-end forecast, explanations should be recorded for these together with any relevant actions to be taken to address these variances and these should be presented for discussions at scheduled Finance Committee meetings;</li> <li>• That all expenditure and income is properly and correctly accrued for at the year-end; and</li> <li>• That the budget monitoring reports are being signed off and dated by the Head teacher as evidence of review.</li> </ul>	<p>Responses from the School are still outstanding.</p>
<p>The Governing Body and Head teacher should ensure;</p> <ul style="list-style-type: none"> <li>• That the school complies with the Council's Contract Standing Orders, Finance Regulations and EU Procurement Regulations when procuring goods and services.</li> <li>• More specifically, at least three written quotes should be sought and obtained where the estimated value of a contract or procurement falls between £25k and £172,514. For supply and services contracts where the estimated value exceeds £172,514 over the life of the contract, a formal competitive tendering process should be undertaken;</li> <li>• In future the School should liaise with the Council's Procurement Team prior to rolling any of these contracts forward to ensure that appropriate checks are undertaken, that Schools are achieving value for money in the procurement of</li> </ul>	<p>Responses from the School are still outstanding.</p>

<p>goods and services and that they are not in breach of Financial Regulations and EU procurement regulations; and</p> <ul style="list-style-type: none"> <li>• That all contracts of between £5,000 and £9,999 are approved by the Finance Committee and contracts over £10,000 by the Governing Body, in accordance with the School's Scheme of Delegation</li> </ul>	
<p>The Head teacher and the School Business Manager should ensure the following:</p> <ul style="list-style-type: none"> <li>• That income registers are sufficiently detailed and include at least the following information: date income received; officer receiving payment; amount received; payee details; payment method; receipt reference; paying in slip reference; and date banked;</li> <li>• That pre-numbered receipts should ideally be issued where practical for all monies collected on behalf of the School;</li> <li>• That a reconciliation of income collected to income records is undertaken prior to banking and evidence of this is maintained; details of all income received is recorded on SIMS when income is received rather than when it appears on the bank statement;</li> <li>• That a proper audit trail is in place for all income streams and that all income is posted to the correct ledger code;</li> <li>• Review the responsibilities of the School Administrator and Secretary so that proper segregation of duties is being achieved within the income recording, processing and banking functions.</li> </ul>	<p>Responses from the School are still outstanding.</p>

<p>The Head teacher and School Business Manager should ensure the following:</p> <ul style="list-style-type: none"> <li>• That all of the school's bank accounts are being reconciled monthly and on a timely basis; and</li> <li>• That all bank reconciliations are being properly and correctly undertaken and the relevant documentary evidence (such as balances and reserves report) should be printed off the School's accounting system and attached to the reconciliation.</li> <li>• That when the bank reconciliation is being undertaken, the bank balance is compared to the cashbook balance from the school's accounting system at the date of the reconciliation and all differences identified are checked to ensure that they relate to genuine timing differences rather than to errors. Only outstanding receipts or unrepresented cheques as at the reconciliation date should form part of the reconciliation;</li> <li>• That all bank reconciliations are reviewed and signed off by the Head teacher as evidence of review;</li> <li>• That assistance is sought from the School's Finance Team in order to correct the recurring errors in the School's budget share bank account reconciliations without delay;</li> <li>• That the reasons for any long outstanding unreconciled transactions should be promptly investigated and appropriate action taken to clear them. The School Business Manager should liaise with the Council's School's Finance Team in order to correct the general ledger transactions that are currently included in the unreconciled items listing.</li> </ul>	<p>Responses from the School are still outstanding.</p>
<p>The Governing Body should ensure that the School is complying with the requirements of the STPCD in respect of leadership pay (in respect of the Principal). Consideration should be given to the advice provided by the Council's HR Team and a decision should be taken without further delay so that this matter can be resolved once and for all.</p>	<p>Responses from the School are still outstanding.</p>

<p>The Governing Body should expedite the implementation of pay structure for non-teaching staff and the development of employment contracts.</p>	<p>Responses from the School are still outstanding.</p>
<p>The Head teacher and School Business Manager should ensure;</p> <ul style="list-style-type: none"> <li>• That payroll costs are being correctly and promptly posted to the SIMS system (this should be done monthly).</li> <li>• That no adjustments / deductions should be made to the payroll costs for teaching assistants except where are directly related to those costs. That any adjustments required should be processed as journals to ensure a proper audit trail.</li> <li>• That evidence of review of the final payroll reports sent to the payroll administrator by the head teacher are being retained.</li> </ul>	<p>Responses from the School are still outstanding.</p>
<p>The Governing Body and the Head teacher should ensure that all outstanding recommendations arising from the last review by Internal Audit are implemented. The School's Governing Body should monitor the progress of recommendations arising from audit reports to ensure that they are being promptly implemented.</p>	<p>Responses from the School are still outstanding.</p>
<p>The Governing Body and Finance Committee should ensure the following:</p> <ul style="list-style-type: none"> <li>• That minutes of meetings of the Governing Body and Finance Committee includes more detailed narrative information of discussions about financial matters such as the budget;</li> <li>• That meetings are properly minuted to explicitly record decisions of the governing body including for example the adoption of the Council's Financial Regulations; and</li> <li>• That the clerking of both meetings are ideally undertaken by an independent clerk.</li> </ul>	<p>Responses from the School are still outstanding.</p>

## Counter Fraud Summary

### Internal Fraud

Internal fraud refers to fraud committed by employees, agency staff and staff in maintained Schools. For the purposes of this report, “fraud” includes instances of theft, fraud, misappropriation, falsification of documents, undisclosed conflicts of interest and serious breach of financial regulations. Activity for the first quarter of year to date is shown in table 1 below:

**Table 1 – Internal Fraud 2015/16**

Internal	2015/16	2014/15
Open Cases b/f	21	21
New Referrals	42	41
Closed Cases	31	51
Fraud / Irregularity identified	9	17
Dismissal	3	5
Resignation/Officer Left	5	7
Warning	1	5
Open cases carried c/f	22	11

It should be noted that there has been an increase in internal fraud cases specifically identified via the National Fraud Initiative (NFI) data matching exercise. These relate to matches which suggest that staff are claiming housing benefit which they may not be entitled to. These cases are currently being subject to further assessment by the Department of Works & Pensions (DWP) to confirm whether they are due to fraud or error.

## Housing Tenancy Fraud

Recovery of social housing properties has a significant impact upon the temporary accommodation budget. The Audit Commission has previously estimated that the average value, nationally, of each recovered tenancy is £18,000. Caseload information is set out in table six below.

**Table 2 – Housing Fraud 2015/16**

<b>Housing Fraud</b>	<b>2015/16</b>	<b>2014/15</b>
Open cases b/f	174	77
New Referrals	250	380
Closed Cases	314	307
Fraud Found	73	61
Recovered Properties Brent	63	51
Applications Refused	2	4
Property Size Reduced (Rehousing)	5	5
Right to Buy Stopped	3	0
<b>Value of properties recovered*</b>	£1,134,000	£918,000
<b>Value of Right to Buy Discount prevented**</b>	£90,000	0
<b>Value of Property Size Reduced</b>	£281,600	£90,000
Open cases c/f	121	150
Cases with Legal for Possession	18	25

\*Notional value of recovered properties is £18,000

\*\* Actual amount of discount stopped

**Actual value of housing fraud identified for the year is £1,505,600**

### **Other External Fraud**

This category includes all other external fraud/irregularity cases, such as blue badge, direct payments and council tax discounts.

**Table 3 – Other External Fraud 2015/16**

Other External Fraud	2015/16	2014/15
Open cases b/f	56	24
New Referrals	99	65
Closed Cases	62	71
Fraud / Irregularity	10	22
Prosecution	0	1
Warning / Caution	3	2
Overpayment Identified	7	19
Open cases carried c/f	57	18

There has been an increase in new referrals due to the start of a new Service Level Agreement (SLA) with Revenues and Benefits Service with regards to council tax reduction referrals. Fifty plus referrals are in respect of Council Tax Reduction Scheme (CTRS) and are awaiting Revenues & Benefits approval.

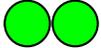
A blue badge fraud operation was carried out in partnership with the Police and Parking Enforcement in February 2016. Two blue badges were seized for being misused and two vehicles were lifted due to the use of counterfeit badges operation.

As a result of NFI data matching 272 blue badges were cancelled and records updated. The notional value of these cancellations is £136,000 (£500 per badge).

## 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

London Borough of Brent	Contact Details
Steve Tinkler – Head of Audit & Investigations	<a href="mailto:steve.tinkler@brent.gov.uk">steve.tinkler@brent.gov.uk</a>
Aina Uduehi – Audit Manager	§ 07525 893458    <a href="mailto:aina.uduehi@brent.gov.uk">aina.uduehi@brent.gov.uk</a>
Dave Verma – Counter Fraud Manager	§ 020 8937 1495    <a href="mailto:dave.verma@brent.gov.uk">dave.verma@brent.gov.uk</a> 020 8937 1262

Mazars Public Sector Internal Audit Limited	Contact Details
Mark Towler – Director	
Jeremy Welburn – Senior Audit Manager	<a href="mailto:Jeremy.welburn@mazars.gov.uk">Jeremy.welburn@mazars.gov.uk</a>
Harish Shah – Computer Audit Sector Manager	§

 <b>Brent</b>	<b>Audit Committee</b> 30 June 2016  <b>Report from the Chief Finance Officer</b>
For Information <span style="float: right;">Wards Affected: ALL</span>	
<b>Report Title: Internal Audit Update Report</b>	

## 1. Summary

- 1.1. This report is an update report from the Head of Internal Audit on internal audit activity from April 1<sup>st</sup> 2016.

## 2. Recommendations

- 2.1. The Audit Committee note the content of the report.

## 3. Detail

- 3.1. The Internal Audit Plan for 2016/17 comprises 1100 days. 590 days will be delivered by the Strategic Partner and the in-house team will deliver a further 510 days.
- 3.2. In this quarter, the in-house team have been finalising work from Quarter 4 2015/16, and scoping and arranging planning meetings for 2016/17 work. Resourcing pressures in 2015/16 meant that not all of the in-house plan was delivered, and the team have been finishing last year's plan in this quarter.
- 3.3. Following the completion of a recent procurement exercise in May 2016, in consultation with the London Borough of Brent, PriceWaterhouseCoopers (PWC) were appointed as the Strategic Internal Audit Partner for the Audit and Investigations Shared Service.
- 3.4. Working with the Head of Audit & Investigations, PWC will support the existing in-house resource in the delivery of strategic & robust internal audit services to the London Borough of Brent.

- 3.5 Due to the recent procurement, PWC are currently in the early stages of delivering the planned audit activity. Details of PWC's progress for the delivery of the internal audit plan and any key findings will therefore be reported to the next meeting of the Committee.
- 3.6 A key objective of the relationship between the shared service and PWC is to continue to develop and evolve the quality of the internal audit service delivered. This will be achieved through innovation and the use of technology to support the internal audit approach delivered. A summary of the current audit activity is therefore outlined below:

### **Audit delivery**

Audit work so far has focussed on commencing key strategic audits that will help us develop our understanding of the Council and provide assurances in line with business need. We have highlighted a selection of audits that we are prioritising for delivery and provided an outline of our approach, the planned benefits and indicative timescales for delivery:

#### **Assurance mapping:**

Assurance Mapping is a tool to ensure key risks are assured across an organisation – driving out gaps and overlaps in the assurance jigsaw and ensuring that audit work is aligned to the assurance requirement and audits focus on the risks that matter.

We are currently creating a tailored audit universe for the Council and collating the information required to assess the control environment. We will meet with service areas over the course of July/August to further develop the risk assessment process and identify external sources of assurance.

The main benefits of having the assurance map are:

- Ability to prioritise assurance resource where it is needed leading to “smarter” audit plan;
- Greater understanding of the organisation's control environment and key risk areas; and
- Identification of any gaps or duplication in the assurance framework leading to efficiencies.

### **Key financial controls:**

We plan on delivering a continuous audit monitoring (CAM) programme of key financial controls testing. This will consist of two testing phases per year and will focus on key controls in relation to accounts payable, accounts receivable, council tax, NNDR, payroll and housing benefits.

The CAM programme will provide assurance over key financial controls as well as act as a key indicator of the strength of the control environment across key systems and processes in the Council.

Testing will entail a blended approach of automated testing using data from relevant systems and manual tests of controls.

We are currently working with key contacts for the relevant systems to understand the key controls in place and design our testing approach. The first phase of testing is scheduled for September 2016.

### **IT Risk Diagnostic**

The purpose of this review is to baseline our understanding of the IT risk environment and maturity of internal controls across the IT Audit Universe within the Council. This will be performed by carrying out a series of discussions and workshops to understand the processes and controls in place and perform an assessment of controls maturity against a set of standard criteria defined in our IT Risk Diagnostic toolkit.

This review will help us identify potential IT risk areas and ensure that audit work is aligned to the areas that present the most risk.

Scoping meetings have been held with key contacts and workshops have been scheduled in for June/July to perform fieldwork.

### **Commercial assurance**

Concerns around the Council's contract management arrangements were highlighted to us at the outset. We have prioritised the commencement of work in this area and a scope has been agreed with fieldwork being undertaken in June/July.

Our audit approach will consist of the following:

- Assess proposed revised contract management guidance to be implemented against a good practice contract management framework; and
- Assess the contract management arrangements in place for five strategically significant contracts selected by management to highlight key risk areas and control weaknesses.

**Other audit work:**

We have also commenced scoping procedures for a number of reviews as follows:

<b>Audit</b>	<b>Status update</b>	<b>Planned delivery quarter</b>
Homelessness Prevention & Assistance	Scoping meeting held	Q1/2
Business continuity management	Scoping meeting scheduled	Q2
Asset Management Strategy	Scoping meeting scheduled	Q2
Section 106 Agreements / Community Infrastructure Levey	Scoping meeting scheduled	Q2
Direct Payments	Scoping meeting scheduled	Q2

**4. Financial Implications**

- 4.1. The audit contract with PwC is funded within the Audit and Investigations base budget.

**5. Legal Implications**

- 5.1. None

**6. Diversity Implications**

- 6.1 None

**7. Background Papers**

- 7.1 None

**8. Contact Officer Details**

Steve Tinkler, Head of Internal & Audit & Investigations Shared Service, 1<sup>st</sup> Floor, Civic Centre.

Telephone – 07525 893458

**Conrad Hall**  
**Chief Finance Officer**