

**SUPPLEMENTARY REPORTS FOR  
CABINET**  
**Thursday, 14 September 2017 at 7.30 pm**  
**Council Chamber, Civic Centre**

The attached documents are due to be considered at the meeting listed above and were unavailable for circulation when the agenda for the meeting was published. The agenda item to which the documents relate is noted below.

**AGENDA**

20. Communications from Committees/Working Groups/Parties and Panels
- a) Referral from Audit and Standards Committee - 2016/17 Statement of Accounts (Pages 2 - 158)
  - b) Referral from Audit and Standards Committee - Management Letter of Representations 2016/17 (Pages 159 - 168)

**REPORT TO:** **CABINET**

**DATE:** **14 SEPTEMBER 2017**

**TITLE:** **REFERRAL FROM AUDIT AND STANDARDS COMMITTEE – STATEMENT OF ACCOUNTS 2016/17**

**PORTFOLIO HOLDER:** **COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES**

**LEAD OFFICERS:** **SIMON FREEMAN, HEAD OF FINANCE (01279) 446228**

**This is a Key Decision**

**It is on the Forward Plan as Decision Number I007285**

**Call-in Procedures may apply**

**This decision will affect no ward specifically.**

**RECOMMENDED** that the 2016/17 Statement of Accounts (attached as Appendix 1) be approved.

**REASON FOR DECISION**

- A** The Audit and Standards Committee considered a report on the Statement of Accounts 2016/17 at its meeting in September 2017 and has recommended that the Cabinet approve it.
- B** Approval of the Statement of Accounts 2016/17 is necessary to comply with accounting regulations.

**BACKGROUND**

1. At its meeting on 6 September 2017, the Audit and Standards Committee received a report that presented the draft Statement of Accounts 2016/17. The original report that was considered by the Committee is attached as Appendix A to this report.
2. The Audit and Standards Committee has made a recommendation to the Cabinet as indicated at the start of this report.

## **IMPLICATIONS**

Implications of the recommended decision are outlined in the 'Implications' section of the original report, which is attached as Appendix A.

## **APPENDICES**

Appendix A – Original report to the Audit and Standards Committee, 'Audited Annual Accounts 2016/17' covering report.

## **BACKGROUND PAPERS**

The Statement of Accounts 2016/17 and all other original reports to the Audit and Standards Committee, 6 September 2017, can be viewed from the Mod.Gov app or from the Council's website on the following link:

<http://moderndb/eListDocuments.aspx?CId=120&MId=895&Ver=4>

<b>REPORT TO</b>	<b>AUDIT AND STANDARDS COMMITTEE</b>
<b>DATE:</b>	<b>6 SEPTEMBER 2017</b>
<b>TITLE:</b>	<b>AUDITED ANNUAL ACCOUNTS 2016/17</b>
<b>LEAD OFFICERS:</b>	<b>SIMON FREEMAN – HEAD OF FINANCE (01279 446228)</b>

**RECOMMENDED that**

- 1) **The Committee notes the 2016/17 Statement of Accounts presented as Appendix 1 to this report and refers any comments to the Cabinet;**
- 2) **The Committee notes that the audit of the accounts is to continue after the time of writing this report, and that the external auditor shall present an update to the meeting of this committee.**

**BACKGROUND**

1. The Statement of Accounts are an important part of the Council's overall financial control and reporting environment which must be presented to an appropriate committee of the Council and approved to comply with the requirements of the accounting regulations.
2. Draft statements were produced ahead of the required statutory deadline of 30 June 2017 and these have been available on the Council's website since date 9 June.
3. The appointed external auditor, Ernst and Young LLP, has been carrying out the annual audit since June and the draft accounts have been available for public inspection.
4. At the time of preparing this report the majority of issues have been resolved with the external auditor who will provide Members of this Committee with an update of their progress in their concluding audit work.

**IMPLICATIONS**

**Place (includes Sustainability)**

None specific.

Author: **Graeme Bloomer, Head of Place**

**Finance (includes ICT)**

The production and reporting of the Annual Statement of Accounts is a statutory responsibility and, pending completion of the audit, the latest statements for 2015/16 are appended to this report.

Author: **Simon Freeman, Head of Finance**

**Housing**

None specific.

Author: **Andrew Murray, Head of Housing**

**Community Wellbeing (includes Equalities and Social Inclusion)**

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

**Governance (includes HR)**

None specific.

Author: **Brian Keane, Head of Governance**

**BACKGROUND PAPERS**

All Final Accounts Working Papers held by Accountancy which have been open to public inspection as required under the Accounts and Audit Regulations 2015.



# Harlow District Council

## Statement of Accounts 2016/17

With Narrative Statement and Annual Governance Statement

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## SECTION A

# NARRATIVE REPORT

## **NARRATIVE REPORT**

### **Introduction**

Welcome to Harlow District Council's Statement of Accounts for the year ending 31 March 2017.

The Statement of Accounts is a statutory document and provides information on the transactions relating to the provision of services by Harlow District Council. Many of the accounting principles used in preparing the Statement of Accounts are complex so, in order to aid the understanding, this Narrative Report provides commentary on issues relating to Harlow as a town and place to live, the most significant aspects of the Council's financial performance, its year-end financial position and its cash flows.



Harlow will mark its 70<sup>th</sup> Anniversary with events and celebrations planned during 2017. Harlow is an enterprising and compact New Town in West-Essex at the centre of the London-Stansted-Cambridge-Corridor. Designed by Sir Frederick Gibberd the town is made up of self-contained local neighbourhoods with a variety of shopping hatches and employment areas.

Harlow is home to Harlow College, The University Centre Harlow and the Sir Charles Kao University Technical College. The town also has a 51 hectare Enterprise Zone (EZ), which is one of the 48 sites across the U.K selected by Government to provide a platform for economic growth and deliver benefits for business. The Enterprise Zone investment will be used to develop a new Life Sciences Med-tech Innovation Centre; building on the town's pioneering traditions and bringing jobs to the area.

Further development to the town will include Public Health England's (PHE) laboratories moving to a new integrated hub in Harlow. The hub, which will include PHE's headquarters, will provide the expert science to ensure that the U.K is better protected against key threats such as pandemic flu and international threats like Ebola. It will be fully operational by 2024 with the first facilities opening in 2019. Up to 2,500 jobs will be on the site with many more involved in its construction and the resulting supply chain.

Harlow retains many of the features, art, cultural and leisure facilities which made it so popular in the post-war years. It has also retained a large proportion of social housing and has the second highest level of council housing in Essex. The Council has prioritised investment in this area to ensure decent homes for all.

During 2016/17, the Council set up a new company to provide a range of environmental services and property maintenance. Services for council housing repairs, street cleaning, grass cutting and pest control are now provided by HTS (Property and Environment) Ltd with effect from February 2017. The establishment of the new company has necessitated the inclusion of additional disclosures within the Council's accounts, details of which feature within these statements.



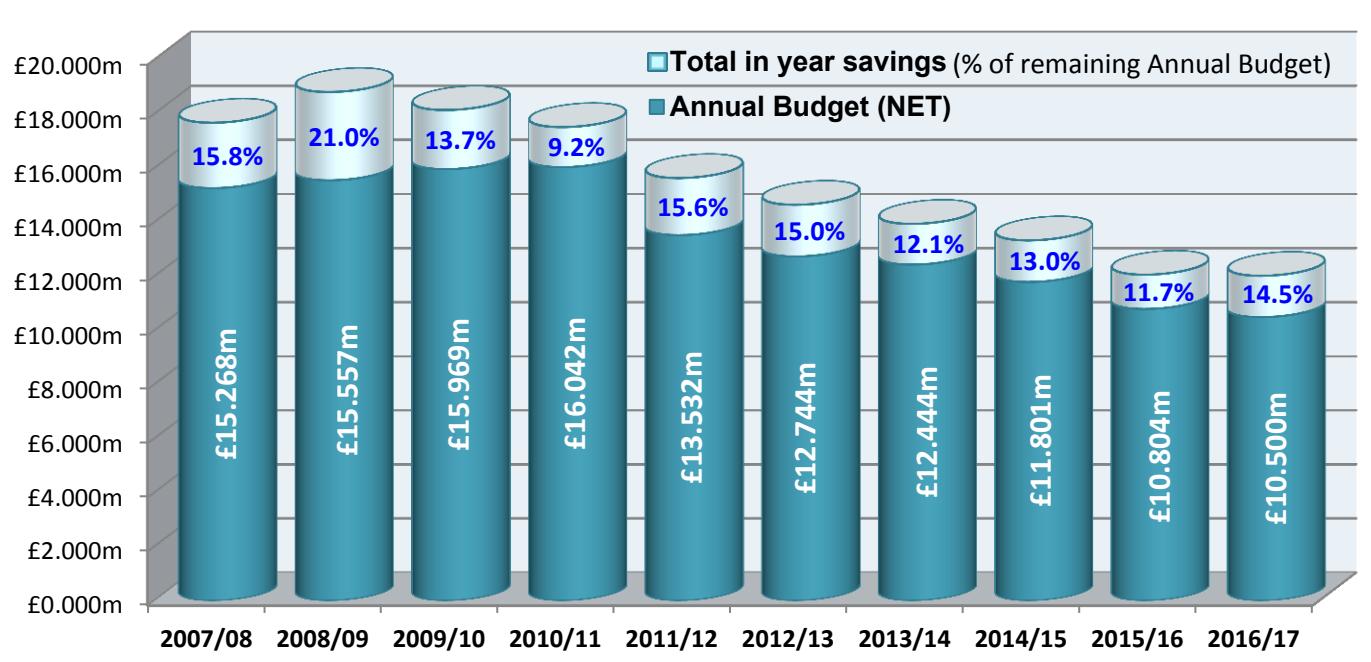
## **Financial Context**

The Council has an annual net General Fund expenditure of just over £10.7 million and is the landlord for over 9,500 properties and over 2,300 leasehold properties at a gross cost of nearly £60 million and currently delivers an annual capital investment programme of nearly £20 million.

The services it provides affect the lives of everybody living in, working in or visiting Harlow and as part of its transformation over the last ten years, and in response to the financial challenges it has faced, the Council has achieved significant financial savings totalling £19.2m in its General Fund over that period.

The Council has achieved all of this whilst managing to protect front line services with partnership working and with the voluntary and private sectors being used wherever possible to maintain access to services.

This financial achievement is illustrated in the chart below, with annual budget values contained in the table that follows (see overleaf):



## NARRATIVE REPORT

	2007/08 £000s	2008/09 £000s	2009/10 £000s	2010/11 £000s	2011/12 £000s	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s
<b>Total in year savings</b>	2,415	3,260	2,183	1,479	2,107	1,906	1,502	1,534	1,264	1,527
<b>Cumulative savings</b>	2,415	5,675	7,858	9,337	11,444	13,350	14,852	16,386	17,650	19,177
<b>Annual Budget (NET)</b>	15,268	15,557	15,969	16,042	13,532	12,744	12,444	11,801	10,804	10,500
<b>Annual savings as a % of Annual Budget (NET)</b>	15.8%	21.0%	13.7%	9.2%	15.6%	15.0%	12.1%	13.0%	11.7%	14.5%

The Council has also made significant savings over the same period in its Housing Revenue Account. Again this has been achieved whilst improving the standard of housing to meet Government Decency standards, maintaining access to services and in fact performance has been improved.

The Council will have seen a 70 per cent reduction in its Government funding for the General Fund over the review period 2010 to 2020. Based upon the figures released as part of the Government's four year funding deal there will be a year on year reduction of 15.9 per cent or £631,000 from 2016/17 to 2017/18. In response to further austerity, the Council has a three year financial strategy setting out how it will balance the books. Over the next three years the Council is proposing further savings of around £0.63m

Financial information, including the Council's budgets, sources of income, and the budget gaps projected by the Council is contained within the Council's Medium Term Financial Strategy. This can be found on the Council's website.

### Results for 2016/17

#### Revenue spending - General Fund

Each year the Council approves its annual revenue budget against which the costs of providing services are monitored. This is also used to determine the Council's budget requirement for council tax setting purposes. Throughout the year the budget is reviewed to take account of changing circumstances such as policy changes and the impact of internal and external factors affecting cost and income levels. The impact of these changes is reflected in the revised budget.

The Council set a budget for spending on General Fund services of £10.745 million plus an overall contribution to the General Fund of £0.019 million. The budget identified that financing from the total budget requirement would be from Grant funding of £4.143 million, plus a surplus on the Collection Fund of £0.102 million, and from Council Tax with a requirement of £6.519 million.

The Council Tax for a Band D property was set at £266.97, a 1.5% increase on the previous year for the Harlow Council's portion of Council Tax.

The following table summarises the outturn position for the Council's General Fund (see overleaf):

#### Statement of Accounts 2016/17

## NARRATIVE REPORT

General Fund Outturn	Original Estimate	Revised Estimate	Actual	Variance
	£000	£000	£000	£000
<b>Council Services</b>				
Chief Executive	2	2	(2)	(4)
Finance	3,637	3,854	2,287	(1,350)
Community Wellbeing	4,189	4,261	3,482	(707)
Housing (GF)	1,071	1,074	994	(77)
Governance	636	668	598	(38)
Place	5,650	5,431	6,644	994
Net Service Expenditure	15,185	15,290	14,003	(1,182)
Reversal of capital charges	(2,889)	(2,805)	(5,218)	(2,329)
Net Interest Payable	217	217	8	(209)
MRP	166	166	134	(32)
Other Operating costs	(1,242)	(1,242)	(1,408)	(166)
	11,437	11,626	7,519	(3,918)
Transfers to / (from) reserves	(692)	(744)	2,909	3,601
<b>Total Net Spending for the Year</b>	<b>10,745</b>	<b>10,882</b>	<b>10,428</b>	<b>(317)</b>
<b>Met by:</b>				
Collection Fund Demand (Precept)	(6,519)	(6,519)	(6,519)	0
Government Grants	(4,245)	(4,245)	(5,480)	(1,235)
Contribution To / (From) Balances	19	(118)	1,571	1,552
	<b>(10,745)</b>	<b>(10,882)</b>	<b>(10,428)</b>	<b>317</b>

### General Fund Budget Variations (Actual Against Original Estimate)

During 2016/17 the Council's total net expenditure on its General Fund was £10.4 million (£11.2 million 2015/16), which was offset by income from Council Tax and Government Grants.

The Council's funding from Central Government in 2016/17 reduced by 14.2% compared to the previous year. Despite this, however, the Council has succeeded in continuing to deliver key services to the residents within Harlow.

The General Fund Balance as at 31 March 2017 stands at £5.459 million; an increase of £1.571 million compared to the previous year. This continues to compare favourably with the Council's recommended minimum working balance of £2.5m. Subject to formal Cabinet approval (July 2017), a proportion of this balance (£0.20m) will be used to support spending plans that will be carried forward into 2017/18. Cabinet is also due to consider further net transfers to reserves at their meeting in July 2017. The purpose of the General Fund is to enable the Council to hold sufficient resources to help both protect itself financially into the future and to protect the services it delivers to Harlow.

## NARRATIVE REPORT

### Revenue spending - Housing Revenue Account

The following table summarises the outturn position:

	Original Estimate	Actual	Variance
	£000	£000	£000
<b>Expenditure</b>			
General Management	11,995	10,802	(1,193)
Supervision and Management	5,603	5,772	169
Repairs	9,296	9,056	(240)
Rents, Rates, Taxes and Other Charges	30	21	(9)
Provision for Bad and Doubtful Debts	200	64	(136)
Supporting People Transitional Arrangements	6	5	(1)
Major Repairs Allowance (Net Depreciation)	10,777	11,054	277
Interest Charges	17	10	(7)
Debt Management Expenses	6,677	6,740	63
Revenue Contribution to Capital Expenditure	11,383	5,495	(5,888)
Transfers to/from Insurance Fund	182	130	(52)
<b>Total Spending for the year</b>	<b>56,166</b>	<b>49,149</b>	<b>(7,017)</b>
<b>Income</b>			
Dwelling Rents	45,183	45,001	(182)
Non-Dwelling Rents	1,005	1,038	33
Other Rents	22	55	33
Charges for Services and Facilities	3,791	3,657	(134)
Interest Receivable	57	74	17
<b>Total Income for the year</b>	<b>50,058</b>	<b>49,825</b>	<b>(233)</b>
<b>Net HRA (Surplus)/Deficit</b>	<b>6,108</b>	<b>(676)</b>	<b>(6,784)</b>

The Council set a budget for spending on Housing Revenue Account services of £52.027 million. This was subsequently increased after the end of the 2015/16 financial year for items of expenditure deferred from that year and incorporated approved revenue and capital carryovers of £0.315m and £3.824 million respectively. This latter raised the direct revenue contribution required from the HRA and increased the original estimate to £56.166 million, to be principally financed by income from rents and service charges relating to housing properties.

### Housing Revenue Account Budget Variations (Actual Against Original Estimate)

The net of expenditure and income in the Housing Revenue Account for 2016/17 varied by a favourable £6.784million.

The principal reasons for the overall variance on the HRA include:

- General Management: Staffing vacancies and programme and project management fees contributed to a favourable variance of £0.464m. Home loss payments and moving incentives arising from Priority Estates were £0.545m less than originally estimated due to the difficulty of forecasting demand and uncertainty around tenant removal and home loss claims.

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- Supervision and Management: Services to tenants and leaseholders benefitted from lower than expected fuel costs and the continuing installation of smart meters resulting in greater accountability to the consumer for heating and lighting. Savings to the HRA for all services based on utility costs were £0.036m, offset by a reduction in income in Charges for Services and Facilities of £0.186m.
- Repairs and Maintenance savings of £0.145m resulted from underspends in all areas of work. In addition there was a favourable variance of £0.143m in respect of insurance claims.
- The Provision for Bad and Doubtful Debts was lower by £0.136m due to a reduced turnaround of tenancies and Welfare Reform changes implemented later than was originally anticipated, for a restricted number of applicants.
- Non-operational variances totalling a favourable £5.611m relate to an increase in depreciation charge in the Major Repairs Reserve of £0.277m and a decrease in the Direct Revenue Contribution to Capital of £5.888m. The reduced contribution follows a lower than estimated outturn in the Housing Capital Programme, and attributable also to a carry-over of work totalling £2.855m to 2017/18.
- Income: Dwellings Rents were £0.182m lower than estimated due to the higher rate of Right-To-Buy sales in the early part of the year and the movement of tenants from Phase 2 of the priority estates regeneration programme, offset by a lower void rate than estimated.

### Capital spending

In its capital investment programme aligned with both General Fund and Housing services, the Council incurred capital expenditure totalling £23.8million in 2016/17 against an approved programme of £28.4million. Schemes to the value of £4.7million including funding from grants of £0.4million are to be carried forward for completion in 2017/18.

#### Major housing schemes included

- General improvements to homes (including internal works, windows and doors, electrical works and external works) £14.1million
- Garages; £0.6million
- Disabled facilities to dwellings; £1.9million
- Energy Efficiency work; £2.1million (includes upgrades to District Heating)

#### Other schemes included

- Purchase of Land at Latton Farm, for the purpose of relocating Harlow Rugby Club; £0.7million
- Homes and Communities Agency and Essex County Council Match Funded improvements to Fernhill Traveller's Site; £0.7million
- Refurbishment and restoration of commercial properties (including shopping centres and hatches); £0.4million
- Refurbishment of Playgrounds; Sports/Leisure facilities and Environmental improvements; £0.7million
- Renovation of Harlow Playhouse as part of a 4 year project; £0.6million
- Demolition of The Hummingbird public house; £0.2million
- IT system upgrades; £0.3 million

## **NARRATIVE REPORT**

### Programme of Development

In 2016/17 the Council held £3.9 million as the Accountable Body for Programme of Development regeneration schemes. The grant monies included £6.5million for capital work and were made available by the Department for Communities & Local Government (DCLG) to the Council and its partner local authorities for approved regeneration schemes.

During 2016/17 the Council drew down a total £1.2million of which £0.6million funded capital expenditure for work on Harlow's Priority Estates. Claims from partner authorities drew down a total of £0.6million to fund capital works.

### Revaluation of Land and Property Assets

The Council undertakes the revaluation of its land and property assets on a rolling basis, which allows all such assets to be revalued at least once every five years in accordance with Accounting Standards. Harlow Council has appointed new valuers to carry out its non-housing valuations from 2015/16. The valuation for 1 April 2016 represents the second year of a five year cycle.

### Funding the Capital Programme

The General Fund Capital Programme expenditure totalled £4.874 million and was funded through a combination of Direct Revenue Financing (£0.215 million), Grants (£1.671 million), Capital Receipts (£0.201 million), Asset Disposals (£0.911 million), Renovation Loans (£0.017 million) and Internal Borrowing (£1.859 million).

The Housing Capital Programme expenditure totalled £18.734 million and was financed from Capital Receipts (£2.152 million), Revenue Reserves (£5.495 million), Major Repairs Reserve (£11.054 million) and Other Contributions (£0.033 million).

### Internal Capital Financing

The Council is empowered to undertake borrowing to fund capital expenditure where prudent and affordable to do so, either from external sources such as the Public Works Loan Board, or from internal resources.

In 2016/17 capital investment was financed by £3.4million from internal resources, £1.5million of which was used to finance a loan to Harlow Properties Limited. The Council has not entered into borrowing to finance the housing capital programme but has used surplus resources.

### Borrowing Facilities

The Council's normal source of external borrowing is the Public Works Loans Board (PWLB), a division of HM Treasury and a facility unique to the public sector. Whilst the projections for the Non-Housing Capital Programme indicate an underlying need to borrow, the Council has a policy of utilising receipts from the sale of assets as its first funding source to fund capital investment for the annual Programme. Receipts from land and asset sales remain limited due to present economic conditions and their impact upon the property market. The Council has again decided to borrow internally while it has a strong cash flow position, thus removing the need to borrow externally in 2016/17 which, in turn, would have attracted additional costs. Future receipts will be utilised to offset this internal borrowing. In the medium term the financial strategy assumes there will be an underlying need to borrow externally as the disposal of assets and associated receipts become fewer and less predictable.

### Current Assets and Current Liabilities

The level of current assets reported in the balance sheet has reduced from £54.766 million at 31 March 2016 to £53.793 million as at 31 March 2017, a reduction of £0.973 million. The most significant movements were:

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Statement of Accounts 2016/17

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## **NARRATIVE REPORT**

- an decrease of £2.032 million in short-term investments placed for periods exceeding three months in duration;
- a reduction of £6.765 million in the level of cash and cash equivalents held, due to a decrease in investments placed for periods shorter than three months.
- an increase in the level of short-term debtor balances of £2.129 million;
- an increase in assets held for sale reflects Council dwellings subject to transfer as part of the Council's Priority Estates project to replace outdated housing.

For current liabilities there has been a decrease from £23.991 million at 31 March 2016 to £18.413 million as at 31 March 2017, a decrease of £5.578 million. This decrease is largely represented by a £4.373 million reduction in sundry creditors, as shown in note 19 which accompanies the financial statements.

### Other Long Term Liabilities - Pension Fund

The Council's liability to provide for the cost of past employment benefits to staff has increased in the year ended 31 March 2017.

The long-term liability reported as at 31 March 2016 was £94.184million. The revised liability as at the 31 March 2017 is £110.029million. The increase is due to a number of factors, the most significant of which are changes in financial assumptions and the return on assets less interest. More information regarding the Defined Benefit Pension Scheme can be found in Note 37 of the Statement of Accounts.

### Financial Prospects Looking Forward

#### General Fund

The 2016/17 outturn position has remained strong and the Council increased its General Fund Balance by £1.571 million in the year, providing a firmer foundation for preserving services to the local community whilst, in addition, protecting the continuation of discretionary service delivery, providing scope for further investment in the future of Harlow and protecting Council Tax bills from future expenditure commitments and government fiscal tightening. General Fund Earmarked Reserves now stand at £13.091 million with a further £5.459 million held in the General Fund working balance.

The Council's Medium Term Financial Plan for 2017/18 to 2020/21, agreed at Council in February 2017, shows that there remains a significant funding shortfall over the three-year period 2018/19 to 2020/21. If the Council is to set a sustainable and balanced budget allowing for at least a 1.99% annual increase in Council Tax levels the following savings will need to be identified and delivered:

<b>Year</b>	<b>Budget Savings Requirements</b>
2018/19	£0.172 million
2019/20	£0.379 million
2020/21	£0.110 million

It should be noted that the projected budget gaps above are subject to the Government's future funding allocations to the Council, the on-going economic environment in which the Council will operate and any investment requirements needed for existing and on-going service delivery.

In considering the level of the projected savings to be made it is important to appreciate the savings already delivered by the Council in recent years as set out earlier in this introduction.

## **NARRATIVE REPORT**

In light of the scale of the reductions and in the absence of any assurances that local growth in business rates will compensate for the reduction in Revenue Support Grant (RSG) element of the Council's Settlement Funding Assessment (SFA), the protection of services cannot be guaranteed in future years.

Going forward there are still significant uncertainties and risks which the Council needs to monitor including:

- Occurrence of Significant variations in actual income and expenditure against budget.
- Managing Business Rates where income is lower than forecast
- The impact of the proposals to reform local authority funding through the Business Rates Reform process including the future for New Homes Bonus in future years beyond 2019/20.
- Welfare Reform impacts the Council more adversely than assumed
- Movements in interest rates - with bank base rates at an all-time low, investment income earned will also be suppressed, whilst any increases in the longer-term would adversely impact on the cost of borrowing by the Council in delivering future capital programmes.
- Additional pressures arising or non-delivery of savings that have an on-going financial impact on the Council
- The knock-on implications of funding cuts being experienced by partner organisations
- Continued pressure on the Council's income streams such as off-street parking facilities, planning, licensing and rental income from businesses.
- Increased demand for council services, such as for the housing of homeless families.

### Housing Revenue Account

To ensure the sustainability of the housing service, the Council produced a 30-year Business Plan which is refreshed annually. The HRA Business Plan 2016-2046 produced a balanced account, maintaining sufficient minimum working balances over the medium term, and aiming to:

- Tackle housing need and improve housing services
- Maintain 'decent homes' and compliance of the Council's housing stock to statutory targets
- Target resources in order to safeguard the wellbeing and safety of the Council's tenants in their homes
- Prioritise energy efficiency initiatives that alleviate fuel poverty
- Prioritise resources for disabled adaptations
- Maximise the availability of future Housing Related Support funding for services currently commissioned by Essex County Council.

The Housing Revenue Account faces a variety of major challenges, set out as follows.

The Welfare Reform and Work Act 2016 required social landlords to decrease rents annually by 1% over the four financial years 2016/17 – 2019/20. This has challenged councils to make efficiencies in order to deliver sustainable services.

Government policy regarding the sale of larger properties in support of Registered Social Landlord (RSL) Right to Buy proposals, for which the details of how this will operate and impact on the Council are still awaited.

## **NARRATIVE REPORT**

The introduction from 2017 of the Government's "Pay to Stay" policy to charge higher earning households an increased rent, which will be passed to the government in order to support the 'Right To Buy' for tenants living in housing association property. Again regulations have yet to be tabled.

Welfare Reform: the government's reduction in benefits to non-working families may have an adverse impact on tenants' ability to pay.

The risk of finding and removing asbestos from properties, which in turn may increase removal and compensation costs in the revenue budget.

The result of the EU Referendum has brought uncertainties regarding the economy, with low interest rates and inflationary pressure on expenditure.

The Government's introduction of the Homeless Reduction Bill is expected to place a legal duty on Council's to take steps to prevent families from becoming homeless, with a key element being to intervene to prevent homelessness happening in the first place rather than focusing on accommodating people who are already homeless. This will have financial implications for the Council in terms of the increased new duties that it will be expected to provide.

### **Performance Management**

Harlow Council aims to provide the best possible services to its service users and residents. The Council monitors its performance to see how well it does against the targets it sets and through the use of national and other performance indicators. The government requires all councils to collect data on areas such as waste, planning, benefits and housing. The Council regularly compares its performance against other councils which involves a range of mechanisms:

- Joint Finance and Performance Reports – these quarterly reports monitor how well the Council is doing in providing its services and against its Corporate Plan and managing its finances against its budgets.
- Council awards and accreditations - the Council has won a range of awards which recognises its innovation and achievements.
- Performance Management Framework – this document explains the steps used in the process of managing performance, as well as listing the tools available for staff and Councillors to assist them in carrying out these steps well. The framework also provides further detail on the specific roles, responsibilities and mechanisms for performance within Harlow Council.

Throughout each year senior management and Members of the Council monitor and report on a significant range of Corporate Performance Indicators. By March 2017, Harlow Council reported that it had performed on target or above target for 44 out of 48 (92 per cent) of performance indicators during the financial year 2016/17. Within the first three months of the financial year, sixty-six per cent of indicators were reported as having been maintained or improved compared to the same period in 2015/16.

- To view detailed performance data and reports for the Council, please visit our website at [www.harlow.gov.uk/performance-reports](http://www.harlow.gov.uk/performance-reports)

## **NARRATIVE REPORT**

### **Explanation of the contents of the Statement of Accounts**

Set out below are more detailed explanations relating to each of the main core elements of the Statement of Accounts, which it is hoped will further aid your understanding of what each key statement represents and what it can tell you regarding the Council's financial position.

Local councils' accounts are prepared in accordance with proper accounting practices that are defined by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ("The Code"). The objective of The Code is to specify the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority. It requires that local authorities prepare their financial statements in accordance with the International Accounting Standards Board (IASB). The IASB, in turn, sets out the concepts that underlie the preparation and presentation of financial statements for external users of the accounts. However the overriding principle of local authority accounts is that, where an accounting treatment is prescribed by law, then it must be applied, even if it contradicts one or other of the accounting concepts set by the IASB.

### **Statement of Responsibilities**

Authorities are required to include in their accounts a statement of responsibilities for the statement of accounts. This sets out the respective responsibilities of the Council and of the Head of Finance in relation to the accounts.

### **Expenditure and Funding Analysis**

This is a new statement introduced to the published accounts for the first time in 2016/17 adopting new reporting and disclosure requirements of the CIPFA Code of Practice. Its introduction follows a formal consultation and review conducted by CIPFA and CIPFA/LASAAC in 2015, the outcomes of which were published in a document called "Understanding Local Authority Financial Statements" (previously How to Tell the Story).

The objective of the Expenditure and Funding Analysis is to demonstrate to Council Tax and rent payers how the funding available to the Council (that is funding from government grants, rents, Council Tax and Business Rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure, accounted for under generally accepted accounting practices, is presented more fully in the Comprehensive Income and Expenditure Statement.

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

The Comprehensive Income and Expenditure Statement contains the group of elements relating to the performance of the Council, namely income and expenditure. Following the introduction of the Expenditure and Funding Analysis, described above, the Comprehensive Income and Expenditure Statement now takes a different format. For this reason, we have included a restatement of the Comprehensive Income and Expenditure Statement that was reported last year so that comparatives between years may be obtained.

In its new format, this statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Council's raise taxation and rent to cover expenditure in accordance with statutory requirements; this may differ from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement. It is in the Movement in Reserves Statement that adjustments are made to reconcile the General Fund

## **NARRATIVE REPORT**

Balance to statutory requirements (particularly in relation to capital accounting and retirement benefits).

### Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other ‘unusable reserves’. The Statement shows how the movements in year of the authority’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax (or rents) for the year. The Net Increase/ Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

### Balance Sheet

The Balance Sheet is a measure of the Council's financial position at a point in time. Thus, it shows the value of assets and liabilities recognised by the Council on the last day of the financial year, 31 March 2017. The net assets (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves (those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use). The second category of reserves is those that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (such as the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding under regulations’.

### Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities indicates the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council’s future service delivery.

### Housing Revenue Account

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

### Collection Fund Accounts

The Collection Fund is the statement reflecting the Council’s statutory obligation as a Billing Authority to maintain a separate Collection Fund. It is the “Billing Authority” that issues Council Tax bills on behalf of all local authorities serving their area of responsibility. The statement shows the transactions of the Council, as Billing Authority, in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates (NDR, also known as Business Rates).

## **NARRATIVE REPORT**

The Council Tax balance is shared between Harlow Council, Essex County Council, and the Police and Crime Commissioner for Essex in proportion to their respective precept demands on the Collection Fund. The Business Rates balance is shared between Central Government, Harlow Council, Essex County Council and Essex Fire Authority in the percentages 50% / 40% / 9% / 1%, respectively.

### **Group Accounts**

The CIPFA Code of Practice requires local authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. Harlow Council established a subsidiary company during the last financial year for the purpose of property and grounds maintenance for both General Fund and Housing Revenue Account assets. Therefore we have prepared group financial statements in accordance with IFRS 10, which are shown in pages 130 to 136. The company is called Harlow Trading Services (Property and Environment) Limited. The Council owns 100% of the shareholding of the company, which commenced trading on 1 February 2017. The Group Accounts comprise the Movement in Reserves Statement; the Comprehensive & Income Expenditure Statement; the Balance Sheet; the Cash Flow Statement and associated notes.

### **In Conclusion**

I would like to thank Finance staff and the staff in other service areas for their work in preparing these Statements. I hope the information is helpful in allowing you to have a clear understanding of how the Council's money has been spent in 2016/17.

If you would like to find out more about the council's finances, including its budgets and earlier years' accounts, you can:

- visit our website at [www.harlow.gov.uk/finances](http://www.harlow.gov.uk/finances)
- contact me by e-mail at [simon.freeman@harlow.gov.uk](mailto:simon.freeman@harlow.gov.uk)
- write to us at:

Harlow District Council  
Civic Centre  
The Water Gardens  
Harlow  
Essex  
CM20 1WG
- or, contact our auditors Ernst & Young LLP via the Audit Manager, Julie Kriek at [JKriek@uk.ey.com](mailto:JKriek@uk.ey.com)

**Simon Freeman  
Head of Finance  
June 2017**

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## **SECTION B**

# **STATEMENT OF ACCOUNTS 2016/17**

## **STATEMENT OF RESPONSIBILITIES**

### **The Council's Responsibilities**

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs - in this Council, that officer is the Head of Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### **The Responsibilities of the Head of Finance**

The Head of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the CODE).

In preparing this Statement of Accounts, the Head of Finance has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent, and
- complied with the CIPFA Code of Practice on Local Authority Accounting.

The Head of Finance has also:

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

The Draft Statement of Accounts as set out on pages 20 to 143 presents a true and fair view of the financial position of Harlow District Council as at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

The unaudited Accounts were issued on 7 June 2017 and, when completed, the audited Accounts are scheduled to be presented to the Council's Audit and Standards Committee and Cabinet for review on 6 September 2017 and 14 September 2017, respectively, prior to authorisation and issue.

Signed .....

Date (14 September 2017)

Simon Freeman CPFA  
Head of Finance

Signed .....

Date (14 September 2017)

Councillor Jon Clempner  
Leader of the Council

## EXPENDITURE & FUNDING ANALYSIS

### Expenditure and Funding Analysis for the year ended 31 March 2017

Notes	Net Expenditure Chargeable to the General Fund and HRA Balances	2016/17 Adjustment between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund and HRA Balances	2015/16 Adjustment between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s	£000s	£000s	£000s
Corporate and Chief Executive	275	13	288	262	14	276
Community Wellbeing	2,943	3,453	6,396	3,441	1,859	5,300
Finance	4,222	(1,532)	2,690	4,969	(1,587)	3,382
Place	2,182	4,305	6,487	1,713	11,670	13,383
Housing GF	933	92	1,025	1,692	255	1,947
Governance	1,483	98	1,581	1,353	106	1,459
Housing HRA	(11,347)	27,039	15,692	(12,572)	26,144	13,572
<b>Net Cost of Services</b>	<b>691</b>	<b>33,468</b>	<b>34,159</b>	858	38,461	39,319
Other Income and Expenditure	(5,938)	10,194	4,256	(2,329)	1,945	(384)
<b>(Surplus)/ Deficit</b>	<b>(5,247)</b>	<b>43,662</b>	<b>38,415</b>	(1,471)	40,406	38,935
Opening General Fund and HRA Balance		34,080			32,609	
Plus Surplus / Less (Deficit) on General Fund and HRA Balance in Year		5,247			1,471	
Closing General Fund and HRA Balance at 31 March		39,327			34,080	

The Expenditure and Funding Analysis brings together local authority performance reported for each of the Council's services on the basis of expenditure measured under proper accounting practices, in accordance with Generally Accepted Accounting Principles (GAAP, which is defined within the Glossary to the rear of this Statement of Accounts), with statutorily defined charges to the General Fund and the HRA.

By way of explanation, proper accounting practices may be regarded as measuring the resources that have been generated and consumed in the year including such things as the use of property (depreciation) and the value of pension benefits earned by the employees (as all entities, including commercial entities, may report them), whilst statutory provisions may be regarded as determining how net expenditure in the year can be measured to determine by how much the Council's funds have moved and how these movements link to annual rents and Council Tax bills set by the Council.

The Expenditure and Funding Analysis essentially sets out two viewpoints. Hence, the net expenditure that is chargeable against Council Tax and rents is reconciled to the Comprehensive Income and Expenditure Statement. The adjusting entries between the two viewpoints are set out in greater detail in Note 1 to these accounts.

Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (page 25).

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# **CORE FINANCIAL STATEMENTS**

## MOVEMENT IN RESERVES STATEMENT

### The Movement in Reserves Statement for the year ended 31 March 2017

	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Housing Revenue Account £000s	Earmarked HRA Reserves £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied Account £000s	Total Usable Reserves £000s	Unusable Reserves £000s	Total Authority Reserves £000s
<b>Balance at 31 March 2015 carried forward</b>	4,376	13,186	10,870	4,177	3,325	0	13,916	49,850	400,208	450,058
<b>Movement in reserves during 2015/16</b>										
Surplus / (Deficit) on the provision of services	(16,089)			(22,846)				(38,935)		(38,935)
Other Comprehensive Income and Expenditure									95,271	95,271
<b>Total Comprehensive Income and Expenditure</b>	<b>(16,089)</b>	<b>(22,846)</b>						<b>(38,935)</b>	<b>95,271</b>	<b>56,336</b>
Adjustments between accounting basis & funding basis under regulations (Note 6)	15,967		24,439		(1,170)		(8,761)	<b>30,475</b>	(30,475)	
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>(122)</b>	<b>1,593</b>		<b>(1,170)</b>			<b>(8,761)</b>	<b>(8,460)</b>	<b>64,796</b>	<b>56,336</b>
Transfers to/ (from) Earmarked Reserves (Note 21)	(366)	366	(165)	165						
<b>Increase / (Decrease) in 2015/16</b>	<b>(488)</b>	<b>366</b>	<b>1,428</b>	<b>165</b>	<b>(1,170)</b>		<b>(8,761)</b>	<b>(8,460)</b>	<b>64,796</b>	<b>56,336</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>3,888</b>	<b>13,552</b>	<b>12,298</b>	<b>4,342</b>	<b>2,155</b>	<b>0</b>	<b>5,155</b>	<b>41,390</b>	<b>465,004</b>	<b>506,394</b>
<b>Movement in reserves during 2016/17</b>										
Surplus / (Deficit) on the provision of services	(10,263)		(28,150)					(38,413)		(38,413)
Other Comprehensive Income and Expenditure									71,348	71,348
<b>Total Comprehensive Income and Expenditure</b>	<b>(10,263)</b>	<b>(28,150)</b>						<b>(38,413)</b>	<b>71,348</b>	<b>32,935</b>
Adjustments between accounting basis & funding basis under regulations (Note 6)	14,741		28,919		(262)		(1,572)	<b>41,826</b>	(41,826)	
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>4,478</b>		<b>769</b>		<b>(262)</b>		<b>(1,572)</b>	<b>3,413</b>	<b>29,522</b>	<b>32,935</b>
Transfers to/ (from) Earmarked Reserves (Note 21)	(2,907)	2,907	(92)	92						
<b>Increase / (Decrease) in 2016/17</b>	<b>1,571</b>	<b>2,907</b>	<b>677</b>	<b>92</b>	<b>(262)</b>		<b>(1,572)</b>	<b>3,413</b>	<b>29,522</b>	<b>32,935</b>
<b>Balance at 31 March 2017 carried forward</b>	<b>5,459</b>	<b>16,459</b>	<b>12,975</b>	<b>4,434</b>	<b>1,893</b>	<b>0</b>	<b>3,583</b>	<b>44,803</b>	<b>494,526</b>	<b>539,329</b>

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves' (other reserves). The "Surplus/ (Deficit) on the Provision of Services" line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement, overleaf. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes.

The Net Increase/(Decrease) before Transfers to/ from Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

## ***COMPREHENSIVE INCOME & EXPENDITURE STATEMENT***

### **Comprehensive Income & Expenditure Statement for the Year Ended 31 March 2017**

Notes	Gross Expenditure £000	2016/17		2015/16 Restated			2015/16 Net Expenditure £000
		Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
Corporate and Chief Executive	288	0	288	276	0	276	276
Community Wellbeing	9,085	(2,689)	6,396	7,478	(2,178)	5,300	5,300
Finance	40,061	(37,371)	2,690	42,105	(38,723)	3,382	3,382
Place	17,878	(11,391)	6,487	23,161	(9,779)	13,382	12,750
Housing GF	1,618	(593)	1,025	2,616	(669)	1,947	1,947
Governance	1,925	(344)	1,581	1,881	(422)	1,459	1,459
Housing HRA	65,339	(49,647)	15,692	64,581	(51,009)	13,572	13,572
<b>Cost of Services</b>	<b>136,194</b>	<b>(102,035)</b>	<b>34,159</b>	<b>142,098</b>	<b>(102,780)</b>	<b>39,318</b>	<b>38,686</b>
Other Operating Expenditure	7		7,794			2,986	2,986
Financing and Investment Income and Expenditure	8		9,536			11,070	11,070
Taxation and Non-Specific Grant Income	9		(13,074)			(14,440)	(14,440)
<b>(Surplus)/ Deficit on Provision of Services</b>			<b>38,415</b>			38,934	38,302
(Surplus)/ Deficit on Revaluation of Property, Plant and Equipment Assets			(86,456)			(88,822)	(90,390)
(Surplus)/ Deficit on Revaluation of Available for Sale Financial Assets			52			61	61
Actuarial (Gains)/ Losses on Pension Assets and Liabilities			15,057			(6,487)	(6,487)
<b>Other Comprehensive Income and Expenditure</b>			<b>(71,347)</b>			(95,248)	(96,816)
<b>Total Comprehensive Income and Expenditure</b>			<b>(32,932)</b>			(56,314)	(58,514)

The Comprehensive Income and Expenditure Statement records the Council's Revenue income and expenditure for the year for providing services. Expenditure represents a combination of statutory duties and discretionary spend focused on local priorities and needs. The comparative figures for 2015/16 have been restated as 2016/17 CIPFA regulations require the Council's income and expenditure to be reported along management reporting lines. In preparing the restated amounts reported within the "Cost of Services" section of this statement, internal recharges to revenue accounts have been reversed out; as a result, the total of 2015/16 Gross Expenditure and Gross Income lines differs from the total of those lines reported last year (the total of those in the 2015/16 Statement of Accounts equated to £146,390,000 and £107,704,000, respectively). The net expenditure totals remain unchanged between the two Statements of Accounts. Meanwhile, an adjustment in 2015/16 for an asset revaluation, referred to as an adjustment to the Balance Sheet on Page 26, is also contained within the 2015/16 Restated columns.

This statement is prepared in accordance with generally accepted accounting practices, so does not show the amounts to be funded from taxation. Instead, the taxation position may be derived from the Movement in Reserves Statement.

## BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

### Balance Sheet As At 31 March 2017

	Note	2016/17 £000	2015/16 Restated £000	2015/16 £000
Property, Plant & Equipment	10	823,530	775,906	778,107
Heritage Assets	11	1,622	1,639	1,639
Investment Property	12	1,789	1,789	1,789
Intangible Assets	13	954	1,090	1,090
Long-Term Investments	14	1,866	1,896	1,896
Long-Term Debtors	42	1,680	556	556
<b>Long-Term Assets</b>		<b>831,441</b>	<b>782,876</b>	<b>785,077</b>
Short-Term Investments	14	14,048	16,080	16,080
Assets Held for Sale	18	2,991	2,382	2,382
Inventories	15	34	26	26
Short-Term Debtors	16	11,011	8,983	8,983
Cash and Cash Equivalents	17	20,530	27,295	27,295
<b>Current Assets</b>		<b>48,614</b>	<b>54,766</b>	<b>54,766</b>
Short-Term Borrowing	14	(80)	(81)	(81)
Short-Term Creditors	19	(17,121)	(21,595)	(21,595)
Short-Term Provisions	20	(1,110)	(2,315)	(2,315)
<b>Current Liabilities</b>		<b>(18,311)</b>	<b>(23,991)</b>	<b>(23,991)</b>
Long-Term Creditors	14	(317)	(403)	(403)
Long-Term Borrowing	40	(211,837)	(211,837)	(211,837)
Other Long-Term Liabilities	41	(110,029)	(94,184)	(94,184)
Grants Receipts in Advance - Capital	32	(244)	(833)	(833)
<b>Long-Term Liabilities</b>		<b>(322,427)</b>	<b>(307,257)</b>	<b>(307,257)</b>
<b>Net Assets</b>		<b>539,317</b>	<b>506,394</b>	<b>508,595</b>
Usable Reserves	21	(44,803)	(41,390)	(41,390)
Unusable Reserves	22	(494,514)	(465,004)	(467,205)
<b>Total Reserves</b>		<b>(539,317)</b>	<b>(506,394)</b>	<b>(508,595)</b>

A restatement of accounts for 2015/16 was necessary due to a material error discovered in the recording of one asset valuation as at 1 April 2015 for Property, Plant and Equipment. Its subsequent revaluation at 1 April 2016 incorporated the correct value of long term-assets to be applied as at 31 March 2017.

## BALANCE SHEET

Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves represents those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold, as well as reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The unaudited accounts were issued on 7 June 2017,  
and the audited accounts were authorised for issue on  
14 September 2017.

Signed:

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Simon Freeman CPFA  
Head of Finance  
14 September 2017

## CASH FLOW STATEMENT

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

### Cash Flow Statement for the Year Ended 31 March 2017

Notes	2016/17 £000	2015/16 Restated £000	2015/16 £000
		2015/16 £000	2015/16 £000
Net Surplus/(Deficit) on the Provision of Services	(38,415)	(38,934)	(38,302)
Adjustments to Net Surplus/(Deficit) on the Provision of Services for Non-Cash Movements	59,717	65,602	64,970
Adjustments for Items Included in the Net Surplus/(Deficit) on the Provision of Services that are Investing and Financing Activities	(13,182)	(8,218)	(8,218)
<b>Net Cash Flows from Operating Activities</b>	<b>8,120</b>	<b>18,450</b>	<b>18,450</b>
Investing Activities	24 (13,774)	(31,523)	(31,523)
Financing Activities	25 (1,111)	3,681	3,681
<b>Net (Increase)/Decrease in Cash and Cash Equivalents</b>	<b>(6,765)</b>	<b>(9,392)</b>	<b>(9,392)</b>
Cash and Cash Equivalents at the Beginning of the Reporting Period	27,295	36,687	36,687
<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	<b>17 20,530</b>	<b>27,295</b>	<b>27,295</b>

The restated figures for 2015/16 correspond with the adjustment required for the Comprehensive Income and Expenditure Statement restated for 2015/16 for an asset revaluation.

## **CASH FLOW STATEMENT**

Adjustments to Net Surplus/ (Deficit) on the Provision of Services for Non-Cash Movements (included in the Cash Flow Statement, above) comprise the following:

	2016/17	2015/16 Restated	2015/16
	£000	£000	£000
Depreciation	49,602	52,616	52,439
Impairment and Downward valuations	1,182	7,179	6,724
Amortisation	360	377	377
Movement in Collection Fund Adjustment Account	0	0	(2,975)
Increase/ Decrease in Creditors	(158)	(3,329)	(3,329)
Increase/ Decrease in Debtors	(1,920)	2,158	2,158
Increase/ Decrease in Inventories	(8)	3	3
Movement in Pension Liability	788	778	778
Contribution to/ (from) Provisions	(1,205)	(645)	(645)
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	11,075	5,178	5,178
Movement in Investment Property Valuations	0	1,287	1,287
<b>Total</b>	<b>59,717</b>	<b>65,602</b>	<b>61,995</b>

The restated figures for 2015/16 correspond both with the required adjustment to 2015/16 for the asset revaluation and with the required removal of £2,975,000 for the Movement in Collection Fund Adjustment Account, which was included in error in 2015/16. The 2015/16 comparative figures shown in the table above now exclude that item and align correctly with the Cash Flow Statement.

Adjustments for Items Included in the Net Surplus/ (Deficit) on the Provision of Services that are Investing and Financing Activities (included in the Cash Flow Statement, above) comprise the following:

	2016/17	2015/16
	£000	£000
Capital Grants credited to surplus or deficit on the provision of services	(1,533)	(1,359)
Net adjustment from the sale of short and long term investments	(2,032)	0
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(9,617)	(6,859)
<b>Total</b>	<b>(13,182)</b>	<b>(8,218)</b>



# **ACCOUNTING POLICIES & NOTES TO THE ACCOUNTS**

## **ACCOUNTING POLICIES**

## **ACCOUNTING POLICIES**

### **i. General Principles**

The Statement of Accounts summarises the Council's financial transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, and this requires the preparation to be in accordance with proper accounting practices. Under Section 21 of the Local Government Act 2003 these practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom (2016/17), supported by International Financial Reporting Standards (IFRS) and statutory guidance, issued under Section 12 of the 2003 Act.

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

### **ii. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – any goods purchased but not consumed are carried as inventories/ stocks on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **iii. Cash and Cash Equivalents**

Cash is represented by both cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts

## **ACCOUNTING POLICIES**

that are repayable on demand and form an integral part of the Council's cash management.

### **iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Changes in accounting estimates are accounted for prospectively (that is in the current and future years affected by the change) and do not give rise to a prior period adjustment.

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

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

### **v. Council Tax and Non-Domestic Rates – Principal and Agent Accounting Policy**

Harlow Council is a billing authority, required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and Non-Domestic Rates (NDR). In its capacity as a Billing Authority the Council acts as an agent, collecting and distributing Council Tax on behalf of the major preceptors and as principal for collecting its own funding requirements allowable by central government.

Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government proportionately share the risks and rewards that the amounts of Council Tax and NDR collected could be less or more than predicted.

While the Council Tax and Non-Domestic Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/ (deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year, in accordance with the Accounting Code of Practice.

#### **Accounting for Council Tax and Non-Domestic Rates**

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. It is this movement through the Movement in Reserves Statement that generates statutory adjustments required to return to the amounts chargeable to Council Tax for the year for which the annual budget and Council Tax level will have been determined by the Council. In addition, that part of Non-Domestic Rates retained as the cost of collection allowance under regulation is treated as the Council's income and appears in the Comprehensive and Income Expenditure Statement, as are any costs added to Non-

## **ACCOUNTING POLICIES**

Domestic Rates in respect of recovery action.

The Balance Sheet includes the Council's share of the end-of-year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals.

### **vi. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

Under agreed accounting practice, the Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This sum is calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance. This is achieved by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **vii. Employee Benefits**

#### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees. Such benefits are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements or any form of leave entitlement (for example time off in lieu) earned by employees but not taken before the year-end and where employees can carry forward this entitlement into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year being the period in which the employee takes the benefit, although based upon estimates of salary inflation because final inflationary increases may not be adopted until substantially later in the year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. When the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy all such costs are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement. A disclosure note related to exit payments is provided in the Statement of Accounts.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to

## **ACCOUNTING POLICIES**

the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end.

### **Post-Employment Benefits**

Council Employees are members of the Local Government Pensions Scheme, administered by Essex County Council.

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the District Council.

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

- The liabilities of the Essex County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using the discount rate of 2.7% calculated by the scheme's actuaries. The discount rate is the annualised yield at the 17-year point on the Merrill Lynch AA-rated corporate bond yield curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Employer's liabilities. This is consistent with the approach used at the last accounting date
- The assets of Essex County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price.
  - Unquoted securities – professional estimate.
  - Unitised securities – current bid price.
  - Property – market value.
- The change in the net pensions liability is analysed into the following components:

#### Service costs, comprising:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning the period, taking into account any changes in the

## **ACCOUNTING POLICIES**

net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

### Re-measurements, comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

### Contributions

- Contributions paid to the Essex County Council Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

### **Discretionary Benefits**

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies applied to the Local Government Pension Scheme.

### **viii. Events after the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is approved. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the note of the nature of the events and their estimated financial effect.

Events taking place after the date of approval are not reflected in the Statement of Accounts.

### **ix. Financial Instruments**

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis or to realise the net asset and settle the liability simultaneously.

### Financial Liabilities

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

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

### Financial Assets

Financial assets are classified into two 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.

### Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However the Council has made loans to leaseholders for capital works at less than market rates. These are known as soft loans. When soft loans are made a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a rate of interest aligned with market rates, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge

## **ACCOUNTING POLICIES**

made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Available-for-Sale Assets**

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

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

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

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

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the

## **ACCOUNTING POLICIES**

instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

### **x. Foreign Currency Translations**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

### **xi. Government Grants and Contributions**

Whether paid on account, by installments or in arrears, government grants and third party contributions and donations are recognised as being due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (receipts in advance). When conditions are satisfied, the grant or contribution is credited to the relevant service line (as revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **xii. Heritage Assets**

A tangible heritage asset is 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.

An intangible heritage asset is an intangible asset with cultural, environmental or historical significance. Examples of intangible heritage assets include recordings of significant historical events, and can be oral, photographic and computer records.

Property Heritage Assets that are operational are noted on the Heritage Asset Schedule, and

## **ACCOUNTING POLICIES**

are included in the appropriate Property Plant and Equipment category.

Harlow District Council Heritage Assets can be categorised as follows:

- Fine Arts including Sculpture, Civic Gifts and Regalia including Chains of Office – The insurance values of the Council owned art are the basis for the asset values included in the Balance Sheet. These assets are deemed to have an indeterminate life and high residual values, thus the Council does not consider it necessary to provide for depreciation. Acquisitions are initially recognised at cost, and donated assets at valuation provided by external valuers, with reference to appropriate commercial markets using the most recent and relevant information from sales at auctions.
- Artefacts at The Museum of Harlow – The Collection is valued for insurance purposes; these valuations are the basis upon which the asset values included in the Balance Sheet. These assets are deemed to have an indeterminate life and the Council does not consider it appropriate to provide for depreciation. Donated assets acquired are recognised at valuation provided initially by the Museum and then, if required, by external valuers with reference to appropriate commercial markets using the most recent and relevant information from sales at auctions.
- Community Assets – these are recognised at cost, except for donated assets which are recognised at insurance valuation.
- Listed Buildings – Council-owned listed buildings within Harlow town are used for housing purposes, or are held as investments, and are therefore recorded as operational assets. They are included on the Balance Sheet within their respective asset categories.

The carrying amounts and any impairment of Heritage Assets are reviewed in accordance with the Council's general policy on impairment. Where Heritage Assets are disposed of, the gains or losses are posted to the Comprehensive Income and Expenditure Statement and subsequently adjusted in accordance with other non-current asset disposals; proceeds are treated as capital receipts unless below £10,000, in which case they are posted as revenue income.

### **xiii. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance, but are controlled by the Council as a result of past events (e.g. software licences), is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally-generated assets are capitalised where it can be demonstrated that:

- the project is technically feasible and is intended to be completed (with adequate resources being available)
- the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Assets are only revalued where their fair

## **ACCOUNTING POLICIES**

value can be determined by reference to an active market. In practice, no intangible asset held by the Council meets these criteria, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **xiv. Inventories and Long-term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

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.

### **xv. Interests in Companies and Other Entities**

Since 2007 the Council has had material interests in Kier Harlow having a 19.9% share in the Joint Venture representing an associated entity. However, due to the immateriality of the entity, Group Accounts have not been prepared for these transactions.

On 1 February 2017 the Council discontinued its service contract with Kier Harlow and formed a new Company known as Harlow Trading Services (Property and Environment) Limited, operating under the name HTS (Property and Environment) Ltd. HTS (Property and Environment) Ltd is a company wholly-owned by Harlow Council. Group Accounts have been prepared for the year ended 31 March 2017 to incorporate HTS transactions from 1 February 2017 to 31st March 2017.

### **xvi. Investment Property**

Investment properties are those that are used solely to earn rentals and/ or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use Subject to data availability from Tenants and materiality considerations. Properties are not depreciated but are revalued annually according to market conditions at the year-end; this involves an assessment of Properties where material changes could have occurred and valuation to all those cases. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal

Rentals received in relation to investment properties are credited to the Financing and

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## **ACCOUNTING POLICIES**

Investment Income line of the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **xvii. Jointly Controlled Operations and Jointly Controlled Assets**

The Council has no Jointly Controlled Operations and no Jointly Controlled Assets. The Council does act as Management Agent for the DCLG (Department for Communities and Local Government), Programme of Development (POD), previously known as the Growth Area Funding (GAF).

Expenditure is recorded largely as capital expenditure, and includes grants given to other beneficiaries. The unspent grant from DCLG is received without outstanding conditions; and therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions. Thus:

- Revenue funds held for HDC projects are passed through the Comprehensive Income & Expenditure Statement and held in earmarked reserves.
- Revenue funds held for third parties are held in Creditors.
- Capital funds held for HDC projects are passed through the Comprehensive Income & Expenditure Statement and held in the Capital Grant Unapplied account.
- Capital funds held for third parties are held in Capital Grants Receipts in Advance.

### **xviii. Leases**

Leases are classified as finance leases where, under the terms of the lease transfer, substantially all the risks and rewards incidental to ownership of the property, plant or equipment transfer from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfillment of the arrangement is dependent on the use of specific assets.

#### **The Council as Lessee**

##### **Finance Leases**

Property, Plant and Equipment held under Finance Leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment –

## **ACCOUNTING POLICIES**

- applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are then substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### **The Council as Lessor**

#### **Finance Leases**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the

## **ACCOUNTING POLICIES**

### **Capital Receipts Reserve.**

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **xix. Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance. Thus, income and expenditure allocated to services reflects their consumption of overheads and support costs as determined in the Council's apportionment policy.

### **xx. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. The Council has a capitalisation threshold of £5,000 and allows for the capitalisation of staffing costs that are directly associated with delivery of the capital schemes. Expenditure that maintains, but does not add to, an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

#### **Measurement**

Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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The cost of assets acquired other than by purchase is deemed to be its fair value, unless the  
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acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly (as a minimum every five years) to ensure that their carrying amount is not materially different from their current value at the year-end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

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

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

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset

## **ACCOUNTING POLICIES**

may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

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

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

### **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 40 years.

For General Fund assets depreciation has been determined to be a charge that does not impact on the overall funding for the Council and therefore is written back out of the Comprehensive Income and Expenditure Account, through the MIRS (as detailed in note 6 to the accounts).

However, for the HRA, from 1 April 2012 it is a requirement that depreciation is made as a non-adjusting charge to the HRA for both dwellings and non-dwellings (i.e. garages, car ports and car spaces). The Council has opted to apply the permitted transitional arrangement, which remains in place until 31 March 2017, to reduce the impact of dwellings depreciation to the equivalent of a pre-existing Major Repairs Reserve contribution.

Any non-dwelling depreciation is not subject to transitional arrangements which reverse any charge out of the HRA. It is a real charge to the HRA with a compulsory transfer to the Major Repairs Reserve.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Componentisation**

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

## **ACCOUNTING POLICIES**

separately. An annual review of assets in relation to component accounting is undertaken and currently there are no assets to which this applies.

Harlow Council does not componentise Council Dwellings because the impact has been demonstrated to be immaterial.

### **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less sales costs. Where there is a subsequent decrease in the net fair value, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

An example of an Asset Held for Sale is the imminent disposal of a Council dwelling under the 'Right to Buy' legislation. In this instance the asset's value is transferred from 'Council Dwellings' and treated as a 'Current Asset Held for Sale'.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement again as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. The Revaluation Reserve on Assets Held for Sale (AHFS) is not frozen in the previous asset category, but is held on the AHFS. It is only when the asset disposal takes place that the Revaluation Reserve is moved to the Capital Adjustment Account.

Amounts for a disposal in excess of £10,000 are categorised as capital receipts. Capital receipts received as a result of the sale of council housing under the Right to Buy (RTB) scheme are treated as follows:

- The Government receives 75% of RTB receipts from an assumed number of sales projected and assumed in the self-financing settlement made in March 2012.
- Additional receipts which have been raised as a consequence of the Government's Right to Buy Reinvigoration Policy are partly allocated to compensate the Council for the lack of future income originally assumed in the HRA Business Plan.
- The remaining portion may be retained by the Council for the purpose of creating new social housing, either by new build or purchase of property on the open market. These new social housing schemes need to be operational within a three-year period,

## **ACCOUNTING POLICIES**

otherwise the Council will have to repay the retained capital receipt with an interest penalty. The Council opts to retain these receipts only where it is satisfied the three-year restriction can be met.

The balance of receipts from Council dwellings is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

Where the receipt from land and other assets is received it is Council policy not to pool these funds but to apply them to regeneration or social housing provision.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **xxi. Private Finance Initiative (PFI) and Similar Contracts**

#### **Refuse Collection Service Contract (Veolia)**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. The Council maintains an agreement with Veolia to deliver the refuse collection services which, although it is not a PFI contract, fits this category identified within the Code of Practice on Local Authority Accounting whereby responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under its schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the assets used under the contract on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The liability is written down by a capital contribution based on a finance lease calculation (the lease is an embedded lease).

Non-current assets recognised on the Balance Sheet are depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to Veolia each year are analysed into three elements:

- **fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- **finance cost** – an interest charge of 6.8% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

### **xxii. Provisions, Contingent Liabilities and Contingent Assets**

#### **Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or

## **ACCOUNTING POLICIES**

service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

### **Provision for Back Pay Arising from Unequal Pay Claims**

The Council does not make provisions for unequal pay because the risk of claims continues to recede, and the sums are not regarded as material.

### **Contingent Liabilities**

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **xxiii. Reserves**

The Council sets aside specific amounts as reserves (earmarked reserves) for future policy purposes and to cover contingencies (such as self-financing insurance cover). Harlow Council also maintains a range of perpetuity reserves, which were established using funds historically paid to the Council within property transactions for the purpose of ongoing maintenance of specific land, common buildings and estates. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves

## **ACCOUNTING POLICIES**

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

Where grants have been received by the Council for specific expenditure in future years, these sums are held in earmarked grants reserves in support of the required accounting mechanism for the carry-over of grants to subsequent accounting periods. Similarly, where the Council has accrued for receipt of safety net payments from central government under the Local Government Finance Act 2012, those sums will be held in an earmarked reserve set aside for the financing of related Collection Fund expenditure allocations that are applied in the following financial accounting year under the 2012 Act.

Certain reserves (Unusable Reserves) may be held to enable the Council to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

### **xxiv. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### **xxv. Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### **xxvi. Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments, such as property investment fund holdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

## **ACCOUNTING POLICIES**

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

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

## NOTES TO THE ACCOUNTS

### 1. NOTE TO EXPENDITURE AND FUNDING ANALYSIS

This first note supports the Expenditure and Funding Analysis, set out on page 23.

Adjustment between Funding and Accounting Basis

Adjustment from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	2016/17			
	Adjustment for Capital Purpose £	Net Change for Pensions Adjustment £	Other differences £	Total Adjustment £
<b>GENERAL FUND RESERVES</b>				
Corporate and Chief Executive	0	(13)	0	(13)
Community Wellbeing	(3,206)	(247)	0	(3,453)
Finance	(92)	1,627	(3)	1,532
Place	(4,735)	(238)	(2)	(4,975)
Housing GF	(13)	(80)	1	(92)
Governance	0	(94)	(4)	(98)
Housing HRA	(28,560)	1,524	(3)	(27,039)
<b>Net Cost of Services</b>	<b>(36,606)</b>	<b>2,479</b>	<b>(11)</b>	<b>(34,138)</b>
<b>Other Income and Expenditure from the Expenditure Funding Analysis</b>	<b>(5,862)</b>	<b>(3,267)</b>	<b>(1,063)</b>	<b>(10,192)</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or deficit on the provision of service</b>	<b>(42,468)</b>	<b>(788)</b>	<b>(1,074)</b>	<b>(44,330)</b>

Adjustment between Funding and Accounting Basis

Adjustment from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	2015/16			
	Adjustment for Capital Purpose £	Net Change for Pensions Adjustment £	Other differences £	Total Adjustment £
<b>GENERAL FUND RESERVES</b>				
Corporate and Chief Executive	0	(14)	0	(14)
Community Wellbeing	(1,600)	(261)	2	(1,859)
Finance	(48)	1,631	4	1,587
Place	(10,787)	(253)	3	(11,037)
Housing GF	(152)	(103)	(1)	(256)
Governance	0	(108)	2	(106)
Housing HRA	(27,658)	1,513	2	(26,143)
<b>Net Cost of Services</b>	<b>(40,245)</b>	<b>2,405</b>	<b>12</b>	<b>(37,828)</b>
<b>Other Income and Expenditure from the Expenditure Funding Analysis</b>	<b>(1,734)</b>	<b>(3,182)</b>	<b>2,970</b>	<b>(1,946)</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or deficit on the provision of service</b>	<b>(41,979)</b>	<b>(777)</b>	<b>2,982</b>	<b>(39,774)</b>

## NOTES TO THE ACCOUNTS

<b>Expenditure / Income</b>	<b>2016/17 £000s</b>	<b>2015/16 £000s</b>
<b>Expenditure</b>		
Employee Benefits Expenses	22,238	21,593
Other Services Expenses	65,057	67,038
Support Service Recharge	15,532	15,314
Depreciation, Amortisation & Impairment	51,337	55,920
Interest Payments	10,370	10,338
Payment to Housing Capital Receipts Pool	6,379	4,533
Loss / (Gain) on the Disposal of Assets	1,415	(1,547)
<b>Total Expenditure</b>	<b>172,329</b>	<b>173,189</b>
<b>Income</b>		
Fees, Charges and Other Services Income	(78,020)	(81,089)
Interest and Investment Income	(834)	(429)
Income from Council Tax, Non Domestic Rates, District Rate Income	(10,013)	(9,783)
Government Grants and Contributions	(44,378)	(43,585)
<b>Total Income</b>	<b>(133,245)</b>	<b>(134,886)</b>
<b>Surplus or deficit on the provision of service</b>	<b>39,084</b>	<b>38,303</b>

In adopting 2016/17 CIPFA regulations, the table above includes support service recharges. As a result, the total expenditure and total income will not equate with the total Gross Expenditure and Gross Income reported within the Comprehensive Income and Expenditure Statement on page 25.

## 2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out from page 32, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- On 1 April 2013, Local Authorities assumed responsibility for refunding ratepayers who have successfully appealed against the Business Rates rateable value of their properties. This will include amounts that were paid over to Central Government in respect of 2012/13 and prior years. The carrying amount of the provision is £2.637m. The Council's share of which is £1.055m (40%), which is reflected in the Accounts. An increase in the success rate of 5% would increase the provision by £0.132m, increasing the deficit on the Collection Fund, and increasing the Council's liability by £0.053m. The remainder would be shared between preceptors and Central Government.
- The introduction of HRA Self Financing by the Government occurred with effect from 2012/13, although the payment of debt to the Government happened on 28 March 2012 (in 2011/12). The Council updates its HRA Business Plan annually to a thirty-

## **NOTES TO THE ACCOUNTS**

year period. Recent legislative changes to reduce rents over a four-year period, commencing from April 2016, have been reflected in the Council's 30-year Plan.

- Council Housing has not been subject to Componentisation due to the short life of the properties, revealing no material change in depreciation.
- Interest in Companies and other Entities:

During 2016/17 the Council has maintained interests in the following companies:

**HTS (Property and Environment) Limited** - a wholly owned subsidiary of HTS Group Limited, which was incorporated 24 December 2015. The company was established to deliver property maintenance and a range of environmental services for the Council. It has one fully paid up ordinary share held by Harlow District Council. The company commenced trading on 1 February 2017. The first accounting year of the company will cover the period from 1 February 2017 to 31 March 2018. Meanwhile, the first two months of trading (to 31 March 2017) are reflected in Group Accounts, which are incorporated within this year's Statement of Accounts by the Council for the first time.

**Kier Harlow Limited** - an associated company of Harlow District Council which, until 31 January 2016, provided property maintenance services to the Council. The Council has maintained a 19.9% share in the company. Following the transfer for the provision of these services to HTS (Property and Environment) Limited after 31 January 2017, Kier Harlow Limited has entered a phase of decommissioning. The CIPFA Accounting Code of Practice notes that authorities with interests in associates shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material. Due to the immateriality of the proportionate interests to the Council of the company, Group Accounts have not been prepared in 2016/17 for Kier Harlow Limited, but a disclosure is made of transactions in Note 33 to the Accounts on Related Party Transactions.

### **3. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of Statement of Accounts needs the Council to make judgments, estimates and assumptions that may affect amounts reported for assets and liabilities in the Balance Sheet as well as amounts reported for the revenue and expenses during the year. Estimates are made taking into account historical experience, current trends and other relevant information. However, because we need to employ a degree of estimation, this means that actual outcomes could differ from those estimates.

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.  It is estimated that, if the annual HRA depreciation charge for assets were to

## NOTES TO THE ACCOUNTS

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
	<p>From 1 April 2017 new regulations will require councils to depreciate assets without an adjustment back to the Major Repairs Allowance. This will have a significant impact in the HRA's financial resources; it is envisaged that it will require a reassessment of the useful remaining lives of HRA assets, with the likelihood that the lives of assets will be increased, thus enabling depreciation to be spread over a longer period and thereby be fully funded. Council Dwellings were revalued on the Beacon principle as at 1 April 2015. In years where property values are stable no further valuation work is necessary to ensure the balance sheet value reflects fair value. During 2016/17 there were substantial upward movements in property values and therefore a revaluation increase was applied as at 31 March 2017 based on the estimated increase required to book value in order to reflect fair value as at 31 March 2016.</p>	<p>be increased by 1%, the extra charge to services would ordinarily amount to £260,000.</p> <p>The Major Repairs Reserve records a difference between valuation depreciation and Major Repairs Allowance of £15.1million. This is the sum that needs to be reduced to enable the depreciation to be funded from 1 April 2017.</p> <p>For more information on the treatment of depreciation in this year's Statement of Accounts, please see note H10 within the section covering the Housing Revenue Account.</p>
Provisions	<p>The following provisions have been made as at 31 March 2017:-</p> <p>A provision of £1.055 million, in relation to the estimated impact of appeals for Business Rate valuations (see Note 20). With no substantial claims outstanding against the Council at the time of preparing the Statement of Accounts, no new significant provisions were deemed necessary to be recognised in respect of 2016/17.</p>	<p>The provisions made represent a contingency for potential future outcomes. As the outcomes become known or are resolved, any potential costs will be charged against the provisions made. Any remaining sums will eventually form a reversal of the provision and a transfer made back to the General Fund/ HRA balances, as appropriate.</p> <p>In relation to the provision made in respect of Business Rates appeals, any variation will initially fall upon the Collection Fund, from where the provision has been made; the regulated mechanism of the Fund allocates the</p>

## NOTES TO THE ACCOUNTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
		impact of variations between the billing authority (Harlow Council), precepting authorities (Essex County Council and Essex Fire Authority) and central government. Should the value of appeals actually settled vary by +/- 1% of the total amount provided for there would be a £26,370 change in the sum provided of which Harlow's share would be £10,550. A safety net system protects the Council from losses below baseline funding levels.
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating, primarily, 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. Barnett Waddingham actuaries are engaged to provide the Council with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions cannot be measured accurately. The assumptions interact in complex ways.</p> <p>During 2016/17, the pension fund actuaries advised that the net pensions' liability had increased by £15.845million. £15.057million was related to actuarial re-measurement loss plus other movements of £0.788million.</p>
Arrears	<p>At 31 March 2017, the Council had made significant provisions for doubtful debts, amounting to £5.435 million in total.</p> <p>Council tenant rent bad debt provision decreased to £2.789 million, providing substantial cover for non-payment of arrears. The Housing Welfare reforms will create more challenges for rent collection from 2017/18 onwards, although the current level of cover has been assessed as adequate at present.</p>	<p>If the Council's collection rates were to deteriorate, an increase in the current provisions by 1% would require an extra provision of £54,350.</p>

## **NOTES TO THE ACCOUNTS**

### **4. MATERIAL ITEMS OF INCOME AND EXPENDITURE**

#### **Actuarial Gain**

The Pension Fund Actuary has reported an actuarial loss for 2016/17 of £15,057 million. This is reported as a loss on the Comprehensive Income and Expenditure Statement, and is included in the line “Actuarial (Gains)/ Losses on Pension Asset and Liabilities”.

The loss is not a cost to the Council Tax payer but becomes part of the Pension Reserve (one of the Council’s Unusable Reserves, as set out in Note 22).

#### **Revaluation of Council Properties**

The Council has undertaken a valuation of its assets at 1 April 2016. A further exercise has then been undertaken to establish whether there has been a change in value between 1 April 2016 and 31 March 2017. For housing assets, this has resulted in a new valuation at 31 March 2017. The Council has reflected the 31 March 2017 value in the non-current asset register, reporting these movements in Note 10.

#### **Enterprise Zone**

In 2015/16 the Council completed the acquisition of land at London Road to enable the delivery of a new Science Park on the Enterprise Zone site. During the year the Council undertook the construction of a new access road to the site and this completed in March 2017. The Council also undertook the procurement of a development partner, Vinci UK Developments Ltd, to deliver the construction of the new Science Park and the design of the site infrastructure. Construction of this will commence in the summer of 2017 to be funded by the balance of the DCLG grant and additional loan finance.

### **5. EVENTS AFTER THE BALANCE SHEET DATE**

Events may occur between the financial year-end and the date that the Statement of Accounts is issued that might have a bearing upon the financial results of the past year and the financial position presented in the Balance Sheet. Therefore, in compliance with the principles of IAS 10 (Events after the Reporting Period), events that occurred after the Balance Sheet date are reflected in the Statement of Accounts up to 12 June 2017, which is the date on which the Statement was authorised for issue by the Council’s Head of Finance.

The Statement of Accounts was approved by the Council’s Members on 14 September 2017. Any further issues arising that materially impact upon the Balance Sheet and accounting statements between the date of issue and the date of approval have been reflected within the Statement of Accounts approved on 14 September.

### **6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

The Statement of Accounts is required to be produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code of Practice), which satisfies the requirements of International Financial Reporting Standards (IFRS). However, because of the unique funding environment that exists for local authorities, which has historically been defined by a range of legislation, the financial reporting of the

## NOTES TO THE ACCOUNTS

Council under the Code of Practice does not present the Council's financial results on the same basis.

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The adjustments are set out in the following tables:

2016/17	Usable Reserves					Movement in Unusable Reserves £000s
	General Fund Balance £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	
<b>Adjustments primarily involving the Capital Adjustment Account</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non-current assets	(4,794)	(18,716)				23,510
Revaluation losses on Property Plant and Equipment	(905)	(279)				1,184
Movements in the fair value of Investment Properties	14					(14)
Amortisation of intangible assets	(271)	(89)				360
Capital grants and contributions applied	496					(496)
Income in relation to donated assets						
Revenue expenditure funded from capital under statute	(1,814)					1,814
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	(518)	(10,556)				11,074
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	244					(244)
Capital expenditure charged against the General Fund and HRA balances	215	5,495				(5,710)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,426	33			(1,459)	
Application of grants to capital financing transferred to the Capital Adjustment Account					3,031	(3,031)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	927	8,733	(9,660)			
Use of the Capital Receipts Reserve to finance new capital expenditure				3,544		(3,544)

Continued overleaf

## NOTES TO THE ACCOUNTS

2016/17 continued	Usable Reserves					Movement in Unusable Reserves £000s
	General Fund Balance £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(6,378)		6,378			
<b>Adjustment primarily involving the Major Repairs Reserve:</b>						
Reversal of Major Repairs Allowance credited to the HRA		(15,062)		(11,053)		26,115
Use of the Major Repairs Reserve to finance new capital expenditure				11,053		(11,053)
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>			1			(1)
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						
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,326)	(537)				5,863
Employer's pensions contributions and direct payments to pensioners payable in the year	3,014	2,061				(5,075)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,063)					1,063
<b>Adjustment primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(8)	(3)				11
<b>Total Adjustments</b>	<b>(14,741)</b>	<b>(28,919)</b>	<b>262</b>	<b>0</b>	<b>1,572</b>	<b>41,826</b>

## NOTES TO THE ACCOUNTS

2015/16	Usable Reserves					Movement in Unusable Reserves £000s
	General Fund Balance £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	
<b>Adjustments primarily involving the Capital Adjustment Account</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non-current assets	(5,343)	(20,981)				26,324
Revaluation losses on Property Plant and Equipment	(7,074)	(105)				7,179
Movements in the fair value of Investment Properties	(1,286)					1,286
Amortisation of intangible assets	(239)	(138)				377
Capital grants and contributions applied	323	60				(383)
Income in relation to donated assets						
Revenue expenditure funded from capital under statute	(563)	(90)				653
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	(138)	(5,040)				5,178
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	540					(540)
Capital expenditure charged against the General Fund and HRA balances	330	6,426				(6,756)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,274				(1,274)	
Application of grants to capital financing transferred to the Capital Adjustment Account					10,035	(10,035)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	52	6,674	(6,830)			104
Use of the Capital Receipts Reserve to finance new capital expenditure			3,467			(3,467)

Continued overleaf

## NOTES TO THE ACCOUNTS

2015/16 continued	Usable Reserves					Movement in Unusable Reserves £000s
	General Fund Balance £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(4,533)		4,533			
<b>Adjustment primarily involving the Major Repairs Reserve:</b>						
Reversal of Major Repairs Allowance credited to the HRA		(12,770)		(11,105)		23,875
Use of the Major Repairs Reserve to finance new capital expenditure				11,105		(11,105)
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>			10			(10)
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						
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,259)	(530)				5,789
Employer's pensions contributions and direct payments to pensioners payable in the year	2,968	2,043				(5,011)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	2,970					(2,970)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	11	2				(13)
<b>Total Adjustments</b>	(15,967)	(24,439)	1,170	0	8,761	30,475

## **NOTES TO THE ACCOUNTS**

### **7. OTHER OPERATING EXPENDITURE**

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Payments to the Government Housing Capital Receipts Pool	6,379	4,533
(Gains)/ Losses on the disposal of Non-Current Assets	1,415	(1,547)
<b>Total</b>	<b>7,794</b>	<b>2,986</b>

### **8. FINANCING AND INVESTMENT INCOME AND EXPENDITURE**

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Interest payable and similar charges	7,119	7,156
Pensions interest cost and expected return on pensions assets	3,251	3,182
Interest receivable and similar income	(369)	(343)
Income and expenditure in relation to investment properties and changes in their fair value	(138)	1,161
Other investment income	(327)	(86)
<b>Total</b>	<b>9,536</b>	<b>11,070</b>

### **9. TAXATION AND NON-SPECIFIC GRANT INCOME**

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Council Tax income	6,964	6,850
Retained Business Rates	3,049	2,933
Revenue Support Grant	1,290	2,149
Non-ringfenced government grants	1,543	1,234
Capital grants and contributions	228	1,274
<b>Total</b>	<b>13,074</b>	<b>14,440</b>

## NOTES TO THE ACCOUNTS

### 10. PROPERTY, PLANT AND EQUIPMENT

#### Movements in 2016/17

2016/17	Property, Plant and Equipment							
	Council Dwellings £000s	Other Land & Buildings £000s	Vehicles, Plant & Equipment £000s	Infra-structure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant & Equipment £000s
<b>Cost or Valuation at 1 April 2016</b>	<b>659,676</b>	<b>107,005</b>	<b>6,370</b>	<b>8,802</b>	<b>933</b>	<b>2,780</b>	<b>0</b>	<b>787,806</b>
Additions	18,249	3,742	165	346	14	189	920	23,625
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	47,436	10,552				(99)		57,889
Revaluation increases/ (decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(18,249)	(3,054)				(118)		(21,421)
Derecognition - Disposals		(74)	(16)					(90)
Other movements in cost or valuation	(13,954)	(2,154)	13			5,089		(11,006)
<b>Cost of Valuation at 31 March 2017</b>	<b>693,158</b>	<b>116,017</b>	<b>6,532</b>	<b>9,148</b>	<b>947</b>	<b>7,841</b>	<b>920</b>	<b>836,803</b>
<b>Accumulated Depreciation and Impairment at 1 April 2016</b>	<b>0</b>	<b>(2,958)</b>	<b>(4,746)</b>	<b>(1,915)</b>	<b>(2)</b>	<b>(39)</b>	<b>0</b>	<b>(9,699)</b>
Depreciation Charge	(25,752)	(1,538)	(640)	(273)		(63)		(28,266)
Depreciation written out to the Revaluation Reserve	25,752	1,043				56		26,851
Depreciation written out to the Surplus/(Deficit) on the Provision of Services		43				1		44
Impairment losses/(reversals) recognised in the Surplus/(Deficit) on the Provision of Services				(4)				(4)
Other movements in depreciation and impairment						2		2
<b>Accumulated Depreciation and Impairment at 31 March 2017</b>	<b>0</b>	<b>(3,410)</b>	<b>(5,386)</b>	<b>(2,192)</b>	<b>(2)</b>	<b>(43)</b>	<b>0</b>	<b>(11,072)</b>
At 31 March 2017	693,158	112,607	1,146	6,956	945	7,798	920	823,530
At 31 March 2016	659,676	104,047	1,624	6,887	931	2,741	0	778,107
<b>Variation</b>	<b>33,482</b>	<b>8,560</b>	<b>(478)</b>	<b>69</b>	<b>14</b>	<b>5,057</b>	<b>920</b>	<b>45,423</b>

## NOTES TO THE ACCOUNTS

### 10. PROPERTY, PLANT AND EQUIPMENT CONT.

#### Comparative Movements 2015/16

2015/16 Restated	Property, Plant and Equipment							
	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Cost or Valuation at 1 April 2015</b>	<b>622,996</b>	<b>89,751</b>	<b>6,229</b>	<b>7,527</b>	<b>933</b>	<b>2,437</b>	<b>1,042</b>	<b>730,915</b>
Additions	18,517	8,741	142	1,284	60		2,128	<b>30,872</b>
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	38,844	18,247				901		<b>60,016</b>
Revaluation increases/ (decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(18,620)	(9,549)			(60)	(228)		<b>(28,241)</b>
Derecognition - Disposals		(180)		(14)		(330)		<b>(524)</b>
Assets reclassified (to)/from Held for Sale		(5,231)						<b>(5,231)</b>
Other movements in cost or valuation	3,170	(5)	(1)	5			(3,170)	<b>(1)</b>
<b>Cost of Valuation at 31 March 2016</b>	<b>659,676</b>	<b>107,005</b>	<b>6,370</b>	<b>8,802</b>	<b>933</b>	<b>2,780</b>	<b>0</b>	<b>787,806</b>
<b>Accumulated Depreciation and Impairment at 1 April 2015</b>	<b>0</b>	<b>(5,102)</b>	<b>(4,128)</b>	<b>(1,679)</b>	<b>(2)</b>	<b>(68)</b>	<b>0</b>	<b>(10,979)</b>
Depreciation Charge	(23,414)	(1,479)	(618)	(236)		(51)		<b>(25,837)</b>
Depreciation written out to the Revaluation Reserve	23,414	3,497				85		<b>26,996</b>
Depreciation written out to the Surplus/(Deficit) on the Provision of Services		126						<b>126</b>
Other movements in depreciation and impairment						(5)		<b>(5)</b>
<b>Accumulated Depreciation and Impairment at 31 March 2016</b>	<b>0</b>	<b>(2,958)</b>	<b>(4,746)</b>	<b>(1,915)</b>	<b>(2)</b>	<b>(39)</b>	<b>0</b>	<b>(9,699)</b>
At 31 March 2016	659,676	104,047	1,624	6,887	931	2,741	0	<b>775,906</b>
At 31 March 2015	622,996	84,649	2,101	5,848	931	2,369	1,042	719,936
<b>Variation</b>	<b>36,680</b>	<b>19,398</b>	<b>(477)</b>	<b>1,039</b>	<b>0</b>	<b>372</b>	<b>(1,042)</b>	<b>55,970</b>

## **NOTES TO THE ACCOUNTS**

### **i. Depreciation**

The following useful asset lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – will vary according to the type of dwelling, but typically assessed as 20 years.
- Other Land and Buildings – will vary according to assessment by the Council's valuer.
- Vehicles, Plant, Furniture & Equipment – straight-line depreciation over 5 years.
- Infrastructure – 40 years.

### **ii. Capital Commitments**

At 31 March 2017 the Council had entered into a number of contracts for enhancement to Property, Plant and Equipment and other assets in 2016/17 and future years, budgeted at £6,711,338. Similar commitments at 31 March 2016 were £3,231,530. The major commitments are:

<b>Scheme</b>	<b>Future Commitment £000s</b>
Housing	6,224
Nicholls Field Pavilion	346
Commercial Properties	116
Town Park Walled Garden	31
 <b>Total Capital Commitments</b>	 <b>6,717</b>

### **iii. Revaluations**

The Council revalued its entire asset portfolio as at 1 April 2015, this being the beginning of a new five year cycle. A proportion of non-housing assets, including all council garages, were revalued at 1 April 2016 by Wilks Head and Eve. DVS Property Specialists undertook the revaluation of council dwellings as at 1 April 2016. An assessment of the value of all assets was also undertaken as at 31 March 2017. Where changes have occurred, these are reflected within the Balance Sheet as at that date.

Properties are valued on an area basis over a 5 year period that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

Investment Properties – All Investment Properties are revalued annually.

## **NOTES TO THE ACCOUNTS**

Other Land and Buildings – All assets were valued as at 1 April 2015 and are subject to a rolling review over the following four financial years (2016/17 to 2019/20).

Surplus Assets - Surplus assets includes a number of unusable council dwellings.

Heritage Assets - Where Heritage Assets are in operational use they are included in the balance sheet in the relevant category in which they are held and valued accordingly. (Reference Note 11 Listed Properties).

Council Dwellings - Housing Beacons were valued by DVS Property Services as at 1 April 2016 as part of the valuation process and reviewed as at 31 March 2017. The number of dwellings pending disposal 31 March 2017 was 100, made up of 22 pending ‘Right To Buy’ sales, 3 long term voids, and, 75 properties which were transferred in April 2017 through Priority Estates. These are deemed as ‘Assets Held for Sale’ and valued on the same basis.

The following details set out significant assumptions applied in estimating the fair values of assets:

- Existing Use Value (EUV) is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction, after proper marketing. The parties are taken to have acted knowledgeably, prudently and without compulsion.
- Where insufficient market-based evidence of fair value is available because an asset is specialised and/or rarely sold, the Code permits the use of Depreciated Replacement Cost (DRC).
- Existing Use Value Social Housing (EUV-SH) is the estimated amount for which a council dwelling should exchange on the date of valuation, between a willing buyer and a willing seller, in an arm’s-length transaction. There is presumption of proper marketing and that the parties are acting knowledgeably, prudently and without compulsion.
- Market Value (MV) is defined as “The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

## NOTES TO THE ACCOUNTS

Net Book Values	Council Dwellings £000s	Other Land and Buildings £000s	Vehicles, Plant, Furniture and Equipment £000s	Surplus Assets £000s	Total £000s
Carried at historical cost	383,287	56,836	1,010	7,212	448,345
Valued at fair value as at:					
31 March 2017	692,903	112,607	1,146	2,975	809,631
31 March 2016	663,348	106,247	1,624	2,738	773,957
31 March 2015 (restated)	622,996	84,648	2,101	2,368	712,113
31 March 2015	622,996	65,561	2,101	2,098	692,756
31 March 2014	563,923	86,260	2,468	3,846	656,497
31 March 2013	508,963	80,654	2,785	4,467	596,869
31 March 2012	502,423	73,957	3,329	3,592	583,301
31 March 2011	517,550	36,355	3,855	0	557,760
31 March 2010	626,667	35,593	4,415	0	666,675

## 11. HERITAGE ASSETS

The heritage assets held by the Council fall into three categories and are held for their intrinsic value as opposed to potential financial gain. As such, they are unlikely to be sold.

Carrying Value of Heritage Assets Held by the Council	Museum Artefacts £000s	Community Heritage Assets £000s	Art Collection £000s	Total £000s
Cost or valuation:				
as at 1 April 2015	612	47	857	1,516
Additions	0		16	16
Revaluations	0	107	0	107
as at 31 March 2016	612	154	873	1,639
Cost or valuation:				
as at 1 April 2016	612	154	873	1,639
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	0	0	-16	-16
Depreciation	0	-1	0	-1
<b>as at 31 March 2017</b>	<b>612</b>	<b>153</b>	<b>857</b>	<b>1,622</b>

### ARTEFACTS HELD AT MUSEUM OF HARLOW

Harlow Council's collection of artefacts is held at the Museum of Harlow and contains collections of antiquities, furniture, costumes, bicycles, coins and metal items. In addition there is an extensive collection of reference books, newspapers, photographs etc. relevant

## **NOTES TO THE ACCOUNTS**

to the study of the area and the development of Harlow New Town during the mid-to late 20th century. The collection is reported on the Balance Sheet at the insurance value as assessed by Lyon and Turnbull in April 2010. These assets are deemed to have an indeterminate life and the Council does not consider it necessary to provide for depreciation.

Acquisition of items is by donation. The valuation of items is initially assessed by a responsible officer at the Museum, and if required, by external valuers. There were no acquisitions or disposals from the Collection during 2016/17.

### **FINE ARTS, INCLUDING SCULPTURE CIVIC GIFTS AND REGALIA**

Harlow New Town is the creation of landscape architect Sir Frederick Gibberd, whose energy and enthusiasm sought to place works of art on housing estates. The Council maintains its own Fine Art Collection and also insures pieces owned by Harlow Arts Trust (founded by Gibberd and others). The Collection is reported on the Balance Sheet, together with three paintings listed as Civic Gifts. The insurance value of the artworks and sculptures was assessed by Pall Mall Art Advisors in February 2016 and is reviewed every five years to ensure potential material changes can be reflected. These assets are deemed to have an indeterminate life and the Council therefore does not consider it necessary to provide for depreciation.

There are relatively few acquisitions and disposals of these assets, however, acquisitions are initially recognised at cost, and donated assets at valuation provided by external valuers and with reference to appropriate commercial markets using the most recent and relevant information from sales at auctions.

The Council has a variety of gifts received through civic visits. In addition there are three Chains of Office, two of which are in use by the Chairman and Vice Chairman of the Council. Being of immaterial values, these assets are excluded from the Balance Sheet.

### **COMMUNITY HERITAGE ASSETS**

Community Assets include the Bandstand in the Town Park and six War Memorials which were refurbished in 2014/15 to commemorate the centenary of the First World War. The Sculpture Trail along the River Stort was assembled in 2007/08 and includes four freestanding sculptures and a metal and glass walkway, which form the three-and-a-half mile waterside trail along the River Stort linking Parndon Mill Gallery to the Gibberd Garden in Harlow. These items are listed in the Fine Arts Schedule and are deemed to have an indeterminate life, such that the Council does not consider it appropriate to provide for depreciation.

### **Listed Properties**

Harlow has many Listed Buildings within the Town, some of which are owned by the Council and used for housing. These are operational assets, included on the Balance Sheet in the relevant category and valued as such.

### **Archaeological Sites**

The Council owns a number of archaeological and historic sites within the town. These include a Roman Temple, the Site of Little Parndon Hall adjacent to Little Parndon Church, two red brick piers with free stone caps dating from the 17<sup>th</sup> century at Canons Brook, the Garden Wall at Passmores House (part of the remains of a moated medieval site and later

## **NOTES TO THE ACCOUNTS**

a 16<sup>th</sup> century Manor House), and two unexcavated Tumuli close to Gilden Way with a third near to the Princess Alexandra Hospital.

The Council does not consider that reliable cost or valuations can be obtained for these sites. These assets lack any comparable market values, and cost records do not exist. The cost of providing a balance sheet valuation would be disproportionate to any benefit to the user of the Council's financial statements and therefore is excluded from the balance sheet.

There were no additions to or disposals of heritage assets in 2016/17.

### **Policy of Acquisition, Preservation, Management and Disposal of Heritage Assets:**

Fine Arts including Sculpture, Civic Gifts and Regalia are acquired by donation and as gifts to the Council. Through the insurance valuation a record is maintained of the art works and sculptures held. In addition the gifts received have been catalogued for reference.

For the Museum Collections, the Museum is accredited to the Museums Libraries and Archives Council and therefore adopts the policies of this body governing acquisitions, disposals and the appropriate ethical and professional management of the Museum and its collections.

By their nature there are few acquisitions or disposals of Community Heritage Assets but policies to acquire, preserve, manage and dispose of any such assets are in accordance with financial regulations.

### **Donated Heritage Assets:**

No Heritage Assets have been donated in the financial year 2016/17.

## **12. INVESTMENT PROPERTIES**

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Rental income from investment property	124	112
Direct operating expenses arising from investment property		
<b>Net gain/(loss)</b>	<b>124</b>	<b>112</b>

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

The following table (overleaf) summarises the movement in the fair value of Investment Properties over the year:

## NOTES TO THE ACCOUNTS

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Balance at start of the year (1 April)	1,790	3,056
Additions:		
Construction	-	21
Disposals:		
Net gains/ (losses) from fair value adjustments	(1)	(1,287)
<b>Balance at end of the year (31 March)</b>	<b>1,789</b>	<b>1,790</b>

Councils must account for investment property in accordance with IAS 40 Investment Property and should be valued to 'Fair Value'.

The objective of this measurement approach is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under the current market conditions.

In addition to arriving at the fair values for the assets, IFRS 13 seeks to increase consistency and comparability within the valuation process which has been achieved through a 'fair value hierarchy'.

The hierarchy categorises the inputs used into three levels and the fair value category is applied based on whether the valuer has used more observable or unobservable inputs within the valuation.

To outline this hierarchy; the level 1 category is reserved for unadjusted quoted prices in active markets for identical assets.

Level 1: The Council's valuer, Wilks Head & Eve, is of the view that there are no assets within the portfolio which should be classed at Level 1 in the fair value hierarchy.

Level 2 (significant observable) inputs are quoted prices other than quoted prices in Level 1 that are observable for the asset. Adjustments may be required based on perhaps location and condition.

All investment property (comprising land, office, house, communications mast, depot, public convenience, industrial and retail assets) have been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the Harlow area. Market conditions for these asset types are such that the level of observable inputs are significant leading to the properties being categorised at Level 2 in the fair value hierarchy.

Level 3 (Significant unobservable) inputs comprise unobservable inputs for an asset used to measure fair value in circumstances where market data is not available as there is little, if any, market activity for the asset at the measurement date. The valuer is of the view that there are no assets within the portfolio which should be classed at Level 3 in the fair value hierarchy.

Typical valuation inputs which have been analysed in arriving at our Fair Valuations include:

- market rental and sale values
- yields
- void and letting periods

## **NOTES TO THE ACCOUNTS**

- size
- configuration, proportions and layout,
- location, visibility and access
- condition
- lease covenants
- obsolescence

The ultimate aim to arrive at the notional ‘Highest and Best use value’ for the asset either as a stand-alone asset or in combination with other assets within the principal market whilst ensuring that any alternative use is physically, legally and financially possible.

This has been achieved, for these purposes, by comparing the ‘current use’ of the asset to the notional ‘alternative use’ based on potential redevelopment on a land value basis for the site.

The fair value of the asset, for the current use, has been determined by applying an income or comparative approach based on the rental value of the property.

In most cases the assets have been leased on the open market and there are a number of comparables to draw in relation to rental values, yields and rental growth. Although there is an element of valuer subjectivity the valuer is of the view that the valuations comprise a higher proportion of observable inputs rather than unobservable inputs.

The fair value of asset, for the alternative use, has, in most cases, been derived using the sale comparison approach on a land / site basis. In some cases the valuer explored other avenues in arriving at the fair value including conversion of the existing building.

Sale prices of comparable land in applicable uses and similar locations to the subject property are adjusted for differences in key attributes such as land size. End allowances have been included to reflect additional costs which may be appropriate such as demolition and planning.

No formal planning enquires have been made regarding alternative use and assumptions have been made further to discussions with the Council.

This valuation model is based on a price per hectare and end allowances are based on percentages which have been arrived at via observable comparable exercises completed within the locality.

It is important to note that in order to meet the objective of Fair Value measurement, IFRS 13 does not require that exhaustive efforts are undertaken to obtain information about market participant assumptions and expects that all information that is reasonably available to be taken into account.

### **13. INTANGIBLE ASSETS**

The Council accounts for its software as an Intangible Asset, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. Intangible Assets includes both purchased licenses and software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are shown overleaf:

## NOTES TO THE ACCOUNTS

	<b>Internally Generated Assets</b>	<b>Other Assets</b>
4 years	None	Orchard Housing IT Development
5 years	None	IT software; Electoral Register Canvass Software; Town Park Vision; Planning and Delivery Grant; Pitch Regeneraton.
10 years	None	None

The Council does not have any internally generated intangible assets.

The movement on Intangible Asset balances during the year is as follows:

<b>Movement on Intangible Asset Balances</b>	<b>2016/17</b>	<b>2015/16</b>
	£000s	£000s
Balance at start of year:		
- Gross carrying amounts	3,665	3,452
- Accumulated amortisation	(2,576)	(2,191)
Net carrying amount at start of year	<b>1,089</b>	<b>1,261</b>
Additions:		
- Purchases	229	213
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(4)	0
Amortisation for the period	(360)	(373)
Other changes	0	(11)
<b>Net carrying amount at end of year</b>	<b>954</b>	<b>1,090</b>
Comprising:		
- Gross carrying amounts	3,895	3,666
- Accumulated amortisation	(2,941)	(2,576)
	<b>954</b>	<b>1,090</b>

Items of capitalised software that are individually material to the financial statements as set out below (overleaf):

## NOTES TO THE ACCOUNTS

	Carrying Amount		Remaining Amortisation Period
	as at 31 Mar 2017	as at 31 Mar 2016	
	£000s	£000s	
Corporate GIS	8		5 years
Housing IT Development (2016/17)	44		5 years
Agresso 2016/17	166		5 years
Civica Transformation Project	79	99	4 years
Commvault Backups	13	17	4 years
Agresso 2015/16	22	27	4 years
AD / Exchange Software	19	24	4 years
Housing IT Development (2015/16)	26	32	4 years
Housing IT Development (2014/15)	103	138	3 years
IT Non Hardware 2014/15 (including Accolaid system)	48	64	3 years
Housing IT Development (2013/14)	55	56	2 years
IT Non Hardware 2013/14 (incl Committee Management System)	12	18	2 years
Housing IT Development (2012/13)	29	58	1 year
<b>Total</b>	<b>624</b>	<b>533</b>	

## 14. FINANCIAL INSTRUMENTS

### Financial Instruments - Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability, or equity instrument, of another entity. Non-exchange transactions (that is where no goods or services change hands), such as those relating to taxes and government grants, do not give rise to financial instruments.

### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

The Council's non-derivative financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans (borrowing) from the Public Works Loan Board,
- short-term borrowing, which comprises interest accrued on PWLB loans as at the financial year-end,
- finance leases detailed in Note 35,
- guarantees given on loans borrowed by Home Housing Association (see Note 38),
- trade payables for goods and services received.

## NOTES TO THE ACCOUNTS

### Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under the following classifications:

- Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market), comprising:
  - cash in hand,
  - bank current and deposit accounts with Barclays bank,
  - fixed-term deposits with banks and building societies,
  - loans to other local authorities,
  - loans to leaseholders made for service purposes,
  - lease receivables detailed in Note 35,
  - trade receivables for goods and services delivered.
- Available for sale financial assets (those that are quoted in an active market), comprising:
  - money market funds,
  - the Local Authorities' Property Fund which is a collective scheme managed by CCLA Investment Management Ltd,
  - certificates of deposit.

	Long-term		Current	
	as at 31 Mar 2017	as at 31 Mar 2016	as at 31 Mar 2017	as at 31 Mar 2016
	£000s	£000s	£000s	£000s
<b>Investments</b>				
Loans and receivables			10,714	8,712
Available-for-sale financial assets	1,866	1,896	23,863	34,666
<b>Total Investments</b>	<b>1,866</b>	<b>1,896</b>	<b>34,577</b>	<b>43,378</b>
<b>Debtors</b>				
Loans and receivables	1,680	556	18	
Financial assets carried at contract amounts			6,774	5,781
<b>Total included in Debtors</b>	<b>1,680</b>	<b>556</b>	<b>6,774</b>	<b>5,799</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	211,837	211,837	81	81
<b>Total included in Borrowings</b>	<b>211,837</b>	<b>211,837</b>	<b>81</b>	<b>81</b>
<b>Creditors</b>				
Financial liabilities carried at contract amount	317	403	9,115	10,195
<b>Total included in Creditors</b>	<b>317</b>	<b>403</b>	<b>9,115</b>	<b>10,195</b>

## **NOTES TO THE ACCOUNTS**

### **Investment in Property Fund: Long-term investment**

The Council invested £2 million during 2015/16 in CCLA, a specialist property fund available only to local authority investors. The units in the fund are valued based on the overall valuation of the property portfolio. The Council is free to divest itself of its investments at any time and would receive a payment based on the number of units held multiplied by the quoted redemption price per unit. These investments are treated as available for sale financial instruments and have therefore been revalued as at 31 March 2017 based on the redemption value as at that date. The change in valuation has then been credited to "Other Comprehensive Income and Expenditure" in the Comprehensive Income and Expenditure Statement. When the Council redeems these investments, the excess over the original investment will be charged to "Other Comprehensive Income and Expenditure" and credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

The Council has invested in this fund as a mid to long-term investment option to achieve an attractive income and capital growth over time. As at 31 March 2017, the fair value of the CCLA property fund was £1,866,000 (as at 31 March 2016: £1,896,000) - assessed at Level 1 hierarchy, unadjusted quoted prices in active markets for identical shares. As expected for this type of fund, the value of the Council's holding this early is lower than the initial investment because of costs incurred in the purchase of property (Stamp Duty and other legal costs) and, despite an initial rise in capital value, the result of the European Union Referendum in June 2016 created uncertainty in the economy and a lowering of values. Meanwhile, the net return from the performance of the fund in the 12 months to 31 March 2017 was +3.1%.

### **Short-term investment**

The Council's short-term investments may be separated into three types:

- i. Amounts invested in Certificates of Deposit, which are fully liquid. The total amount invested in this product as at 31 March 2017 £5m, with a fair value of £5.020m. This investment type is assessed as Level 1 in the fair value hierarchy (i.e. unadjusted quoted prices in active markets for identical shares), and all holdings are regarded as a short-term investments (periods from investment to maturity exceeding 3 months but within one year).
- ii. A further £9m is regarded as other short-term investment (period from investment to maturity exceeding 3 months but within one year).
- iii. The remaining £19.9m of invested cash balances (i.e. principal investments excluding accrued interest and cash at bank) is included within the Cash and Cash Equivalents (Note 17).

### **Transfers between Levels of the Fair Value Hierarchy**

There were no transfers between Fair Value Hierarchy Levels during the year.

### **Material Soft Loans Made by the Council**

Soft loans are those advanced at below market rates in support of the Council's service priorities. Harlow Council offers support to leaseholders who will be faced with large bills under the modern homes programme. The facility started in April 2012, and is intended to assist in allowing leaseholders to spread their payments over a more manageable term.

The movements on material soft loans balances are shown overleaf:

## NOTES TO THE ACCOUNTS

### Soft Loans

	2016/17 £000s	2015/16 £000s
Opening Balance at start of year	44	56
Nominal value of new loans granted in the year	0	10
Loans repaid	(24)	(23)
Other changes	1	1
<b>Closing Balance at end of year</b>	<b>21</b>	<b>44</b>
 <b>Nominal (cash) Value at 31 March</b>	 <b>23</b>	 <b>45</b>

### Income, Expense, Gains and Losses

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

Financial Instruments Income, Expense, Gains and Losses	Financial Liabilities	Financial Assets			2016/17	2015/16
		Amortised Cost £000s	Loans & Receivables £000s	Available-for- Sale Assets £000s	Total £000s	Total £000s
<b>Total interest payable and similar charges</b>						
Interest expense		7,025	0	0	7,025	7,156
<b>Total income in Surplus or Deficit on the Provision of Services</b>						
Interest income		0	(364)		(364)	(288)
<b>Net (gain)/ loss for the year</b>		<b>7,025</b>	<b>(364)</b>	<b>0</b>	<b>6,661</b>	<b>6,868</b>

Financial assets classified as loans and receivables and financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following assumptions:

- PWLB loans (Public Works Loan Board) have been discounted at the published interest rates for new certainty rate loans arranged on 31 March (The Council's entire borrowing portfolio as at 31 March 2017 is sourced from PWLB. PWLB is a statutory body operating with the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. For loans such as those from the PWLB, premature repayment rates from the PWLB would normally be applied to provide the fair value under PWLB debt redemption procedures, although there were no premature repayments during 2016/17.);
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months, the carrying amount is assumed to sufficiently approximate to fair value;
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

## NOTES TO THE ACCOUNTS

The fair values calculated are as follows:

Fair Values of Financial Assets and Financial Liabilities	as at 31 March 2017		as at 31 March 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000s	£000s	£000s	£000s
<b>Financial Liabilities</b>				
Loans Borrowed	211,837	252,975	211,837	256,842
Trade payables	9,431	9,431	10,794	10,794
<b>Total Liabilities</b>	<b>221,268</b>	<b>262,406</b>	<b>222,631</b>	<b>267,636</b>
<b>Financial Assets</b>				
Investment Balances	35,942	35,963	44,643	44,685
Loans for Service Purposes	1,680	1,680	573	574
Trade Receivables	6,774	6,774	5,781	5,781
<b>Total Assets</b>	<b>44,396</b>	<b>44,417</b>	<b>50,997</b>	<b>51,040</b>

The fair value of financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

The fair value for financial assets at the Balance Sheet date is higher than the carrying amount because the Code of Practice requires the Council to calculate the impact of reduced cash flows and apply that reduction to the carrying amount in respect of Soft Loans to reflect the reduced interest due to over the length of the loans.

### 15. INVENTORIES

Consumables Stores	2016/17 £000s	2015/16 £000s
<b>Balance Outstanding at Start of Year (1 April)</b>	26	29
Purchases	275	287
Recognised as an expense in the year	(267)	(290)
Written-off balances	0	0
Reversals of write-offs in previous years	0	0
<b>Balance Outstanding at End of Year (31 March)</b>	<b>34</b>	<b>26</b>

## NOTES TO THE ACCOUNTS

### 16. DEBTORS

The table below shows the amount that was owed to the Council at 31 March 2017 by third parties, together with amounts paid by the Council in advance of receipt of goods or services.

	Balance as at 31 March 2017	Balance as at 31 March 2016
	£000s	£000s
Central government bodies	1,547	1,707
Other local authorities	278	294
Other entities and individuals	9,186	6,982
<b>Total</b>	<b>11,011</b>	<b>8,983</b>

### 17. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	Balance as at 31 March 2017	Balance as at 31 March 2016
	£000s	£000s
Cash held by the authority	13	12
Bank current accounts	623	701
Short-term deposits with financial institutions	19,894	26,582
<b>Total</b>	<b>20,530</b>	<b>27,295</b>

### 18. ASSETS HELD FOR SALE

	Current	
	2016/17	2015/16
	£000s	£000s
<b>Balance outstanding at start of year</b>	2,382	1,335
Assets newly classified as held for sale:		
- Property, Plant and Equipment	11,094	5,503
Revaluation gains	873	201
Impairment losses	(373)	
Assets sold	(10,985)	(4,657)
<b>Balance Outstanding at Year-end</b>	<b>2,991</b>	<b>2,382</b>

The movement in "Assets newly classified as held for sale" and "Assets sold" reflect Council dwellings subject to transfer as part of the Council's Priority Estates project to replace outdated housing. Further information is available on the Council's website:

<http://www.harlow.gov.uk/priority-estates>

## NOTES TO THE ACCOUNTS

### 19. CREDITORS

The table below shows the amount that the Council owed as at 31 March 2017 to third parties, together with amounts received by the Council in advance of supply of goods or services.

	<b>Balance as at 31 March 2017</b>	<b>Balance as at 31 March 2016</b>
	£000s	£000s
Central government bodies	3,943	2,162
Other local authorities	2,931	521
Other entities and individuals	10,247	18,912
<b>Total</b>	<b>17,121</b>	<b>21,595</b>

### 20. PROVISIONS

The total values for Provisions held at 31 March 2017 are shown in the table below.

Long-Term Provisions	Injury and Damage Compensation Claims	Other Provisions	Total	
	£000s	£000s	£000s	
<b>Balance as at 31 March 2015</b>	<b>0</b>	<b>69</b>	<b>69</b>	
Unused amounts reversed in 2015/16	0	(69)	(69)	
<b>Balance as at 31 March 2016</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Balance as at 31 March 2017</b>	<b>0</b>	<b>0</b>	<b>0</b>	
Short-Term Provisions	Injury and Damage Compensation Claims	Business Rates Appeals	Other Provisions	Total
	£000s	£000s	£000s	£000s
<b>Balance as at 31 March 2015</b>	<b>0</b>	<b>2,816</b>	<b>75</b>	<b>2,891</b>
Additional provisions made in 2015/16	23	0	163	186
Amounts used in 2015/16	0	(674)	(24)	(698)
Unused amounts reversed in 2015/16	0	(64)	0	(64)
<b>Balance as at 31 March 2016</b>	<b>23</b>	<b>2,078</b>	<b>214</b>	<b>2,315</b>
Additional provisions made in 2016/17	0	0	0	0
Amounts used in 2016/17	(19)	(493)	(163)	(675)
Unused amounts reversed in 2016/17	0	(530)	0	(530)
<b>Balance as at 31 March 2017</b>	<b>4</b>	<b>1,055</b>	<b>51</b>	<b>1,110</b>

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## **NOTES TO THE ACCOUNTS**

There are no provisions required to be held by the Council in relation to outstanding legal cases.

### **Business Rates Appeals**

As part of the reform of Business Rates by the Government from 1 April 2013, the settlement of successful appeals for rateable value adjustments is now born locally through the Collection Fund and, subsequently, shared amongst those bodies drawing funding allocations from the Collection Fund. A review of the potential liabilities of the Fund has been conducted and, as a result, a provision of £2.637m (£5.195m in 2015/16). Of this, 40% (£1.055m in 2016/17, and £2.078m in 2015/16) will be directly attributable to Harlow Council Business Rate appeals. The appeals information was assessed by a firm of professional surveyors, recognising both the value of claims and the likelihood of success of appeals.

### **Claims for Damages**

The Council has an outstanding liability in respect of one material asbestos-related claim at the balance sheet date.

## **21. USABLE RESERVES**

The Council holds a number of usable reserves. The General Fund balance and HRA Balance are working balances that the Council deems necessary to allow the continuity of its operations and services to the public on an ongoing basis as well as providing a contingency against emergencies and risk from adverse fluctuations in costs impacting upon the Council.

Earmarked reserves contain money that the Council has approved to be set aside for a range of specific purposes, including:

- to fund future investment in revenue and capital projects,
- to support discretionary services that are of value to the local community,
- to support the provision of town development opportunities, and
- as a managed contingency measure to protect against a range of future events, emergencies or liability risks.

A detailed schedule of movements into and out of earmarked reserves for the financial year is provided in Note 21, below. It should be noted that these reserves represent financing means only, designated for either the General Fund or Housing Revenue Account (not both) and for this reason transactions are only made between each reserve and either the General Fund or HRA, as appropriate.

Some reserves are held for statutory purposes or for expenditure outside the Council's control, and are referred to as "Unusable Reserves" (see Note 22, below).

Harlow Council's total usable reserve balances as at 31 March 2017 total £44,803,000 (£41,390,000 as at 31 March 2016) and are listed in the table overleaf:

## NOTES TO THE ACCOUNTS

<b>Usable Reserves</b>	<b>2016/17</b>	<b>2015/16</b>
	£000s	£000s
General Fund Balance	5,459	3,888
HRA Balance	12,975	12,298
Earmarked Reserves		
General Fund	13,091	12,519
HRA	4,434	4,342
Earmarked Grants Reserves	3,370	1,033
Capital Grants Unapplied	3,582	5,155
Capital Receipts Reserve	1,892	2,155
<b>Total Usable Reserves at end of the year (31 March)</b>	<b>44,803</b>	<b>41,390</b>

### Reserve Descriptions:

General Fund Balance - The main revenue fund of the Council. All day-to-day spending on services is met from this account, apart from those housing services that must be charged to the HRA.

Housing Revenue Account (HRA) - An account managed by the Council in accordance with the Local Government and Housing Act 1989, as amended, setting out expenditure and income from council-managed social housing. The account is ring-fenced and cannot be subsidised from other local authority accounts.

Earmarked Reserves - Details of the Council's Usable Earmarked Reserves are set out later in this note; they are also shown in the Movement in Reserves Statement alongside the General Fund Balance and Housing Revenue Account Balance.

Capital Grants Unapplied - These amounts have been credited to the Comprehensive Income and Expenditure Statement but not yet applied to fund expenditure. Statutory adjustments against the General Fund and HRA balances result in them being posted to this usable capital reserve until the relevant expenditure is incurred.

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

Major Repairs Reserve - The Council is required to maintain the Major Repairs Reserve, which controls the application of the Major Repairs Allowance (MRA). The balance on this account is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. Because the total funding passing through the Major Repairs Reserve has been allocated, the balance remains at nil.

## NOTES TO THE ACCOUNTS

### Transfers To/ From Earmarked Reserves

The table below sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure.

Earmarked Reserve	Balance as at 31 Mar 2015 £000s	2015/16		Balance as at 31 Mar 2016 £000s	2016/17		Balance as at 31 Mar 2017 £000s
		Transfers Out £000s	Transfers In £000s		Transfers Out £000s	Transfers In £000s	
<b>GENERAL FUND RESERVES</b>							
Perpetuity Reserves	942	(5)	6	943	(4)	7	946
Debt Financing Reserve	1,132	(87)	838	1,883	(133)	238	1,988
Discretionary Services Fund	4,501	(2,643)	1,237	3,095	(1,594)	787	2,288
Regeneration Reserve	0	0	1,000	1,000	0	0	1,000
Regeneration and Enterprise Reserve	234	(10)	196	420	(56)	916	1,280
Environment Reserve	108	0	7	115	0	1	116
Housing Benefits Subsidy Reserve	221	0	315	536	0	0	536
Insurance claims - GF	569	(86)	50	533	0	50	583
Insurance Fund - GF	1,029	(65)	241	1,205	(25)	122	1,302
Invest To Save Reserve	435	(39)	3	399	(101)	3	301
Partnership Fund	200	0	0	200	0	0	200
ER-GF Revenues and Benefits Service Structural Process Review Reserve	0	(99)	186	87	0	0	87
Planning Reserve	182	(12)	0	170	(65)	0	105
Residual Land Transfer	93	0	42	135	(4)	0	131
Risk Management Reserve	107	(24)	74	157	0	40	197
Severance Reserve	1,200	0	337	1,537	0	390	1,927
Standards Committee Contingency	50	0	0	50	0	0	50
Street Lighting Reserve	0	0	54	54	0	0	54
<b>Total General Fund</b>	<b>11,003</b>	<b>(3,070)</b>	<b>4,586</b>	<b>12,519</b>	<b>(1,982)</b>	<b>2,554</b>	<b>13,091</b>
<b>HRA RESERVES</b>							
Perpetuity Reserves	1,450	(347)	392	1,495	(351)	452	1,596
HRA OJEU Contract 2015	480	(77)	0	403	(219)	0	184
Insurance claims - HRA	580	(100)	50	530	0	50	580
Insurance Fund - HRA	1,561	(85)	221	1,697	(132)	222	1,787
Risk Management Reserve	105	0	112	217	0	60	277
Housing Insurance Property Reserve	0			0	0	10	10
<b>Total HRA</b>	<b>4,176</b>	<b>(609)</b>	<b>775</b>	<b>4,342</b>	<b>(702)</b>	<b>794</b>	<b>4,434</b>
<b>EARMARKED GRANTS RESERVES</b>							
General Fund	2,184	(1,455)	304	1,033	(226)	2,563	3,370
<b>Total Earmarked Grants</b>	<b>2,184</b>	<b>(1,455)</b>	<b>304</b>	<b>1,033</b>	<b>(226)</b>	<b>2,563</b>	<b>3,370</b>
<b>Total All Earmarked Reserves</b>	<b>17,363</b>	<b>(5,134)</b>	<b>5,665</b>	<b>17,894</b>	<b>(2,910)</b>	<b>5,911</b>	<b>20,895</b>

## NOTES TO THE ACCOUNTS

### **Earmarked Reserve Descriptions - General Fund:**

<b>Perpetuity Reserves</b>	The perpetuity reserves were established with the intention of providing a long-term source of financing to enable the Council to meet its contractual obligations under a range of covenants associated with each reserve, without impacting upon the revenue budgets.
<b>Debt Financing Reserve</b>	Established to finance future costs falling upon the General Fund in relation to borrowing.
<b>Discretionary Services Fund</b>	This fund was established as a bridging mechanism to keep in place services to the community that are not statutorily required of the Council and to contribute financial support to organisations during the transfer and development of discretionary services.
<b>Environment Reserve</b>	Originally established from energy savings achieved in the General Fund revenue budget, this reserve's purpose is to finance energy-efficiency schemes, and provides scope to reduce future energy usage and emissions.
<b>Housing Benefits Subsidy Reserve</b>	Established as a means of financing potential adverse variations in the Council's annual housing benefit and subsidy mechanism. Where "surpluses" arise, these are set aside as a transfer into the reserve in case future "deficits" are required to be financed as a transfer from the reserve.
<b>Insurance Claims - GF</b>	Recognising the risk of insolvency of MMI, once the Council's main insurer, this earmarked reserve was set up to offset possible future costs falling on the Council as a result of that insolvency.
<b>Insurance Fund - GF</b>	The Council self-insures through its own insurance fund for losses in connection with theft, excess motor insurance, excess employer's liability, fire and dwellings and a number of other minor items. This reserve represents the insurance fund that finances self-insured losses to a defined threshold, above which the Council's insurers meet the cost of claims. An Actuary (currently John Birkenhead, Fellow of the Institute & Faculty of Actuaries) is appointed to conduct regular reviews to ensure the fund's adequacy.
<b>Invest To Save Reserve</b>	This reserve has been made available from windfall income received in earlier years and is used to drive improvements to services or to fund initiatives for increasing efficiency.
<b>Partnership Fund</b>	Established to help meet the Council's share of the implementation costs of the Revenues and Benefits entering potential partnership arrangements for the delivery of a joint Revenues and Benefits service.
<b>Planning Reserve</b>	The Council's work on the Local Development Framework (LDF) within the Planning Service has been rescheduled, whereby planned costs will be spent in future years instead. This reserve is intended to take account of new timescales in the future.
<b>Regeneration Reserve</b>	This reserve has been established to finance future costs relating to the regeneration of the Town Centre.

## **NOTES TO THE ACCOUNTS**

<b>Regeneration and Enterprise Reserve</b>	This reserve is to ensure that the Council has sufficient resources to support Harlow town regeneration.
<b>Residual Land Transfer</b>	Further to the Council's acquisition of a range of land parcels from the Homes and Communities Agency (formerly English Partnerships), this reserve was established to meet future reinstatement works to the transferred land.
<b>Revenues and Benefits Service Structural Process Review Reserve</b>	Established to ensure that the technology and other developments, required within the Revenues and Benefits Service as a result of full structural process review and any recommendations made resulting from the Customer Services review, can be funded.
<b>Risk Management Reserve - GF</b>	This reserve was established in order to finance future initiatives that reduce potential insurance/ liability claims against the Council. The long-term intention is to reduce insurable risks, which should help to contain future growth in insurance premiums.
<b>Severance Reserve</b>	Used to finance redundancy costs in excess of those included in the General Fund's annual base budget.
<b>Standards Committee Contingency</b>	Established to finance possible future liabilities arising from the work of the Council's Standards Committee.
<b>Street Lighting Reserve</b>	This reserve was established following the reinstatement of all-night street lighting in Harlow and is specifically allocated to meet any future increases in the energy costs associated with the all-night street light initiative over the life of the HDC/ ECC agreement.

### **Earmarked Reserve Descriptions – HRA:**

<b>Perpetuity Reserves</b>	As described under the General Fund, above.
<b>Major Repairs Reserve</b>	The Reserve may only be used for the purpose of financing capital expenditure and making repayment of debt. Sums credited to the MRR include the depreciation of dwellings and non-dwellings, the former adjusted to align with a calculated sum, offset by an amount financing the capital programme.
<b>Housing Insurance Property Reserve</b>	A new reserve established in 2016/17 to provide financing for unscheduled costs arising in the longer-term from housing asbestos repairs and maintenance
<b>Insurance Claims - HRA</b>	As described under the General Fund, above.
<b>Insurance Fund - HRA</b>	As described under the General Fund, above.
<b>Risk Management Reserve - HRA</b>	As described under the General Fund, above.

## NOTES TO THE ACCOUNTS

### **Earmarked Grants Reserves:**

Any revenue grant, for which the conditions of the grant have been met by the Council other than the funds having been applied, is required to be recorded in the year of receipt. The unused element of grant can be held in earmarked reserves pending their future release to finance expenditure aligned with the appropriate grant. Therefore, unlike the earmarked reserves for the General Fund and HRA listed above, movements to and from the earmarked grants reserves will be in accordance with grant requirements, and do not require the formal authorisation of the Full Council. This mechanism is also applied to annual cash in-flows from Business Rates that are required to be distributed to the Government and preceptors but for which income is required to be recognised in the year of account.

The balance in General Fund and HRA earmarked reserves increased by a net of £0.66m between 2015/16 and 2016/17. This was mainly due to an additional £0.86m being added to the Regeneration and Enterprise Reserve as a primer for future economic investment and development in Harlow. During the year, one new reserve was set up, being the Housing Insurance Property Reserve. The purpose of this reserve is explained in the descriptions above.

### **22. UNUSABLE RESERVES**

	<b>Balance as at 31 March 2017</b>	<b>Balance as at 31 March 2016 Restated</b>	<b>Balance as at 31 March 2016</b>
	£000s	£000s	£000s
Revaluation Reserve	376,440	306,751	308,281
Available for Sale Financial Instruments Reserve	(113)	(61)	(61)
Capital Adjustment Account	227,186	250,353	251,024
Financial Instruments Adjustment Account	(2)	(3)	(3)
Deferred Capital Receipts Reserve	743	786	786
Pensions Reserve	(110,028)	(94,184)	(94,184)
Collection Fund Adjustment Account	336	1,399	1,399
Accumulated Absences Account	(48)	(37)	(37)
<b>Total Unusable Reserves</b>	<b>494,514</b>	<b>465,004</b>	<b>467,205</b>

#### **a. Revaluation Reserve**

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

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

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

## NOTES TO THE ACCOUNTS

Revaluation Reserve	2016/17		2015/16 Restated		2015/16	
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance at 1 April</b>		<b>306,750</b>		<b>232,651</b>		<b>232,651</b>
Upward revaluation of assets	86,523		92,377		93,946	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(66)		(3,802)		(3,802)	
		86,457		88,575		90,144
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(1,530)		(2,797)		(2,797)	
Difference between fair value depreciation and historical cost depreciation	(14,563)		(11,300)		(11,338)	
Accumulated gains on assets sold or	(674)		(379)		(379)	
Amount written off to the Capital Adjustment Account		(16,767)		(14,476)		(14,514)
<b>Balance as at 31 March</b>		<b>376,440</b>		<b>306,750</b>		<b>308,281</b>

### b. Capital Adjustment Account

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

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

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

## NOTES TO THE ACCOUNTS

Capital Adjustment Account	2016/17		2015/16 Restated		2015/16	
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance at 1 April</b>		<b>250,354</b>		<b>268,216</b>		<b>268,216</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:						
- Charges for depreciation and impairment of non-current assets	(49,602)		(53,072)		(52,439)	
- Revaluation losses on Property, Plant and Equipment	(1,181)		(6,724)		(6,724)	
- Amortisation of intangible assets	(360)		(377)		(377)	
- Revenue expenditure funded from capital under statute	(1,814)		(653)		(653)	
- 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	(11,075)		(5,178)		(5,178)	
		(64,032)		(66,004)		(65,371)
Adjusting amounts written out of the Revaluation Reserve		16,768		14,477		14,514
Net written out amount of the cost of non-current assets consumed in the year		(47,264)		(51,527)		(50,857)
Capital financing applied in the year:						
- Use of the Capital Receipts Reserve to finance new capital expenditure	3,500		3,468		3,468	
- Use of the Major Repairs Reserve to finance new capital expenditure	11,054		11,197		11,197	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	3,603		383		383	
- Application of grants to capital financing from the Capital Grants Unapplied Account	0		10,035		10,035	
- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	244		540		540	
- Capital expenditure charged against the General Fund and HRA balances	5,710		6,756		6,756	
	24,109		32,379		32,378	
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(13)		1,287		1,287
<b>Balance as at 31 March</b>		<b>227,186</b>		<b>250,354</b>		<b>251,024</b>

### Minimum Revenue Provision

Councils are required to make prudent provisions for the repayment of borrowing for capital purposes. Since the Council entered a positive borrowing position in 2007/08, the Council's Annual Statement of Minimum Revenue Provision (MRP) has, until 2012/13, anticipated that capital receipts should be forthcoming in the short-term to offset that borrowing. The slump in the property markets has removed those anticipated resources of financing. The Council's MRP Policy has subsequently been reviewed and an MRP posted to the Capital Adjustment

## **NOTES TO THE ACCOUNTS**

Account in respect of the General Fund in 2016/17 for £134,000 (2015/16: £109,000). No MRP is required in respect of the HRA.

### **c. Pensions Reserve**

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

<b>Pensions Reserve</b>	<b>2016/17</b> £000s	<b>2015/16</b> £000s
<b>Balance at 1 April</b>	<b>(94,184)</b>	<b>(99,893)</b>
Actuarial gains/(losses) on pensions assets and liabilities	(15,057)	6,487
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(5,864)	(5,789)
Employer's pensions contributions and direct payments to pensioners payable in the year	5,076	5,011
<b>Balance as at 31 March</b>	<b>(110,029)</b>	<b>(94,184)</b>

### **d. Deferred Capital Receipts Reserve**

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

<b>Deferred Capital Receipts Reserve</b>	<b>2016/17</b> £000s	<b>2015/16</b> £000s
<b>Balance at 1 April amended post closure</b>	<b>786</b>	<b>862</b>
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(42)	(76)
Transfer to the Capital Receipts Reserve upon receipt of cash	0	0
<b>Balance as at 31 March</b>	<b>743</b>	<b>786</b>

## NOTES TO THE ACCOUNTS

### e. Collection Fund Adjustment Account

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

#### **Collection Fund Adjustment Account**

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
<b>Balance at 1 April</b>	<b>1,399</b>	<b>(1,576)</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,063)	2,975
<b>Balance as at 31 March</b>	<b>336</b>	<b>1,399</b>

### f. Accumulated Absences Account

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

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
<b>Balance at 1 April</b>	(37)	(50)
Settlement or cancellation of accrual made at the end of the preceding year	37	50
Amounts accrued at the end of the current year	(48)	(37)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(11)	13
<b>Balance as at 31 March</b>	<b>(48)</b>	<b>(37)</b>

### g. Financial Instruments Adjustment Account

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

### h. Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve absorbs the unrealised gains and losses on Financial Instruments available for such as Property Funds and Certificates of Deposit.

## **NOTES TO THE ACCOUNTS**

### **23. OPERATING ACTIVITIES**

The cash flows for operating activities include the following items:

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Interest Received	369	343
Interest Paid	(7,119)	(7,156)
Dividends Received	327	86
<b>Net Cash Flows from Operating Activities</b>	<b>(6,423)</b>	<b>(6,727)</b>

### **24. INVESTING ACTIVITIES**

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Purchase of property, plant and equipment, investment property and intangible assets	27,286	30,882
Purchase of short-term and long-term investments	0	8,965
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(9,660)	(6,965)
Proceeds from short-term and long-term investments	(2,032)	0
Other receipts from investing activities	(1,820)	(1,359)
<b>Net Cash Flows from Investing Activities</b>	<b>13,774</b>	<b>31,523</b>

### **25. FINANCING ACTIVITIES**

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Other receipts from financing activities	1,063	(2,976)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	0	(431)
Repayments / (Payment) of short- and long-term borrowing	(1)	0
Other payments for financing activities	(2,173)	7,088
<b>Net Cash Flows from Financing Activities</b>	<b>(1,111)</b>	<b>3,681</b>

## **NOTES TO THE ACCOUNTS**

### **26. ACQUIRED AND DISCONTINUED OPERATIONS**

The Council has neither acquired nor discontinued any material operations during the financial year 2016/17.

### **27. ACCOUNTING STANDARDS ISSUED NOT ADOPTED**

The Council is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued, but has not yet been adopted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

For 2016-17 the following accounting standard changes that need to be reported relate to:

- Amendment to the reporting of pension fund scheme transaction costs.

The Council does not anticipate that the changes above will have a material impact on the financial information provided its financial statements. The Code requires implementation from 1 April 2017 and there is therefore no impact on the Statement of Accounts for 2016-17.

### **28. MEMBERS' ALLOWANCES**

The Council paid the following amounts to Members of the Council during the year:

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Allowances	177	177
Expenses	8	4
<b>Total</b>	<b>185</b>	<b>181</b>

### **29. OFFICERS' REMUNERATION**

#### **Senior Employees**

The remuneration paid to the Council's senior employees in 2016/17, including comparatives for 2015/16 was as follows (overleaf):

## NOTES TO THE ACCOUNTS

Senior Employees	Salary (Including fees & Allowances)	Total Remuneration excluding pension contributions 2016/17	Pension contributions	Total Remuneration including pension contributions 2016/17
<b>2016/17</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Chief Operating Officer	108,762	108,762	15,879	124,641
Chief Executive	99,884	99,884	0	99,884
Project Director (Enterprise Zone)	90,896	90,896	13,271	104,167
Head of Finance	84,769	84,769	12,377	97,146
Head Of Housing	81,269	81,269	11,865	93,134
Head of Place	81,269	81,269	11,865	93,134
Head of Community and Wellbeing	75,986	75,986	11,094	87,080
Head of Governance	69,848	69,848	0	69,848
	692,683	692,683	76,351	769,034

Senior Employees - comparatives	Salary (Including fees & Allowances)	Total Remuneration excluding pension contributions 2015/16	Pension contributions	Total Remuneration including pension contributions 2015/16
<b>2015/16</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Chief Operating Officer	105,705	105,705	15,433	121,138
Chief Executive	98,895	98,895	0	98,895
Project Director (Enterprise Zone)	89,996	89,996	13,139	103,135
Head of Finance	81,984	81,984	11,969	93,953
Head Of Housing	78,484	78,484	11,459	89,943
Head of Place	78,484	78,484	11,459	89,943
Head of Community and Wellbeing	68,020	68,020	9,931	77,951
Head of Governance	64,531	64,531	0	64,531
	666,099	666,099	73,390	739,489

The table overleaf shows the number of Council officers whose remuneration exceeds £50,000 grouped into £5,000 bands. Remuneration is the amount paid to or receivable by an employee, and includes gross pay (i.e. before deduction of employees' pension contributions, tax and National Insurance), sums due by way of expense allowances, and the estimated monetary value of any additional benefits that are non-cash in their nature. Also included, where applicable, are amounts relating to retirement and redundancy lump sum payments and pay in lieu of notice. Contributions made by the Council to the pension scheme are not included in this table. The banding table below is comprehensive and includes senior employees who are shown in the table of senior employees, above.

## NOTES TO THE ACCOUNTS

Remuneration bands	Number of Employees					
	2016/17		2015/16		Total	Left During Year
	Total	Left During Year	Total	Left During Year		
£50,000 – £54,999	14	0	12	0		
£55,000 – £59,999	2	0	1	0		
£60,000 – £64,999	0	0	1	0		
£65,000 – £69,999	1	0	1	0		
£70,000 – £74,999	0	0	0	0		
£75,000 – £79,999	1	0	2	0		
£80,000 – £84,999	3	0	1	0		
£85,000 – £89,999	0	0	1	0		
£90,000 – £94,999	1	0	0	0		
£95,000 – £99,999	1	0	1	0		
£100,000 – £104,999	0	0	0	0		
£105,000 – £109,999	1	0	1	0		
£110,000 – £114,999	0	0	0	0		
£115,000 – £119,999	0	0	0	0		
£120,000 – £124,999	0	0	0	0		
£125,000 – £129,999	0	0	0	0		
£130,000 – £134,999	0	0	0	0		
£135,000 – £139,999	0	0	0	0		
£140,000 – £144,999	0	0	0	0		

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	[a]		[b]		( [a] + [b] )		Total Cost of Exit Packages in Each Band	
	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band			
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
£0 - £40,000	1	2	0	2	1	4	£23,400	£20,344
<b>Total</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>4</b>	<b>£23,400</b>	<b>£20,344</b>

## **NOTES TO THE ACCOUNTS**

### **30. TERMINATION BENEFITS**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date. These costs are required to be met immediately.

The Council terminated the contracts of one employee in 2016/17, incurring liabilities of £23,400 (£20,344 in 2015/16) – see Note 29 for the number of exit packages and total cost per band.

### **31. EXTERNAL AUDIT COSTS**

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and other services provided by the Council's external auditors, Ernst & Young LLP:

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Fees payable for external audit services carried out by the appointed auditor for the year.	78	78
Fees payable to external audit in relation to current year grant claims.	24	22
Fees payable to external audit in relation to prior year grant claims.	0	3
<b>Total</b>	<b>102</b>	<b>103</b>

### **32. GRANT INCOME**

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17 (see overleaf):

## NOTES TO THE ACCOUNTS

	2016/17 £000s	2015/16 Restated £000s	2015/16 £000s
<b>Grants Credited to Taxation &amp; Non-specific Grant Income</b>			
National Non-Domestic Rates	3,049	2,933	2,933
Revenue Support Grant	1,289	2,148	2,148
Transitions Grant	25	0	0
Community Rights to Challenge New Burdens Grant	5	27	27
New Homes Bonus Grant	1,210	991	991
ECC Second Homes Discount Grant	303	216	216
Capital Grants	228	1,274	1,274
<b>Total</b>	<b>6,109</b>	<b>7,589</b>	<b>7,589</b>
<b>Grants Credited to Services</b>			
Rent Allowances	14,758	15,491	15,491
Rent Rebates	20,338	21,562	21,562
LA Data Share	26	19	19
LAIT	0	2	2
Fraud & Error Reduction Incentive Scheme	29	22	22
Housing Benefit Administration	456	564	564
Localising Council Tax administration	171	132	132
Council Tax Benefit New Burdens	221	36	36
Smoke and CO Alarms	0	1	1
Traveller Site Improvements	607	0	0
Disabled Facilities Grants	497	323	0
Self Build and Custom Housing Building Register	21	0	0
Brownfield Register	15	0	0
Transparency	0	8	8
Community Rights to Challenge New Burdens Grant	0	71	71
Business Rates	360	235	235
Individual Electoral Registration	15	23	23
Right to Move	0	49	49
Lettings Agents Transparency and Redress Scheme	1	1	1
Food waste collection	133	162	162
Growth Area Funding / Programme of Development	596	127	104
Large Sites Infrastructure Programme	0	100	100
LCTRS - Managing Costs	23	0	0
Council Tax Annexe Discount Grant	2	0	0
<b>Total</b>	<b>38,269</b>	<b>38,928</b>	<b>38,582</b>

The 2015/16 comparatives have been restated for completeness so that the table now includes amounts received in respect of a) Disabled Facilities Grant and b) Programme of Development funding allocations. The sums involved continue to be included within the net cost of services such that there is no adjustment required to the main financial statements.

## **NOTES TO THE ACCOUNTS**

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the money to be returned to the giver. The balances at the year-end are as follows:-

### **Long-term Liabilities:**

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
<b>Grants Receipts in Advance (Capital Grants)</b>		
Programme of Development - external partners	244	833
<b>Total</b>	<b>244</b>	<b>833</b>

### **33. RELATED PARTIES**

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

The following related parties have been identified for Harlow Council:

**Central Government** - has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, prescribes the terms of many of the transactions that the Council has with other parties (such as Council Tax bills, or Housing Benefits) and provides the majority of its funding in the form of grants. Details of transactions between the Council and the Government are set out within the accounting statements. Grants received from government departments are set out in the expenditure and income analysis in Note 1, above. Grant receipts outstanding at 31 March 2017 are shown in Note 32.

**Essex County Council** - Harlow Council undertakes a wide variety of work in conjunction with Essex County Council. The County Council also administers the Council's local government pension scheme.

**Members / Officers** - Members are responsible for the direct control of the policies of the Council. During 2016/17 the Council received declarations from Members, Chief Officers and Heads of Service disclosing any circumstances that they were aware could result in related party transactions. Where such transactions have been identified, these are included in the table of related party transactions, set out below.

A summary of all declarations made by the Council's elected Members in 2016/17 is available on the Council's website at the following internet address:

[www.harlow.gov.uk/councillor-declarations](http://www.harlow.gov.uk/councillor-declarations)

During the year, transactions with related parties that have not been highlighted separately elsewhere within the Statement of Accounts arose as follows:

## NOTES TO THE ACCOUNTS

Related Party Transactions 2016/17	Income	Expenditure	Debtors Outstanding as at 31 Mar 2017 £000s	Creditors Outstanding as at 31 Mar 2017 £000s
	£000s	£000s		
Essex County Council	(2,172)	773	511	(674)
Essex Police Authority	(94)		(6)	(19)
Essex Fire Authority	(41)	4	5	(5)
Vine HR Ltd		9		
Harlow College		2		
Harlow Occupational Health		31		
Harlow Sports Trust (inc Leisure Zone)	(60)	402	1	(15)
Kier Harlow	(281)	19,402	421	(423)
Streets 2 Homes	(1)	17	1	
Veolia Board		3,294	19	(14)
HTS (Property & Environment) Ltd	(854)	4,242	918	(212)
	(3,503)	28,176	1,870	(1,362)

### 34. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

## NOTES TO THE ACCOUNTS

	2016/17 £000s	2015/16 £000s
<b>Opening Capital Financing Requirement</b>	<b>226,894</b>	<b>226,420</b>
<b>Capital Investment</b>		
Property Plant and Equipment	25,222	30,872
Heritage Assets	0	16
Investment Properties	3	0
Intangible Assets	230	213
Revenue Expenditure funded from Capital under Statute	1,814	1,686
<b>Total Capital Investment</b>	<b>27,269</b>	<b>32,787</b>
<b>Sources of Finance</b>		
Capital Receipts	(3,544)	(3,468)
Major Repairs Reserve	(11,054)	(11,105)
Government Grants and Other Contributions	(3,602)	(10,444)
Direct Revenue Contributions	(5,710)	(6,756)
MRP/ Loans Fund Principal	(244)	(540)
<b>Total Sources of Finance</b>	<b>(24,154)</b>	<b>(32,313)</b>
<b>Closing Capital Financing Requirement</b>	<b>230,009</b>	<b>226,894</b>
<b>Explanation of Movements in Year</b>		
Increase/ (Decrease) in underlying need to borrow (unsupported by government financial assistance)	3,225	906
Assets acquired under finance leases	(110)	(432)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>3,115</b>	<b>474</b>

## 35. LEASES

### Council as Lessee

#### FINANCE LEASES

The Council has acquired an administrative building and vehicles under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2017 £000s	31 March 2016 £000s
Vehicles, Plant, Furniture and Equipment	0	358

## NOTES TO THE ACCOUNTS

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following:

	<b>31 March 2017</b> £000s	<b>31 March 2016</b> £000s
Finance lease liabilities (net present value of minimum lease payments):		
- current	0	110
Finance costs payable in future years	0	7
<b>Minimum Lease Payments</b>	<b>0</b>	<b>117</b>

The minimum lease payments are payable over the following periods:

	<b>Minimum Lease Payments</b>		<b>Finance Lease Payments</b>	
	<b>31-Mar-17</b> £000s	<b>31-Mar-16</b> £000s	<b>31-Mar-17</b> £000s	<b>31-Mar-16</b> £000s
Not later than one year	0	7	0	110
Later than one year and not later than five years	0	0	0	0
Later than five years	0	0	0	0
	<b>0</b>	<b>7</b>	<b>0</b>	<b>110</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 £0 contingent rents were payable by the Council (2015/16 £58,703).

### OPERATING LEASES

The Council has operating leases for photocopiers, vending machines and other sanitary related equipment. The future minimum lease payments under the non-cancellable leases, is shown in the table below.

	<b>31 March 2017</b> £000s	<b>31 March 2016</b> £000s
Not later than one year	32	42
Later than one year and not later than five years	35	35
Later than five years	0	0
	<b>67</b>	<b>77</b>

## **NOTES TO THE ACCOUNTS**

The above Operating Leases are all in the secondary rental period, and therefore no split between capital and interest is required. The above payments are charged to Service Accounts.

	<b>31 March 2017</b> £000s	<b>31 March 2016</b> £000s
Not later than one year	50	50
Later than one year and not later than five years	108	108
Later than five years	13	13
	<b>171</b>	<b>171</b>

The above relates to property leased in on operational leases.

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

	<b>31 March 2017</b> £000s	<b>31/03/2016</b> £000s
Minimum lease payments	286	286
Contingent rents	5	5
Sublease payments receivable	(103)	(103)
	<b>188</b>	<b>188</b>

The total of future minimum sublease payments expected to be received under non-cancellable subleases as at 31 March 2017 were £2,614,249 (31 March 2016 £2,614,249).

### **Council as Lessor**

#### **FINANCE LEASES**

The Council has leased out property in the Town Centre to the NatWest Bank on a finance lease, with a remaining term of 74 years.

The Council has a gross investment in the lease made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end.

The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding.

## NOTES TO THE ACCOUNTS

The gross investment is made up of the following amounts:

	<b>31 March 2017</b> £000s	<b>31 March 2016</b> £000s
Finance lease debtor (net present value of minimum lease payments):		
- current	1	0
- non-current	305	305
<b>Gross investment in the lease</b>	<b>306</b>	<b>305</b>

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

	<b>Gross Investment in the Lease</b>		<b>Minimum Lease Payments</b>	
	<b>31 March 2017</b> £000s	<b>31 March 2016</b> £000s	<b>31 March 2017</b> £000s	<b>31 March 2016</b> £000s
Not later than one year	1	0	1	0
Later than one year and not later than five years	2	2	2	2
Later than five years	303	303	303	303
	<b>306</b>	<b>305</b>	<b>306</b>	<b>305</b>

As we believe there is no possibility that worsening financial circumstances might result in lease payments not being made, the Council has not set aside an allowance for uncollectable amounts of £0 (2015/16 £0).

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 £0 contingent rents were receivable by the Council (2015/16 £0).

### OPERATING LEASES

The Council leases out Property and Equipment under Operational Leases. These include shorter term leases, where the risks and rewards are retained by the Council. The future minimum lease payments receivable, as well as the expected estimated continuation of the leases, are stated over the remaining lives of the asset:

## **NOTES TO THE ACCOUNTS**

	<b>31 March 2017</b> £000s	<b>31 March 2016</b> £000s
Not later than one year	962	795
Later than one year and not later than five years	3,101	2,522
Later than five years	5,075	4,611
	<b>9,138</b>	<b>7,928</b>

The above table relates to Property leases where the Council is lessor on operational leases. In 2016/17 £299,619 contingent rents were receivable by the authority (2015/16 £308,482).

## **36. IMPAIRMENT LOSSES**

Assets may be impaired in one of two ways: (1) a downward revaluation of an asset due to economic changes – included in Note 10; (2) an event which has caused the value of the asset to significantly deteriorate, of which there were none during 2016/17.

## **37. DEFINED BENEFIT PENSION SCHEME**

### **Participation in the Pension Scheme**

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

Harlow Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Essex County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.
- The Essex County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Essex County Council. Policy is determined in accordance with the Pensions Fund Regulations.
- The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance

## NOTES TO THE ACCOUNTS

of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by the statute as described in the accountancy policies note.

### **Discretionary Post-retirement Benefits**

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

### **Transactions Relating to Post-Employment Benefits**

The costs of retirement are recognised and reported in the Cost of Service when they are earned by the employees, rather than when the benefits are eventually paid. However, the charge required to be made to the Council Tax is based on the cash payable in the year, so the real costs of post-employment retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions (see overleaf) 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>Local Government Pension Scheme</b>	<b>2016/17</b> £000s	<b>2015/16</b> £000s
<b>Comprehensive Income and Expenditure Statement</b>		
Cost of Services:		
• Current Service Cost	2,596	2,607
• Past Service Cost including Curtailments	4	0
• Administration expenses	56	64
• Interest Cost	3,208	3,118
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	5,864	5,789
Return on Plan Assets (excluding amount included in the net interest expense)	20,768	(1,033)
Other actuarial gains /(losses) on assets	80	0
Changes in financial assumptions	(40,024)	7,304
Actuarial gains/(losses) arising in the change of demographic assumptions	5,612	0
Experience loss/(gain) on defined benefit obligation	(1,493)	216
<b>Total Post-employment Benefit gains/(losses) Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(15,057)</b>	<b>6,487</b>
<b>Movement In Reserves Statement</b>		
• Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	5,864	5,789
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	5,076	5,011

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## **NOTES TO THE ACCOUNTS**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement in the "actuarial gains or losses line as at 31 March 2017 was a loss of £50.481million (as at 31 March 2016 it was a loss of £35.424million) due to an actuarial loss during 2016/17 of £15.057million.

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

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:-

	<b>Funded Liabilities: Local Government Pension Scheme</b>	
	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Present Value of Funded Obligation	255,369	216,551
Fair Value of Scheme assets (bid value)	155,210	132,602
<b>Net Liability</b>	<b>100,159</b>	<b>83,949</b>
Present Value of Unfunded Obligation	9,870	10,235
<b>Net Liability in Balance Sheet</b>	<b>110,029</b>	<b>94,184</b>

The funded liabilities have increased by £38.8million, while funded assets have increased by £22.6million to reveal a net increase of £16.2million.

### **Reconciliation of the Movements in the Fair Value of the Scheme (Plan) Assets**

#### **Local Government Pension Scheme**

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
<b>Opening balance at 1 April</b>	<b>132,602</b>	<b>131,866</b>
Interest income	4,593	4,182
Return on plan assets less interest	20,768	(1,033)
Other actuarial gains/(losses)	80	0
Administration expenses	(56)	(64)
Employers contributions	5,076	5,011
Contributions from employees into the scheme	678	651
Benefits paid	(8,503)	(8,011)
Settlement prices received / (paid)	(28)	0
<b>Closing balance at 31 March</b>	<b>155,210</b>	<b>132,602</b>

The County Council Pension Fund's assets consist of the following categories, by proportion

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of the total assets held:

	Local Government Pension Scheme			
	2016/17		2015/16	
	£000s		£000s	
<b>Members Assumption. Proportion of Assets Held:</b>				
Equities	68.0%	106,012	68.0%	89,746
Gilts	4.0%	5,872	3.0%	3,909
Other Bonds	4.0%	6,308	5.0%	6,365
Property	10.0%	15,100	12.0%	15,791
Cash/ Liquidity	3.0%	4,672	3.0%	4,308
Alternative Assets	7.0%	10,351	4.0%	5,896
Other Managed Funds	4.0%	6,895	5.0%	6,587
<b>Total</b>	<b>100.0%</b>	<b>155,210</b>	<b>100.0%</b>	<b>132,602</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

### Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):

	Funded Liabilities: Local Government Pension Scheme	
	2016/17 £000s	2015/16 £000s
<b>Opening balance at 1 April</b>	<b>226,786</b>	<b>231,759</b>
Current service cost	2,596	2,607
Interest cost	7,801	7,300
Contribution by Scheme Participants	678	651
Actuarial gains and losses from demographic	(5,612)	0
Actuarial gains from changes in financial assumptions	40,024	(7,304)
Experience loss/(gain) on defined benefit obligation	1,493	(216)
Benefits Paid	(7,770)	(7,255)
Past Service Cost including curtailments	(24)	0
Unfunded pension payments	(733)	(756)
Curtailments	0	0
<b>Closing balance at 31 March</b>	<b>265,239</b>	<b>226,786</b>

## NOTES TO THE ACCOUNTS

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s
<b>Present Value of Defined Benefit</b>					
Local Government Pension Scheme	200,661	193,941	220,704	216,551	255,369
Discretionary Benefits	11,650	10,693	11,055	10,235	9,870
Fair value of assets in the Local Government Pension Scheme	(113,416)	(117,845)	(131,866)	(132,602)	(155,210)
	<b>98,895</b>	<b>86,789</b>	<b>99,893</b>	<b>94,184</b>	<b>110,029</b>
<b>Surplus/(deficit) in the scheme:</b>					
Local Government Pension Scheme	(87,245)	(76,096)	(88,838)	(83,949)	(100,159)
Discretionary Benefits	(11,650)	(10,693)	(11,055)	(10,235)	(9,870)
<b>Total</b>	<b>(98,895)</b>	<b>(86,789)</b>	<b>(99,893)</b>	<b>(94,184)</b>	<b>(110,029)</b>

### Scheme History

The scheme deficit has fluctuated over the five year period and now rests at £110.029million.

The liabilities show that the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £265.239million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £110.029million. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2018 is £4.445million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2018 are £0.756million.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The pension scheme's liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been (see overleaf):

## ***NOTES TO THE ACCOUNTS***

	<b>Local Government Pension Scheme</b>	
	<b>2016/17</b>	<b>2015/16</b>
Life expectancy from age 65 (years):		
Retiring today:		
- Men	22.1	22.9
- Women	24.6	25.3
Retiring in 20 years:		
- Men	24.3	25.2
- Women	26.9	27.7
Rates of Inflation:		
RPI	3.5%	3.2%
CPI	2.6%	2.3%
Rate of increase in salaries	4.1%	4.1%
Rate of increase in pensions	2.6%	2.3%
Rate for discounting scheme liabilities	2.7%	3.5%
Take-up of option to convert annual pension into retirement lump sum	50.0%	60.0%

The estimation of the defined benefit obligations is sensitive to the actual assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumptions analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is likely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis did not change from those used in the previous period.

## NOTES TO THE ACCOUNTS

	£000s	£000s	£000s
	0.1%	0.0%	-0.1%
<b>Adjustment to discount rate</b>			
Present Value of Total Obligation	260,995	265,239	269,556
Projected Service Cost	3,668	3,754	3,842
<b>Adjustment to long term salary increase</b>			
Present Value of Total Obligation	265,615	265,239	264,865
Projected Service Cost	3,754	3,754	3,754
<b>Adjustment to pension increases and deferred revaluation</b>			
Present Value of Total Obligation	269,180	265,239	261,360
Projected Service Cost	3,842	3,754	3,668
<b>Adjustment to mortality age rating assumption</b>	+1 Year	None	-1 Year
Present Value of Total Obligation	275,785	265,239	255,108
Projected Service Cost	3,874	3,754	3,638

## 38. CONTINGENT LIABILITIES

Contingent liabilities are not recognised in the accounting statements. Instead they are disclosed by way of a note if there is a possible obligation, which may require a payment or transfer of economic benefits. The Council has the following contingent liabilities:

### Insured Liabilities

Harlow Council insures various risks with Zurich Municipal. The Council operates an Insurance Fund to cover insurance losses relating to each of the General Fund and Housing Revenue Account. The Insurance Fund covers some small claims and that part of larger claims which fall within property and liability insurance policy excesses. The combined Fund balance as at 31 March 2017 was £3,089,012 (£2,901,518 at 31 March 2016). Transactions relating to the Council's own Insurance Fund have been completed on an accrued income and expenditure basis. However, the timing and the value of any unreported and unsettled liabilities cannot be determined with any certainty.

Municipal Mutual Insurance (MMI) was the Council's insurer for Employers Liability between 1974 and 1992 and for Public Liability between 1978 and 1992. Following MMI's cessation of business in 1992, all members of MMI (namely its creditors) entered into a Provisional Scheme of Arrangement in 1993. Two levy notices have been issued by the MMI Scheme Administrator in 2014 and in 2016 exercising, respectively, a 15% and a further 10% claw-back of historical claim settlements. Working in conjunction with its Insurance Actuary, the Council has been maintaining earmarked reserves as a means of financing these and potential future liabilities associated with MMI. As at 31 March 2017 the combined balances of the reserves were £1,162,924 after annual contributions which continue to be added to the reserves in order to cover potential future liabilities. Now that the Scheme of Arrangement has been triggered, further costs are transferred to MMI's creditors, of which the Council is one; therefore, in line with the levy notices that have been issued to date, the Council is required to meet 25% of future claims settled. However the value and timing of those costs that may be passed to Harlow Council remain uncertain. The recommendation of the

## **NOTES TO THE ACCOUNTS**

Council's Actuary is that the Council continues to build its provision for clawback towards a level that covers 75% of both these historical claims and future (Incurred But Not Reported – IBNR) claims. The Council continues to keep the matter under close review.

### **Guarantees**

In 1987 and 1992 the Council agreed to undertake joint liability with a number of other local authorities to guarantee loans of £66.3 million and £17.3 million to Home Housing Association (previously called North Housing Association) in support of their private initiative for the provision of housing in Harlow and surrounding authorities. The guarantee is for a 50 – year period ending 2037. The Council's proportion of the total liability is £4.5 million. No fair value for the guarantee has been included under Financial Instruments as the Council considers that the probability of the guarantee being called upon is low.

## **39. CONTINGENT ASSETS**

Contingent assets are not recognised in the accounting statements. Instead they are disclosed by way of a note if the inflow of a receipt or economic benefit is probable.

As at the Balance Sheet date of 31 March 2017, the Council had recorded no contingent assets.

## **40. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

### **Overall procedures for managing risk**

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

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy Statement (TMSS) 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.

Actual performance is also reported after each year, as is a mid-year update of the TMSS.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the DCLG 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 annual TMSS (covering 2016/17), which incorporates the prudential indicators, was approved by Council on 4 February 2016 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit - this is the maximum limit of external borrowings or other long-term liabilities. The TMSS for 2016/17 set this limit at £265 million.
- The Operational Boundary - this is the expected level of debt and other long-term liabilities during the year. The TMSS for 2016/17 established this boundary at £253.5 million.

## **NOTES TO THE ACCOUNTS**

The Council's activities expose it to a variety of financial risks. The main risks covered are:

<i>Credit risk</i>	the possibility that one party to a financial instrument will fail to meet its contractual obligations, causing a loss for the other party;
<i>Liquidity risk</i>	the possibility that the Council might not have funds available to make contracted payments on time;
<i>Re-financing risk</i>	the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
<i>Market risk</i>	the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

### **Credit Risk**

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's credit ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy for 2016/17, which was approved by Full Council on 4 February 2016, can be found on the Council's website.

The Council uses the creditworthiness service provided by Arlingclose Limited, its treasury management advisors. This service provides the Council with analysis of the credit ratings issued by all three rating agencies, Fitch, Moody's and Standard and Poor's.

However, the Council does not rely solely on the current credit ratings of counterparties but also utilises a range of additional indicators and information sources, including:

- credit watches and credit outlooks from credit rating agencies,
- Credit Default Swap spreads, which can provide early warning of likely changes in an institution's credit ratings,
- equity price movements,
- sovereign ratings to select counterparties from only the most creditworthy countries outside the UK (namely those countries that are AAA-rated).

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council and its respective departments.

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

## **NOTES TO THE ACCOUNTS**

commitments. A risk of non-recoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2017 that this was likely to arise.

The Council does not generally allow credit for its customers. As at 31 March 2017, £9,670 million of total council short-term debtors is overdue for payment, as analysed in the table below.

	<b>31 March 2017</b> £000s	<b>31 March 2016</b> £000s
Less than three months	1,686	1,717
Three to five months	480	521
More than 5 months	7,503	11,020
<b>Total</b>	<b>9,670</b>	<b>13,257</b>

### **Liquidity Risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

The Council has access to the money markets to cover any day-to-day cash flow needs, and the Public Works Loan Board (PWLB) and money markets for access to longer-term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial liabilities is as follows:

<b>PWLB Debt</b>	<b>31 March 2017</b> £000s	<b>31 March 2016</b> £000s
Less than 1 year	0	0
1 to 2 years	0	0
2 to 5 years	0	0
5 to 10 years	41,767	41,767
10 to 20 years	83,535	83,535
20 to 30 years	83,535	83,535
30 to 40 years	3,000	3,000
<b>Total</b>	<b>211,837</b>	<b>211,837</b>

A significant proportion of the borrowing shown in the table above (£208,827,000) was taken out in 2011/12 after the Localism Act introduced new reforms to the operation of housing finance. The reform meant that English councils took control of their housing rental income enabling them to plan effectively for the long term management of their key assets. Harlow Council was required to take its own share of the £28bn national housing debt.

In accordance with proper accounting practice, the Balance Sheet separates out short-term borrowing, being amounts borrowed with less than 1 year to maturity, and adds to this sum

## **NOTES TO THE ACCOUNTS**

any accrued interest due which has not yet been required to be paid to the lender. Thus, whilst the Council had no short-term borrowing as at 31 March 2017, accrued interest of £75,300 is shown on the Balance Sheet as short-term borrowing (£61,300 as at 31 March 2016).

### **Refinancing and Maturity Risk**

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer-term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council-approved treasury and investment strategies address the main risks and the central treasury team addresses the operational risks within the approved parameters. During 2016/17, the continued theme of the Council's Treasury Management Strategy was greater diversity of its investment portfolio with the progressive migration, towards the financial year end, of surplus balances placed in temporary investments with banks and building societies because of bail-in risk. The Council diversified into higher yielding asset classes which included Pooled Funds.

The Council's treasury team systematically works closely with its treasury management advisors, Arlingclose Limited, in reviewing the status of loans and investments, which includes:

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

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Full Council in the Treasury Management Strategy at its meeting of 4 February 2016).

<b>Maturity Structure for External Borrowing during 2016/17</b>	<b>Approved Minimum Limits</b>	<b>Approved Maximum Limits</b>	<b>31 March 2017</b>	<b>31 March 2016</b>
			£000s	£000s
Less than 1 year	0%	100%	0	0
1 to 2 years	0%	100%	0	0
2 to 5 years	0%	100%	0	0
5 to 10 years	0%	100%	41,767	41,767
More than 10 years	0%	100%	170,070	170,070
<b>Total</b>			<b>211,837</b>	<b>211,837</b>

### **Market Risk**

Interest Rate Risk - The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex

## **NOTES TO THE ACCOUNTS**

impact on the Council. For instance, a rise in interest rates would have the following effects:

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

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. However, changes in interest payable and receivable on variable rate borrowing and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure.

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 2017, £189.8m of net principal borrowed (i.e. debt net of investments) was exposed to fixed rates and £13.9m (net investments) to variable rates.

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

<b>Impact of 1% Change in Interest Rates</b>	<b>£000s</b>
Increase in interest payable on variable rate borrowings	
Increase in interest receivable on variable rate investments	(175)
Decrease in fair value of loans and receivables *	175
Decrease in fair value of fixed rate borrowings/ liabilities *	(33,992)

\* 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.

Price Risk - The Council, excluding the pension fund which is administered by Essex County Council, does not invest in equity shares or marketable bonds.

Foreign Exchange Risk - The Council does not hold any financial assets or liabilities denominated in foreign currencies as part of its continuing operations. However, the Council may receive very occasional sums in foreign currencies from time to time. In such instances, cash settlements for such transactions are converted into GBP Sterling upon receipt. Thus there is no material exposure to loss arising from movements in exchange rates as a result of holding cash denominated in foreign currencies.

## **NOTES TO THE ACCOUNTS**

### **41. OTHER LONG-TERM LIABILITIES**

<b>Other Long-Term Liabilities</b>	<b>Balance as at 31 March 2017</b>	<b>Balance as at 31 March 2016</b>
	£000s	£000s
Pension Scheme - Long-term Liabilities	110,029	94,184
<b>Total Other Long-Term Liabilities</b>	<b>110,029</b>	<b>94,184</b>

### **42. LONG-TERM DEBTORS**

<b>Long-term Debtors</b>	<b>2016/17</b>	<b>2015/16</b>
	£000s	£000s
Service Charge Loans	63	106
Service Charge Debtor	1,328	124
Renovation Grants	280	297
Housing Act Advances Mortgages	2	4
Soft Loans	7	25
<b>Total</b>	<b>1,680</b>	<b>556</b>

The level of long-term debtors has increased during the year as a result of the balance of £1.17million remaining on a loan to HTS (Property & Environment) Ltd, repayable over a 5-year period and on which interest rates at commercial rates have been charged to the company.

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# **SUPPLEMENTARY FINANCIAL STATEMENTS**

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## HOUSING REVENUE ACCOUNT

**Housing Revenue Account Income & Expenditure Statement**  
**For The Year Ended 31 March 2017**

	Note	2016/17 £000s	2015/16 £000s
<b>Expenditure</b>			
Repairs and Maintenance		(9,046)	(8,928)
Supervision and Management		(14,362)	(13,839)
Rents, Rates, Taxes and Other Charges		(21)	(22)
Depreciation and Impairments of Non-Current Assets	H7 & H10	(45,111)	(44,960)
Amortisation of Intangible Assets		(89)	(138)
Debt Management Costs		(10)	(7)
Movement in the Allowance for Bad Debts (not specified by the Code)		(64)	(123)
Sums directed by the Secretary of State that are expenditure in accordance with the Code		(5)	(6)
<b>Total Expenditure</b>		<b>(68,708)</b>	<b>(68,024)</b>
<b>Income</b>			
Dwelling Rents		45,001	46,226
Non-Dwelling Rents		1,094	1,012
Charges for Services and Facilities		3,210	3,229
Contributions towards Expenditure		506	402
<b>Total Income</b>		<b>49,811</b>	<b>50,869</b>
<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>		<b>(18,897)</b>	<b>(17,155)</b>
HRA Services' share of Corporate and Democratic Core		(849)	(698)
HRA share of other amounts included in the whole authority		0	0
Cost of Services but not allocated to specific services			
<b>Net Cost for HRA Services</b>		<b>(19,746)</b>	<b>(17,852)</b>
<b>HRA share of the operating income and expenditure</b>			
Gain or (loss) on sale of HRA non-current assets		(1,824)	1,633
Interest payable and similar charges		(6,740)	(6,740)
Interest and investment income		126	113
Pensions interest cost and expected return on pensions		0	0
Capital grants and contributions receivable		33	-
<b>Surplus or (deficit) for the year on HRA services</b>		<b>(28,152)</b>	<b>(22,846)</b>

## ***HOUSING REVENUE ACCOUNT***

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents due to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

The account has to be self-financing and the total cost is met by income from rents, charges and Government subsidies. Contributions to or from Council Taxpayers, other than for strictly defined purposes, are not permitted under the Local Government and Housing Act 1989.

The balance on this account is not in accordance with the statutory provisions that specify the net expenditure that councils need to take into the Housing Revenue Account. In order to give a full presentation of the financial performance of the Council during the year and the actual spending power carried forward, the balance on this account needs to be reconciled in the Movement on the Housing Revenue Account Statement to the amount established by the relevant statutory provision (see following statement).

## **NOTES TO THE HOUSING REVENUE ACCOUNT**

### **MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT**

The HRA Income and Expenditure Account show the actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Council is required to account for its statutory housing activity on a different accounting basis, the main differences being that:

- the difference between the calculated depreciation on HRA assets and the Housing Subsidy Major Repairs Allowance has to be adjusted back into the balance for the year,
- the gain or loss on the disposal of HRA assets has to be reversed before a final balance is calculated; and
- any impairment on HRA assets, either due to economic consumption or valuation, has to be reversed from the account before a statutory balance can be finalised.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the Housing Revenue Account Balance.

	Note	2016/17 £000s	2015/16 £000s
<b>Balance on the HRA at 1 April</b>		<b>12,298</b>	<b>10,870</b>
(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		(28,152)	(22,846)
Adjustments between accounting basis and funding basis under statute	H1	28,921	24,439
Net increase or (decrease) before transfers to or from reserves		769	1,593
Transfers (to) or from reserves	H2	(92)	(165)
Increase or (decrease) in year on the HRA		677	1,428
<b>Balance on the HRA as at 31 March</b>		<b>12,975</b>	<b>12,298</b>

## **NOTES TO THE HOUSING REVENUE ACCOUNT**

### **H1. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER STATUTE**

	<b>2016/17 £000s</b>	<b>2015/16 £000s</b>
<b>Items included in the HRA Income and Expenditure Account but excluded from the Movement on the HRA Balance for the year:</b>		
Intangible Assets written down	89	138
Impairment of Fixed Assets	18,995	21,086
(Gain)/ Loss on sale of HRA Fixed Assets	1,823	(1,634)
Transfer to/ (from) Major Repairs Reserve	15,062	12,770
Financial Instruments	1	(10)
Employer's contribution payable to the ECC Pension Fund and retirement benefits payable direct to pensioners	(1,524)	(1,513)
Deferred Grants written down	(33)	30
Accumulated Absences	3	(2)
<b>Items not included in the HRA Income and Expenditure Account but to be included in the Movement on the HRA Balance for the year:</b>		
Capital Expenditure Funded by the HRA	(5,495)	(6,426)
<b>Net additional amount required by statute to be debited/ (credited) to the HRA Balance for the year</b>	<b>28,921</b>	<b>24,439</b>

### **H2. TRANSFERS TO / (FROM) RESERVES**

	<b>2016/17 £000s</b>	<b>2015/16 £000s</b>
<b>Items included in the HRA Income and Expenditure Account but excluded from the Movement on the HRA Balance for the year:</b>		
Contribution to Insurance Fund	261	261
Contribution to Perpetuity Earmarked Reserves	512	394
Interest on Earmarked Reserves	20	18
Contribution from Insurance Fund	(132)	(85)
Contribution from Perpetuity Earmarked Reserves	(570)	(424)
<b>Net additional amount required by statute to be debited/ (credited) to the HRA Balance for the year</b>	<b>92</b>	<b>165</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### H3. ANALYSIS OF THE HOUSING STOCK

	2016/17	2015/16
<b>Analysis by Type of Dwelling</b>		
Houses & Bungalows	5,800	5,922
Flats & Maisonettes	3,615	3,650
Other	10	11
<b>Total Dwellings</b>	<b>9,425</b>	<b>9,583</b>
<b>Analysis by Number of Bedrooms</b>		
Bedsitters	404	410
1 bedroom	2,069	2,079
2 bedrooms	3,601	3,645
3 bedrooms	2,986	3,073
4 bedrooms	330	339
5 bedrooms	25	26
Hostels	10	11
<b>Total Dwellings</b>	<b>9,425</b>	<b>9,583</b>
<b>The change in stock can be summarised as follows:</b>		
Stock at start of year (1 April)	9,583	9,637
Deduct Sales, Demolitions, etc	(158)	(73)
Add Repurchases, Refurbishments, Additions	-	19
Stock at end of year (31 March)	<b>9,425</b>	<b>9,583</b>

### H4. BALANCE SHEET VALUES FOR THE HOUSING STOCK

	as at 31 March 2017 £000s	as at 1 April 2016 £000s	as at 31 March 2016 £000s
Council Dwellings:			
Land	213,175	215,863	221,117
Dwellings	400,889	431,725	442,233
Sub-Total	614,064	647,588	663,350
Other land and buildings	17,209	17,472	23,277
Vehicles, plant, furniture and equipment	-	-	-
Infrastructure and community assets	344	357	357
Assets under construction	-	-	-
Surplus assets not held for sale	1,295	1,339	1,236
Investment properties	433	433	433
Assets held for sale	6,437	2,710	2,340
<b>Total HRA Balance Sheet Values</b>	<b>639,782</b>	<b>669,899</b>	<b>690,993</b>

## ***NOTES TO THE HOUSING REVENUE ACCOUNT***

### **H5. VACANT POSSESSION**

The vacant possession values of the Council's Housing stock as at 1 April 2016 amounted to £1,741,141,875 which included a valuation of £30,140,375 for garages, car ports and car spaces. The remaining sum of £1,711,279,500 is attributable to council dwellings, which is subject to a social housing factor of 38% (a reduction of 62%) giving a specific valuation of £650,286,210. The net valuation of housing stock is therefore £680,426,585.

	as at 1 April 2016 £000s	as at 1 April 2015 £000s
<b>Vacant possession value of dwellings</b>	<b>1,711,280</b>	<b>1,548,759</b>

The vacant possession value and Balance Sheet value of dwellings within the HRA show the economic cost of providing council housing at less than market rents.

### **H6. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

Some expenditure that is classed as revenue expenditure under CIPFA's capital accounting rules in line with International Financial Reporting Standards can actually be financed from capital resources under statute. For example Home Improvement Grants to individuals. In Harlow this includes the Disabled Facilities programme totalling £496,700 in 2016/17. This expenditure is included in the Council's capital programme summaries to show the use of capital resources but the spending and capital resources are reflected in the Council's revenue accounts.

### **H7. IMPAIRMENT CHARGES**

Impairment	2016/17 £000s	2015/16 £000s
Land	0	0
Dwellings	19,084	21,224
Other Property	0	0
<b>Total</b>	<b>19,084</b>	<b>21,224</b>
Operational Assets	19,084	21,224
Non-Operational Assets	0	0
<b>Total</b>	<b>19,084</b>	<b>21,224</b>

## **NOTES TO THE HOUSING REVENUE ACCOUNT**

### **H8. CAPITAL EXPENDITURE AND ITS FINANCING**

	<b>2016/17</b> £000s	<b>2015/16</b> £000s
<b>HRA Capital Expenditure:</b>		
Dwelling Stock	18,249	18,517
Non-Dwelling works	441	774
Assets Under Construction	0	2,128
Investment in Information Technology	44	32
	<b>18,734</b>	<b>21,452</b>
<b>Financed By:</b>		
Grant Contributions	33	786
Usable Capital Receipts	2,152	3,135
Revenue Contributions	5,495	6,426
Major Repairs Reserve	11,054	11,105
	<b>18,734</b>	<b>21,452</b>

### **H9. CAPITAL RECEIPTS**

<b>Summary of HRA Capital Receipts</b>	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Sale of Council Houses - Direct	8,646	6,632
Sale of Council Houses - Deferred	0	0
Other (including shared ownership)	86	147
	<b>8,732</b>	<b>6,779</b>

The number of sales of Council houses in 2016/17 continued at a similar level to the previous year in response to the Government's Invigoration of Right to Buy Policy. 84 tenants purchased their properties under the Right to Buy Scheme.

Under the Self Financing arrangements Councils retain a larger proportion of the capital receipt from each sale to compensate for the loss of rent from properties sold. In accordance with the Capital Receipts Pooling Regulations Councils no longer pool receipts from the sale of other property or land sold so retain the full receipt.

## **NOTES TO THE HOUSING REVENUE ACCOUNT**

### **H10. CHARGES FOR DEPRECIATION**

<b>Depreciation</b>	<b>2016/17</b>	<b>2015/16</b>
	£000s	£000s
Council Dwellings	25,752	23,414
Other Land and Buildings	222	280
Infrastructure and Community Assets	9	6
Surplus assets not held for sale	44	37
<b>Total</b>	<b>26,027</b>	<b>23,737</b>
Operational Assets	25,752	23,414
Non-Operational Assets	275	323
<b>Total</b>	<b>26,027</b>	<b>23,737</b>

### **H11. MOVEMENT ON THE MAJOR REPAIRS RESERVE**

<b>Major Repairs Reserve</b>	<b>2016/17</b>	<b>2015/16</b>
	£000s	£000s
<b>Balance as at 1 April</b>	<b>0</b>	<b>0</b>
Transfers in - depreciation	26,116	23,875
Transfers out to the HRA	(15,062)	(12,770)
Capital Spending on Housing Stock met by the Reserve	(11,054)	(11,105)
<b>Balance as at 31 March</b>	<b>0</b>	<b>0</b>

### **H12. HRA SHARE OF CONTRIBUTIONS TO/ FROM THE PENSIONS RESERVE**

The actual payments for pensions made to the pension fund from the HRA of £300,000 (2015/16: £280,000), plus the continuing pension payments in relation to underfunding and early retirements awarded to HRA employees of £1,761,000 (2015/16: £1,763,000), are removed from the HRA and replaced by the current service cost, applying the principles of IAS 19. ) The total removed amount is £2,062,000 (2015/16: £2,043,000) and the credit entry is to the Pensions Fund Reserve

The current service cost included in the HRA is the IAS 19 report sum which was £537,000 (2015/16: £530,000) representing the Pension costs of current staff.

## **NOTES TO THE HOUSING REVENUE ACCOUNT**

### **H13. RENT ARREARS**

Outstanding rent arrears at 31 March 2017 total £3,196,000 plus £109,000 overpaid housing benefit (£3,314,000 and £151,000 at March 2016). A provision for non-collectable debts has been made as at 31 March 2017 totalling £2,790,000 (£2,888,000 at March 2016).

The arrears exclude prepayments of £739,000 and may be analysed as follows:

<b>Rent Arrears</b>	<b>As at 31 March 2017</b>		<b>As at 31 March 2016</b>	
	£000s	£000s	£000s	£000s
Due from Current Tenants	1,371		1,508	
Due from Former Tenants	1,825		1,806	
Arrears (gross)	3,196		3,314	
Prepayments	0		0	
<b>Net Arrears</b>	<b>(739)</b>		<b>(698)</b>	
	<b>2,457</b>		<b>2,616</b>	

These arrears include all charges due from tenants i.e. rent, rates, heating and other charges. The HRA has been setting aside funds to meet irrecoverable debts in respect of such arrears.

## COLLECTION FUND

The Collection Fund is a separate statutory fund operating under the provision of the Local Government Finance Act 1988. Changes to the Business Rates system, taking effect from 2013/14, now mean surpluses or deficits arising on the Collection Fund include variations in levels of Business Rates collection. Any such balance relating to Business Rates is distributed to/ borne by the District Council, County Council, Central Government and Fire Authority in proportion to the agreed split under regulations. The Fund's assets and liabilities are included in the Balance Sheet and its income and expenditure is shown below:

### Collection Fund Income & Expenditure Statement For The Year Ended 31 March 2017

	2016/17			2015/16
	Business Rates £000s	Council Tax £000s	TOTAL £000s	£000s
<b>Collection Fund</b>				
<b>Income due:</b>				
<b>Council Tax</b>				
Council Tax-payers	n/a	42,519	42,519	40,270
Transfer for Transitional Relief, S13A Reliefs and discount for prompt payment	n/a	(38)	(38)	8
<b>Business Rates</b>	45,515	n/a	45,515	46,108
<b>Total Income</b>	<b>45,515</b>	<b>42,481</b>	<b>87,996</b>	<b>86,386</b>
<b>Expenditure:</b>				
<b>Contributions Prior year Deficit/(Surplus):</b>				
- Harlow District Council	1,060	315	1,375	(1,772)
- Essex County Council	239	1,300	1,539	(939)
- Essex Police Authority	0	176	176	(72)
- Essex Fire Authority	26	79	105	(77)
- Department for Communities & Local Government	1,325	0	1,325	(2,203)
	<b>2,650</b>	<b>1,870</b>	<b>4,520</b>	<b>(5,063)</b>
<b>Precepts, Demands and Shares</b>				
- Harlow District Council	19,145	6,519	25,664	24,498
- Essex County Council	4,307	27,598	31,905	30,467
- Essex Police Authority	n/a	3,714	3,714	3,574
- Essex Fire Authority	479	1,653	2,132	2,066
- Department for Communities & Local Government	23,931	0	23,931	22,637
	<b>47,862</b>	<b>39,484</b>	<b>87,346</b>	<b>83,242</b>
<b>Charges to the Collection Fund</b>				
Changes in Provision for Bad and Doubtful Debts	380	281	661	591
Appeals charged to Collection Fund	(1,234)	0	(1,234)	(1,686)
Changes in Provision for Appeals	(1,324)	n/a	(1,324)	(159)
Interest on refunds	0	0	0	1
Cost of Collection	122	n/a	122	120
Transitional Payment Protection due to DCLG	44	n/a	44	251
	<b>(2,012)</b>	<b>281</b>	<b>(1,731)</b>	<b>(882)</b>
<b>Total Expenditure</b>	<b>48,500</b>	<b>41,635</b>	<b>90,135</b>	<b>77,297</b>
<b>(Surplus)/Deficit for year</b>	<b>2,985</b>	<b>(846)</b>	<b>2,139</b>	<b>(9,089)</b>
<b>Balance brought forward (surplus)/deficit</b>	<b>(1,985)</b>	<b>(3,630)</b>	<b>(5,615)</b>	<b>3,474</b>
<b>Balance carried forward 31 March 2017 (surplus)/ deficit</b>	<b>1,000</b>	<b>(4,476)</b>	<b>(3,476)</b>	<b>(5,615)</b>

(n/a = not applicable)

Statement of Accounts 2016/17

## **COLLECTION FUND**

### **CF1. Business Rates**

The Council collects national non-domestic rates (NNDR) for its area based upon the rateable values provided by the Valuation Office Agency (VOA), multiplied by a uniform business rate multiplier set national by the government.

The total Non Domestic Rateable Value as at 31 March 2017 was £108,918,406 (£110,223,861 at 31 March 2016). The multiplier for 2016/17 was set at 49.7p (49.3 pence for 2015/16). The product of this is £54,132,448 for 2016/17 (£54,340,363 for 2015/16). This represents potential income at a point in time, year end, and thus differs from bills issued during the year due to relief for empty properties, transitional relief, partial relief, small business rate reliefs, changes in rateable value and movements in the property base.

### **CF2. Council Tax**

The Council Tax Base is a measurement of the taxable capacity of the area. Dwellings are converted into Band D equivalents, taking into account exemptions and discounts. Dwellings are classified into eight valuation bands (A to H) based on 1991 capital valuations. The Council Tax is set for band D dwellings and the tax for the other bands is calculated as a proportion of the band D charge.

2016/17 Council Tax was set at £266.97 for a band D property (£263.02 for 2015/16).

The Council Tax base was calculated as follows:

<b>Valuation Band</b>	<b>Total No. Dwellings on Valuation List</b>	<b>Total Equivalent Dwellings (after discounts, etc)</b>	<b>Ratio to Band D</b>	<b>Band D Equivalents</b>
A(i)	4	1.39	5/9	0.77
A(ii)	2,237	936.68	6/9	624.45
B	7,596	4,425.52	7/9	3,442.07
C	18,561	14,524.83	8/9	12,910.96
D	4,193	3,645.20	9/9	3,645.20
E	2,200	2,020.99	11/9	2,470.10
F	876	822.39	13/9	1,187.90
G	389	370.22	15/9	617.03
H	11	9.88	18/9	19.75
	<b>36,067</b>	<b>26,757.09</b>		<b>24,918.23</b>
Adjustment for Allowance of 2.0% for non-collection and for anticipated changes during the year for successful appeals against banding, new properties, demolitions, disability relief and exempt properties				(498.41)
<b>Total Council Tax Base</b>				<b>24,419.82</b>

## ***COLLECTION FUND***

### **CF3. DISTRIBUTION OF SURPLUS/DEFICIT**

<b>Distribution of Surplus/(Deficit)</b>	<b>Council Tax</b>		<b>Business Rates</b>	
	<b>2016/17</b> £000s	<b>2015/16</b> £000s	<b>2016/17</b> £000s	<b>2015/16</b> £000s
Harlow Council	(736)	605	400	794
Essex County Council	(3,132)	2,530	90	179
Essex Police & Crime Commissioner	(422)	342	-	-
Essex Fire Authority	(187)	153	10	20
Department Communities & Local Government	-	-	500	992
	<b>(4,476)</b>	<b>3,630</b>	<b>1,000</b>	<b>1,985</b>

## **GROUP ACCOUNTS**

## **GROUP ACCOUNTS**

### **Group Accounts for the year ended 31 March 2017**

#### **Introduction**

In order to provide a full picture of the economic and financial activities of the Council and its exposure to risk, the accounting statements of material subsidiary companies are consolidated with those of the Council. The resulting Group Accounts are presented in addition to the Council's single entity accounts. They include the core accounting statements, similar in presentation and purpose to the Council's accounts, and any explanatory notes considered necessary to explain material movements from the single entity accounts. Where no notes are given, users of the accounts should refer to the notes in the single entity accounts.

Group accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting, consolidating any material subsidiary, associate or joint venture entities over which the Council exercises control or influence. The basis for determining the Group Boundary is as set out in the Council's Accounting Policies on page 41.

HTS (Property & Environment) Ltd. began active trading on 1 February 2017; of which the Council owns 100% shares (cash consideration £1), and has been consolidated as a subsidiary.

#### **Accounting Policies**

HTS (Property & Environment) Ltd has prepared 2016/17 accounts using accounting policies consistent with those applied by the Council, and no adjustments have been required to align accounting policies. Both entities have a financial year end of 31 March, with HTS (Property & Environment) Ltd producing full year accounts although, in practice, covers only the period of trading activity from 1 February 2017 to 31 March 2017.

As a subsidiary, the accounts of HTS (Property & Environment) Ltd have been consolidated with those of the Council on a line by line basis, and any balances and transactions between parties have been eliminated in full. HTS (Property & Environment) Ltd expenditure and income, adjusted for transactions with the Council, is included on the relevant service lines in the Comprehensive Income and Expenditure Statement; and balance sheet values are similarly incorporated into the relevant heading of the Balance Sheet, removing balances owed between the two parties.

#### **HTS (Property & Environment) Ltd. Summary Single Entity Accounts**

IFRS Standard 12 requires that summarised financial information for subsidiaries is provided with in the Council's accounts. HTS (Property and Environment) Ltd has been trading for two months so will formalise their accounts for 14 months to 31 March 2018. The subsidiary has nevertheless produced a set of accounts for the purpose of consolidation. The Summary Profit and Loss Account and Summary Balance Sheet is given below.

<b>HTS Profit &amp; Loss Account</b>	<b>2016/17</b>	<b>2015/16</b>
	<b>£000s</b>	<b>£000s</b>
Turnover	3,028	-
Cost of Sales	(1,640)	-
<b>Gross Profit</b>	<b>1,388</b>	0
Administrative Expenses	(1,253)	-
<b>Operating Profit from continuing operations before Tax</b>	<b>136</b>	0
Tax on Profit on Ordinary Activities	(26)	-
<b>Profit for the two months to 31 March 2017</b>	<b>110</b>	0

<b>HTS Balance Sheet</b>	<b>2016/17</b>	<b>2015/16</b>
	<b>£000s</b>	<b>£000s</b>
Property, Plant & Equipment	865	-
Intangible Assets	726	-
<b>Long-Term Assets</b>	<b>1,591</b>	0
Trade and Other Receivables	609	-
Cash and Cash Equivalents	922	-
<b>Current Assets</b>	<b>1,531</b>	0
<b>Current Liabilities</b>	<b>(1,317)</b>	0
<b>Long-Term Liabilities</b>	<b>(1,694)</b>	-
<b>Net Assets attributable to members</b>	<b>110</b>	0

## GROUP ACCOUNTS

### Group Expenditure and Funding Analysis

This statement shows the accounting cost in year, of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Expenditure & Funding Analysis	2016/17 Harlow Council			2016/17 Movement			2016/17 Group EFA			2015/16 Net Expenditure Chargeable to the general Fund and HRA balances £000s
	Net Expenditure Chargeable to the General Fund and HRA Balances £000s	Adjustment between Funding and Accounting basis £000s	Net Expenditure in the Cl&ES £000s	Net Expenditure Chargeable to the General Fund and HRA Balances £000s	Adjustment between Funding and Accounting basis £000s	Net Expenditure in the Cl&ES £000s	Net Expenditure Chargeable to the General Fund and HRA Balances £000s	Adjustment between Funding and Accounting basis £000s	Net Expenditure in the Cl&ES £000s	
Corporate and Chief Executive	275	13	288	-	-	-	275	13	288	-
Community Wellbeing	2,943	3,453	6,396	-	-	-	2,943	3,453	6,396	-
Finance	4,222	(1,532)	2,690	-	-	-	4,222	(1,532)	2,690	-
Place	1,512	4,975	6,487	(493)	-	(493)	1,019	4,975	5,994	-
Housing GF	933	92	1,025	-	-	-	933	92	1,025	-
Governance	1,483	98	1,581	-	-	-	1,483	98	1,581	-
Housing HRA	(11,347)	27,039	15,692	3	-	3	(11,344)	27,039	15,695	-
<b>Net Cost of Services</b>	<b>21</b>	<b>34,138</b>	<b>34,159</b>	<b>(490)</b>	<b>-</b>	<b>(490)</b>	<b>(469)</b>	<b>34,138</b>	<b>33,669</b>	<b>-</b>
Other Income and Expenditure (Surplus)/ Deficit	(5,936)	10,192	4,256	380	-	380	(5,556)	10,192	4,636	-
	<b>(5,915)</b>	<b>44,330</b>	<b>38,415</b>	<b>(110)</b>	<b>-</b>	<b>(110)</b>	<b>(6,025)</b>	<b>44,330</b>	<b>38,305</b>	<b>-</b>
Opening General Fund and HRA Balance	34,080			-			34,080			-
Less / Plus Surplus / (Deficit) on General Fund and HRA Balance in Year	5,247			110			5,357			-
Closing General Fund and HRA Balance at 31 March	<b>39,327</b>			<b>110</b>			<b>39,437</b>			-

**Group Movement in Reserves Statement 2016/17**

This statement shows the movement in the year on the different reserves held by the Council and HTS (Property & Environment) Ltd, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the Council's services, more details of which are shown in the Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and rent setting purposes. The net increase/ decrease before transfers to earmarked reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

<b>Group Movement In Reserves Statement</b>	<b>Harlow Council</b>	<b>Movement</b>	<b>Group</b>
	<b>Authority's share of Reserves</b>		
	<b>Total</b>	<b>including</b>	
	<b>Authority</b>	<b>Group</b>	<b>Group</b>
	<b>Reserves</b>	<b>Movements</b>	<b>Operations</b>
	£000s	£000s	£000s
<b>Balance at 31 March 2016 carried forward</b>	<b>506,385</b>	<b>0</b>	<b>506,385</b>
<b>Movement in reserves during 2016/17</b>			
Surplus / (Deficit) on the provision of services	(38,415)	110	(38,305)
Other Comprehensive Income and Expenditure	71,347		71,347
<b>Total Comprehensive Income and Expenditure</b>	<b>32,932</b>	<b>110</b>	<b>33,042</b>
Adjustments between accounting basis & funding basis under regulations		(0)	(0)
<b>Increase / (Decrease) in 2016/17</b>	<b>32,932</b>	<b>110</b>	<b>33,042</b>
<b>Balance at 31 March 2017 carried forward</b>	<b>539,317</b>	<b>110</b>	<b>539,427</b>

## GROUP ACCOUNTS

### Group Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Group Comprehensive Income and Expenditure Statement	2016/17	Movement	2016/17	2015/16
	Harlow Council		Group CI&E	Group CI&E
	Net Expenditure £000s		Net Expenditure £000s	Net Expenditure £000s
Corporate & Chief Executive	288	-	288	-
Community Wellbeing	6,396	-	6,396	-
Finance	2,690	-	2,690	-
Place	6,487	(493)	5,994	-
Housing GF	1,025	-	1,025	-
Governance	1,581	-	1,581	-
Housing HRA	15,692	3	15,695	-
<b>Cost of Services</b>	<b>34,159</b>	<b>(490)</b>	<b>33,669</b>	-
Other Operating Expenditure	7,794	-	7,794	-
Financing and Investment Income and Expenditure	9,536	354	9,890	-
Taxation and Non-Specific Grant Income	(13,074)	-	(13,074)	-
<b>(Surplus)/ Deficit on Provision of Services</b>	<b>38,415</b>	<b>(136)</b>	<b>38,279</b>	-
Tax Expenses on Subsidiaries		26	26	-
	<b>38,415</b>	<b>(110)</b>	<b>38,305</b>	-
(Surplus)/ Deficit on Revaluation of Property, Plant and Equipment Assets	(86,456)	-	(86,456)	-
(Surplus)/ Deficit on Revaluation of Available for Sale Financial Assets	52	-	52	-
Actuarial (Gains)/ Losses on Pension Assets and Liabilities	15,057	-	15,057	-
<b>Other Comprehensive Income and Expenditure</b>	<b>(71,347)</b>	<b>-</b>	<b>(71,347)</b>	-
<b>Total Comprehensive Income and Expenditure</b>	<b>(32,932)</b>	<b>(110)</b>	<b>(33,042)</b>	0

### Group Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by the reserves held by the group. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserves that may only be used to fund capital or repay debt). The second category of reserves is those that the group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

<b>Group Balance Sheet</b>	<b>2016/17</b>	<b>Movement</b>	<b>2016/17</b>	<b>2015/16</b>
	<b>Harlow Council</b>		<b>Group</b>	<b>Group</b>
	<b>£000s</b>		<b>£000s</b>	<b>£000s</b>
Property, Plant & Equipment	818,452	865	819,317	-
Heritage Assets	1,622	-	1,622	-
Investment Property	1,789	-	1,789	-
Intangible Assets	954	726	1,680	-
Long-Term Investments	1,866	(1,170)	696	-
Long-Term Debtors	1,680	-	1,680	-
<b>Long-Term Assets</b>	<b>826,363</b>	<b>421</b>	<b>826,784</b>	<b>0</b>
Short-Term Investments	14,048	-	14,048	-
Assets Held for Sale	8,069	-	8,069	-
Inventories	34	27	61	-
Short-Term Debtors	11,011	233	11,244	-
Cash and Cash Equivalents	20,530	922	21,452	-
<b>Current Assets</b>	<b>53,692</b>	<b>1,182</b>	<b>54,874</b>	<b>0</b>
Short-Term Borrowing	(80)	-	(80)	-
Short-Term Creditors	(17,121)	(943)	(18,064)	-
Short-Term Provisions	(1,110)	-	(1,110)	-
<b>Current Liabilities</b>	<b>(18,311)</b>	<b>(943)</b>	<b>(19,254)</b>	<b>0</b>
Long-Term Creditors	(317)	(550)	(867)	-
Long-Term Borrowing	(211,837)	-	(211,837)	-
Other Long-Term Liabilities	(110,029)	-	(110,029)	-
Grants Receipts in Advance - Capital	(244)	-	(244)	-
<b>Long-Term Liabilities</b>	<b>(322,427)</b>	<b>(550)</b>	<b>(322,977)</b>	<b>-</b>
<b>Net Assets</b>	<b>539,317</b>	<b>110</b>	<b>539,427</b>	<b>0</b>
Usable Reserves	(44,803)	(110)	(44,913)	-
Unusable Reserves	(494,514)	-	(494,514)	-
<b>Total Reserves</b>	<b>(539,317)</b>	<b>(110)</b>	<b>(539,427)</b>	<b>0</b>

## GROUP ACCOUNTS

### Group Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the group during the reporting period. The statement shows how the group 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 group 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 group'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 group.

Group Cash Flow Statement	Harlow Council £000s	2016/17 Move- ment £000s	Group £000s	2015/16 Group £000s
Net Surplus/(Deficit) on the Provision of Services	(38,416)	136	(38,280)	0
Adjustments to Net Surplus/(Deficit) on the Provision of Services for Non-Cash Movements	59,718	334	60,052	0
Adjustments for Items Included in the Net Surplus/(Deficit) on the Provision of Services that are Investing and Financing Activities	(13,182)	0	(13,182)	0
<b>Net Cash Flows from Operating Activities</b>	<b>8,120</b>	<b>470</b>	<b>8,590</b>	0
Investing Activities	(13,774)	1,519	(12,255)	0
Financing Activities	(1,111)	(1,067)	(2,178)	0
<b>Net (Increase)/Decrease in Cash and Cash Equivalents</b>	<b>(6,765)</b>	<b>922</b>	<b>(5,843)</b>	0
Cash and Cash Equivalents at the Beginning of the Reporting Period	27,295	0	27,295	0
<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	<b>20,530</b>	<b>922</b>	<b>21,452</b>	0

## **GLOSSARY OF TERMS & ABBREVIATIONS**

### **GLOSSARY OF TERMS & ABBREVIATIONS**

This glossary of terms and abbreviations is designed to aid interpretation of the Council's Statement of Accounts.

#### **Accounting Period**

The period of time covered by the Council's accounts, normally a period of 12 months commencing on 1 April. The period may also be referred to as the "financial year of account" or "financial year". The end of the accounting period (31 March) is the Balance Sheet date.

#### **Accruals**

Amounts included in the accounts for income or expenditure relating to the financial year for which payment has not been received/ made in the financial year. Local authorities accrue for both revenue and capital expenditure.

#### **Amortisation**

The measure of the cost of economic benefits derived from intangible fixed assets that are consumed during the period; this generates transactions to the Income and Expenditure Account over a period of time, reflecting the value of these assets to the Council and is similar to the depreciation charge for tangible fixed assets.

#### **Annual Governance Statement**

The annual governance statement is a statutory document that explains the processes and procedures in place to enable the council to carry out its functions effectively.

#### **Asset Held for Sale**

Assets are classified as held for sale if their carrying amount is going to be recovered principally through a sale transaction rather than through continued use. This excludes from consideration any assets that are going to be abandoned or scrapped at the end of their useful lives.

#### **Balances (or Reserves)**

These represent accumulated funds available to the Council. Some balances (reserves) may be earmarked for specific purposes for funding future defined initiatives or meeting identified risks or liabilities. There are a number of unusable reserves, which are set out for technical purposes. It is not possible to utilise these to provide services.

#### **Billing Authority**

A local authority responsible for collecting Council Tax and Non-Domestic Rates.

#### **Business Rates**

Business Rates (sometimes referred to as Non-Domestic Rates or NDR) are charged on most non-domestic premises, including commercial properties such as shops, offices, pubs, warehouses and factories. The Council uses the rateable value provided by the Valuation Office Agency to calculate how much businesses should pay. From 1st April 2013 a new scheme of Business Rates Retention was introduced by the government. The sums collected by the Council are distributed to central government (50%) and to local authorities for the area (Harlow Council 40%, Essex County Council 9% and Essex Fire Authority 1%).

#### **Capital Expenditure**

## **GLOSSARY OF TERMS & ABBREVIATIONS**

Spending which produces or enhances an asset, like land, buildings, roads, vehicles, plant and machinery, and intangible assets such as computer software. Definitions are set out in Section 40 of the Local Government and Housing Act 1989. Any expenditure which does not fall within the definition must be charged to a revenue account.

### **Capital Adjustment Account**

A reserve that reflects financing of capital from revenue and capital receipts together with the adjustment of the minimum revenue provision.

### **Capital Receipts**

The proceeds from the sale of fixed assets such as land and buildings. Capital receipts can be used to repay any outstanding debt on fixed assets or to finance new capital expenditure, within rules set down by government. Capital receipts cannot, however, be used to finance revenue expenditure.

### **Carrying Amount**

This is the value at which an asset is shown in the Balance Sheet after deducting any accumulated depreciation and impairment losses.

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

The professional accountancy body concerned with local authorities and the public sector.

### **Code of Practice (The Code)**

The Code of Practice on Local Authority Accounting in the United Kingdom (issued by CIPFA) defines proper accounting practices to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards and carries statutory status via the provision of the Local Government Act 2003.

*NOTE: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.*

### **Collection Fund**

The Collection Fund is a statutory fund set up under the provisions of the Local Government Finance Act 1988. It includes the transactions of the charging authority in relation to Business Rates and Council Tax, and illustrates the way in which the fund balance is distributed to the Government, preceptors and the General Fund.

### **Collection Fund Adjustment Account**

This is an unusable reserve that reconciles differences between statutory requirements as a Billing Authority and proper accounting practice.

### **Community Assets**

The class of Fixed Assets held in perpetuity that have no determinable useful life and may have restriction on their disposal.

### **Componentisation**

Assets are made up of different components which, by their nature, are required to be depreciated according to their individual economical lives. As a basic example, components in a building might comprise land, building structure, major mechanical and electrical items.

## **GLOSSARY OF TERMS & ABBREVIATIONS**

### **Consumer Price Index (CPI)**

This is a measure of inflation that examines changes in the weighted average of prices of a basket of consumer goods and services. Changes in CPI are used to assess price changes associated with the cost of living.

### **Contingent Assets/Liabilities**

Potential gains and losses for which a future event will establish whether a liability exists and for which it is inappropriate to set up a debtor or provision in the accounts.

### **Deferred Credits**

This is the term applied to deferred capital receipts. These transactions arise when fixed assets are sold and the amounts owed by the purchasers are repaid over a number of years, e.g. mortgages. The balance is reduced by the amount repayable in any financial year.

### **Depreciation**

This is a charge made to the accounts that represents a measure of the wearing out, consumption or other reduction in the useful life of a fixed asset.

### **Earmarked Reserves**

These are funds set aside for a specific purpose, or a particular service, or type of expenditure. (See also Perpetuity Reserves.)

### **Finance Lease**

Arrangement whereby the lessee is treated as the owner of the leased asset, and is required to include such assets within fixed assets on the balance sheet.

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. For local authorities, which do not issue equity instruments, financial instruments may include bank deposits, cash, investments, debtors (or receivables), long-term debtors, creditors, temporary loans and borrowings.

### **Fixed Assets - Tangible**

Tangible assets (i.e. land and buildings) that yield benefits to the Council and the services it provides for a period of more than one year.

### **Fixed Assets – Intangible**

Assets which are of benefit to the organisation but have no physical presence such as software licences.

### **General Fund Balance**

The General Fund is the primary account through which the District Council's transactions pass relating to non-HRA activities. The balance at year-end is not earmarked for any specific purpose.

### **Housing Subsidy**

A Government grant payable towards the cost of providing Local Authority housing and the management and maintenance of that housing.

## **GLOSSARY OF TERMS & ABBREVIATIONS**

### **Infrastructure Assets**

Expenditure on works of construction or improvement but which have no tangible value, such as construction of, or improvement to highways

### **International Accounting Standard Board (IASB)**

The accounting standards setting body.

### **International Financial Reporting Standard (IFRS)**

A statement of accounting practice issued by the Accounting Standards Board, which is an independent, not-for-profit organisation.

### **Impairment**

An accounting adjustment made to the value of the asset when its carrying amount (the amount at which an asset is recognised in the Balance Sheet after deducting accumulated depreciation and impairment losses) exceeds its recoverable amount (the higher of assets fair value less cost of sale and its value in use).

### **Intangible Assets**

A non-physical item where access to future economic benefits is controlled by the local authority. An example is computer software.

### **Inventories**

These are the collection of materials and goods in stock and contents of a building

### **Investments**

Deposits for less than one year with approved institutions.

### **Investment Property**

Investment property is (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of operations.

### **Investments**

Deposits for less than one year with approved institutions.

### **International Public Sector Accounting Standards (IPSAS)**

These are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements.

### **Loans and Receivables**

These are referred to collectively within the disclosure note relating to financial instruments. In this context, the term “loans” refers to sums invested by the Council that are not quoted in an active market; the term “receivables” refers to short-term trade debtors (that is, amounts due to the Council).

### **Long-Term Debtors**

These debtors represent the capital income still to be received, for example, from the sale of an asset or the granting of a loan.

## ***GLOSSARY OF TERMS & ABBREVIATIONS***

### **Medium Term Financial Strategy (MTFS)**

This is the Council's strategic financial plan for the future five year period. It takes into account the anticipated cost of future service plans and matches this with the Council's financial resources and its forecast levels of grant and other income.

### **Minimum Revenue Provision (MRP)**

This is a charge made to the General Fund or HRA revenue accounts representing the setting aside of prudential sums for the repayment of debt. When a Council has incurred borrowing, there is a statutory requirement to set a prudent level of MRP for the General Fund.

### **Movement in Reserves Statement (MIRS)**

This is one of the core financial statements and presents the movement in usable and unusable reserves (the Council's total reserve balances).

### **Net Realisable Value**

The amount at which an asset could be sold after the deduction of any related selling costs.

### **Non-operational Assets**

Fixed assets held by an organisation but not directly occupied, used or consumed in the delivery of services. An example of a non-operational asset is an investment property or an asset being held pending its sale.

### **Operational Asset**

Fixed assets held by the Council and used or consumed in the delivery of its services.

### **Operating Lease**

An arrangement whereby the risks and rewards of ownership of the leased asset remain with the leasing company.

### **Pension Fund**

A pension scheme for employees, maintained by an administering authority, or a group of authorities, under statute primarily in order to make pension payments on retirement of scheme participants. It is financed from contributions from both the employing authorities and the employees together with income from investments.

### **Perpetuity Reserves**

The Council has received funds from a range of sources over many years which have been attached to covenants (contractually binding obligations, usually indefinite in nature), or have incorporated other contractual or ring-fencing obligations. Such sums have been placed into perpetuity reserves with the objective that these funds will grow at a rate sufficient enough to cover the Council's covenant obligations. The growth of these funds come from further additions of money and from interest received from their investment as part of the Council's overall cash flow investments.

### **Pooling of Housing Capital Receipts**

Pooling is the term given to the requirement to pay to the Government a proportion of certain types of capital receipt, such as from the sale of council houses under the Right to Buy scheme.

### **Precept**

## **GLOSSARY OF TERMS & ABBREVIATIONS**

This is the amount which a Precepting Authority (e.g. a County Council) requires from a Billing Authority (e.g. District Councils) to meet its expenditure requirements. The Billing Authority collects these sums from its residents in by including them in the annual Council Tax bills.

### **Profit on the sale of Fixed Assets**

This is a recent accounting requirement for Local Government, and requires the book value of the asset sold to be compared to the net proceeds to calculate the profit or loss on the transaction.

### **Provisions**

Sums set aside to meet future expenditure where a specific liability is known to exist but cannot be measured accurately.

### **Public Finance Initiative (PFI)**

A method of financing capital expenditure from the private sector.

### **Receivables**

(see Loans and Receivables, above).

### **Reserves**

Reserves are amounts set aside, each for a specific purpose in one year and carried forward to meet future obligations.

### **Retail Price Index (RPI)**

As with the Consumer Prices Index, the retail price index, or the RPI, shows the changes in the cost of living. This is a measure of inflation that examines changes in the weighted average of prices of a basket of consumer goods and services. Importantly, RPI includes the cost of mortgage interest in its calculation, whilst CPI excludes this cost.

### **Revenue**

Costs and income relating to the day-to-day running of services e.g. salaries and wages, supplies and services, transport and fees from service-related income.

### **Revenue Expenditure Funded from Capital under Statute**

Capital expenditure which is allowable by statute to be funded from capital resources but which does not fall within the CODE's definition of fixed assets. Examples include grants and similar advances made to other parties to finance capital investment.

### **Revenue Support Grant**

This funding is a part of the Government grant provided by the Department for Communities and Local Government (DCLG), which is based on the Government's assessment as to what should be spent on local services. The amount provided by the DCLG is fixed at the beginning of each financial year.

### **Surplus Asset**

Where assets are not in use but do not meet the criteria of Assets Held for Sale they will be considered surplus and will be accommodated in the class of Property, Plant and Equipment.

## ***GLOSSARY OF TERMS & ABBREVIATIONS***

### **Tangible Assets**

Anything that has long-term physical existence or is acquired for use in the operations of the organisation and is not specifically held for sale to customers. They are recorded in the balance sheet and include, for example, plant, property, and equipment.

### **UK GAAP Accounting Standards**

UK GAAP is the Generally Accepted Accounting Practice in the UK representing the body of accounting standards and other guidance published by the UK's Financial Reporting Council (FRC).

## ***GLOSSARY OF TERMS & ABBREVIATIONS***

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*INDEPENDENT AUDITOR'S REPORT & CERTIFICATE*

# **INDEPENDENT AUDITOR'S REPORT AND CERTIFICATE**

## ***INDEPENDENT AUDITOR'S REPORT & CERTIFICATE***

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARLOW DISTRICT COUNCIL**

To be supplied by Appointed Auditor, Ernst & Young LLP, Luton, upon completion of audit.

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## ***SECTION C***

# **ANNUAL GOVERNANCE STATEMENT**

## **ANNUAL GOVERNANCE STATEMENT**

### **Harlow Council - Annual Governance Statement 2016/17**

#### **Scope of responsibility**

- 1.1. Harlow 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 meeting this overall responsibility, the Council must put in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.
- 1.3. The Council has in place all of the elements of a framework of governance consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This statement explains how the Council delivers good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015, in relation to the publication of an annual governance statement.

#### **The purpose of the Governance Framework**

- 1.4. The Governance Framework comprises the systems and processes, culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 1.5. 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 risks 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. The system is designed to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 1.6. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- 1.7. The Council's governance framework has been in place within the Council for the year ended 31 March 2017 and up to the date of the Statement of Accounts (30 June 2017).

#### **The Governance Framework**

- 1.8. The Council's Governance Framework has been set up over successive years and is reviewed annually to ensure its continuing effectiveness with regard to the seven CIPFA/SOLACE principles of delivering good governance as updated in 2016, which are:
  - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
  - Ensuring openness and comprehensive stakeholder engagement.
  - Defining outcomes in terms of sustainable economic, social and environmental benefits.

## **ANNUAL GOVERNANCE STATEMENT**

- Determining the interventions necessary to optimise the achievement of the intended outcomes.
  - Developing the Council's capacity, including the capability of its leadership and the individuals within it.
  - Managing risks and performance through robust internal control and strong financial management.
  - Implementing good practices in transparency, reporting, and audit, to deliver effective accountability
- 1.9. A brief description of the key elements of Governance Framework in place at Harlow Council is included as Appendix 1. The annual review of the effectiveness of this framework is covered in the next section.
- Review of effectiveness**
- 1.10. 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:
- a) the work of the senior management team who have responsibility for the development and maintenance of the governance environment
  - b) the role of the Cabinet and committees, including the Audit and Standards Committee
  - c) the Internal Audit Manager's Annual Report
  - d) comments made by the external auditors
  - e) other review agencies and inspectorates
- 1.11. The review has been led by the Corporate Governance Group comprising the Monitoring Officer, the Section 151 Officer, a Policy and Performance representative, the Internal Audit Manager, the Legal Services Manager and other officers when they have specific contributions to make. In carrying out the review, the Group has kept in mind the seven CIPFA/SOLACE principles of effective governance. The Group has considered the following evidence:
- a) Service Assurance Statements – each third tier manager, in conjunction with their Head of Service, has completed a self-assessment covering the effectiveness of Governance arrangements in their area. The self-assessments, which have been reviewed by Internal Audit, have been used to identify areas for improvement both at a service level and, where more than one service has identified an area for improvement; corporate actions have been added to the improvement plan covered in the next section.
  - b) The Internal Audit Manager's annual opinion on the Council's control framework, delivered to the Audit and Standards Committee, as the body charged with governance.
  - c) Based upon the results of work undertaken during the year it is the Internal Audit Manager's overall opinion that the Council has an adequate and effective governance, risk management and control framework for 2016/17. Areas for improvement were identified in a number of reviews and action plans agreed. Where significant deficiencies in control processes have been identified by Internal Audit, the actions that the Council's management plan to take will, if implemented satisfactorily, resolve the deficiencies in the appropriate manner.

## **ANNUAL GOVERNANCE STATEMENT**

- d) External audit reports issued during the 2016/17 year. Where these exist, we have also used reports from other agencies and inspectorates.
- 1.12. During the year the Corporate Governance Group has been responsible for monitoring and reviewing the corporate governance framework and for considering specific governance issues as they arise. The work of this group has strengthened many of the Council's governance processes and has addressed issues raised in the Annual Governance Statement. In particular, the group continues to ensure that there is better integration of the assurance framework and that the process for producing the Annual Governance Statement remains robust.
- 1.13. The Corporate Governance Group has undertaken an assessment of the arrangements for governance during 2016/17 and has concluded that arrangements are fit for purpose and working effectively. As a result of this assessment, a small number of governance issues have been identified and in order to further strengthen arrangements, an action plan to address these issues is set out below.

### **Governance Issues Identified**

- 1.14. This final part of the Annual Governance Statement (AGS) outlines the actions taken, or proposed, to deal with significant governance issues identified. The Council's Corporate Governance Group, which monitors and reviews the corporate governance framework, has ensured that the issues raised in the previous AGS have been addressed as detailed in Table 1 below:

**Table 1 – Progress on significant governance issues identified in the 2015/16 AGS**

<b>Significant issue identified in 15/16 AGS</b>	<b>Action taken in 16/17 to address the issue</b>
<b>1. Financial sustainability</b> The Council requires a robust efficiency plan in order to guarantee its four year financial settlement from central government.	Cabinet on 13 October 2016 agreed a four year local government funding settlement which was submitted to the DCLG (Department for Communities and Local Government) on 14 October 2016 and was subsequently accepted.
<b>2. Local Authority Trading Company</b> It is important for robust governance arrangements to be put in place as Harlow Trading Services (HTS) is set up, being a significant new venture for the Council, and Kier Harlow is wound down.	Formal transition governance and reporting lines were put in place which included a Transition Board. The effectiveness of governance arrangements was monitored through the establishment of the HTS (Property and Environment) Board and Harlow Council Shareholder Sub Committee. HTS went live on 1 February 2017 as planned.
<b>3. Corporate approach to Anti-Fraud</b> In light of the 2016-19 Local Government Counter Fraud and Corruption Strategy the Council needs to review its anti-fraud arrangements.	A Corporate Fraud Group, chaired by the Head of Housing, has been established to help drive forward the Council's Anti-Fraud and Corruption Policy, which was updated and approved by the Audit and Standards Committee in November 2017.  The Group ensures there is a co-ordinated approach to fraud across the Council and monitors the outcomes of fraud initiatives being undertaken. This includes creation of a Tenancy Fraud post and the pan-Essex data matching solution to identify potential

## ANNUAL GOVERNANCE STATEMENT

Significant issue identified in 15/16 AGS	Action taken in 16/17 to address the issue
	fraud relating to council tax discounts and exemptions.
<b>4. Performance Management</b> In 2016/17 the Council will be migrating its service planning, risk performance management into a single system (InPhase).  Successful completion of the InPhase project will be overseen by the Project Sponsors (Head of Finance and Head of Governance), and monitored through regular updates to CMT/HoS.	2016/17 saw the successful technical build and prototyping of InPhase, with use of it being extended to include project management. The performance reporting functionality is now being used routinely for the quarterly Joint Finance and Performance report.
<b>5. Service resilience</b> Identified as a theme in the Service Assurance Statements, especially as resources are diverted in setting up Harlow Trading Services.	Resourcing requirements were considered by Heads of Service and their managers and alternatives such as back filling posts were implemented where required without any detrimental effect on key services.

- 1.15. In preparing this statement and reviewing the effectiveness of the Council's governance arrangements, the following areas have been identified for improvement. These are set out in the table below, together with the steps to be taken to address them:

**Table Two: Areas for improvement during 2017/18**

Key improvement area	Action to be taken in 16/17
<b>1. General Data Protection Regulations (GDPR)</b>	It is imperative that businesses and public bodies are prepared for the GDPR which will apply in the UK from 25 May 2018. The government has confirmed that the UK's decision to leave the EU will not affect the commencement of the GDPR.  Work is already in hand to ensure Harlow is compliant with the requirements of the GDPR ahead of May 2018 and beyond.
<b>2. Performance and Risk Management system</b>	The Corporate Risk Register format is now incorporated into the new service planning and risk management system InPhase. Work will continue in 2017/18 on the database to ensure linkages between corporate and operational risks, corporate and service objectives and performance management information coupled with a staff awareness campaign.
<b>3. Revised Local Code of Corporate Governance</b>	The Council's Code of Corporate Governance will be updated to ensure it is aligned to the new framework for Corporate

## **ANNUAL GOVERNANCE STATEMENT**

<b>Key improvement area</b>	<b>Action to be taken in 16/17</b>
	Governance published by CIPFA (Chartered Institute of Public Finance and Accountancy) and SOLACE (Society of Local Authority Chief Executives)

- 1.16. The Corporate Governance Group will oversee this action plan over the coming year and report on progress to the Audit and Standards Committee. The Group will ensure that governance issues are promoted, addressed and monitored in a co-ordinated manner throughout the next financial year.

We, the undersigned, are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness. The Council's Governance Group will monitor their implementation and operation throughout the year and report progress as part of our next annual review.

Signed:

Date:

**(Leader of the Council)**

Signed:

Date:

**(Chief Executive)**

## ANNUAL GOVERNANCE STATEMENT

### APPENDIX 1

INTEGRITY	OPENNESS	VISION	OUTCOMES	CAPACITY AND CAPABILITY	RISK AND PERFORMANCE	ACCOUNTABILITY
Behave with integrity, demonstrating a strong commitment to ethical values and respect the rule of law.	Ensure openness in its culture and engage comprehensively with stakeholders, citizens and service users.	Have a clear visions and defined desired outcome in terms of sustainable, social and environmental benefit.	Have in place interventions necessary to optimise the achievement of its intended outcomes.	Develop the Council's capacity and capability of its leadership and staff	Manage the Council's risk and performance through robust internal control and strong public finance management.	Implement good practice in transparency, reporting and audit to deliver effective accountability.
<ul style="list-style-type: none"> <li>A robust whistleblowing policy and zero tolerance approach to fraud and corruption.</li> <li>The Constitution sets out codes of conduct for Councillors and Officers.</li> <li>The Constitution, which sets out decision making framework, gives clear definitions of roles and responsibilities and a protocol for how Councillors and Officers work together.</li> </ul>	<ul style="list-style-type: none"> <li>Leadership encourages open and supportive culture.</li> <li>Standard committee report format and publicly available modern.gov system for reporting.</li> </ul>	<ul style="list-style-type: none"> <li>A new corporate plan 2017 to 2020 has been approved</li> <li>Draft Local Plan that supports the Council's vision</li> <li>Defined standards of customer service backed by a complaints procedure.</li> <li>Strategy for encouraging stakeholder involvement.</li> <li>Cabinet Overview Working Group and Scrutiny Committee.</li> </ul>	<ul style="list-style-type: none"> <li>Open and transparent reporting of Key Performance Indicators and action plans for indicators that are out of tolerance</li> <li>Decision making processes that receive objective and rigorous analysis including involvement of the monitoring and Section 151 Officers</li> </ul>	<ul style="list-style-type: none"> <li>A People Resources Plan to ensure that the Council has the staff, the skills, the knowledge, the facilities and the resources to meet legal requirements, its Vision and Corporate Plan.</li> <li>The Council has an established induction and training programme for existing and new Councillors. This process includes mentoring and training events as and when identified.</li> </ul>	<ul style="list-style-type: none"> <li>A corporate Risk Strategy and toolkit.</li> <li>A performance management framework which includes integrated performance and financial management report.</li> <li>Financial Strategy and integrated service planning approach</li> <li>Internal Audit function to provide assurance on governance, risk management and control.</li> <li>Audit and Standards Committee.</li> </ul>	<ul style="list-style-type: none"> <li>Guide to decision making in Cabinet style of Governance</li> <li>Reporting regularly on performance and use of resources.</li> <li>Requirement for managers to produce annual assurance statements which feeds into the Annual Governance Statement.</li> <li>Processes to ensure internal and external audit recommendations are acted upon</li> </ul>

- An active Corporate Governance Group which takes charge of the Annual Governance Statement.

**REPORT TO:** CABINET

**DATE:** 14 SEPTEMBER 2017

**TITLE:** REFERRAL FROM AUDIT AND STANDARDS COMMITTEE - MANAGEMENT LETTER OF REPRESENTATIONS 2016/17

**PORTFOLIO HOLDER:** COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES

**LEAD OFFICERS:** SIMON FREEMAN, HEAD OF FINANCE (01279)  
446228

**This is not a Key Decision**  
**Call-in Procedures may apply**  
**This decision will affect no ward specifically.**

**RECOMMENDED** that Cabinet acknowledges the Management Letter of Representations 2016/17 (attached as Appendix 1).

#### **REASON FOR DECISION**

- A** International Standards on Auditing (ISA) guidance requires that the Council provides a “Letter of Representation” from the person with specific responsibility for the financial statements (the Council’s s151 Officer). The purpose of the Letter is to obtain written representation on matters where the auditor is relying on the judgement of management rather than corroborative evidence.
- B** The Audit and Standards Committee considered a report on the Management Letter of Representations 2016/17 at its meeting on 6 September 2017. The Committee agreed the Letter, and asked that the Cabinet acknowledges it.

#### **BACKGROUND**

1. At its meeting on 6 September 2017, the Audit and Standards Committee received a report that presented the Management Letter of Representation 2016/17. The original report that was considered by the Committee is attached as Appendix A to this report.
2. The Audit and Standards Committee has made a recommendation to the Cabinet as indicated at the start of this report.

## **IMPLICATIONS**

Implications of the recommended decision are outlined in the 'Implications' section of the original report, which is attached as Appendix A

## **APPENDICES**

Appendix A – Original report to the Audit and Standards Committee, 'Management Letter of Representation 2015/16' covering report.

## **BACKGROUND PAPERS**

All original reports to the Audit and Standards Committee can be viewed from

<http://moderndb/ieListDocuments.aspx?CId=120&MId=895&Ver=4>

**REPORT TO**                   **AUDIT AND STANDARDS COMMITTEE**  
**DATE:**                       **6 SEPTEMBER 2016**  
**TITLE:**                       **MANAGEMENT LETTER OF REPRESENTATIONS  
2016/17**  
**LEAD OFFICERS:**           **SIMON FREEMAN – HEAD OF FINANCE  
(01279 446228)**

**RECOMMENDED** that the Committee notes the draft Letter of Representation attached at Appendix 1, which is to be formally acknowledged by Cabinet at its meeting on 14 September 2017.

## **BACKGROUND**

1. International Standards on Auditing (ISA) guidance requires that the Council provides a “Letter of Representations” from the person with specific responsibility for the financial statements (the Council’s s151 Officer). The purpose of the letter is to obtain written representation on matters where the Auditor is relying on the judgement of management rather than on corroborative evidence.
2. The draft Letter of Representations pertaining to the 2016/17 financial statements is attached at Appendix 1. The final letter will be issued upon the Cabinet’s approval of the final Statement of Accounts at its meeting of 14 September, and formally signed by the Head of Finance and the Chair of Audit and Standards Committee.

## **IMPLICATIONS**

### **Place (includes Sustainability)**

None specific.

Author: **Graeme Bloomer, Head of Place**

### **Finance (includes ICT)**

The Letter of Representations provides assurance to the Council’s appointed auditors on matters that are not capable of independent scrutiny or that are subjective. It forms an essential part of the overall governance arrangements for the Council’s financial conduct.

Author: **Simon Freeman, Head of Finance**

**Housing**

None specific.

Author: **Andrew Murray, Head of Housing**

**Community Wellbeing (includes Equalities and Social Inclusion)**

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

**Governance (includes HR)**

None specific.

Author: **Brian Keane, Head of Governance**

**BACKGROUND PAPERS**

None.

Suresh Patel  
Executive Director  
Ernst & Young LLP  
400 Capability Green  
Luton LU1 3LU

Dear Suresh,

**Harlow District Council**  
**Letter of Representations**

This letter of representations is provided in connection with your audit of the financial statements of Harlow District Council ("the Council") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Harlow District Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. We confirm that the Responsible Officer (the Head of Finance) has:
  - Reviewed the accounts.
  - Reviewed all relevant written assurances relating to the accounts.
  - Made other enquiries as appropriate.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

**B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

**C. Compliance with Laws and Regulations**

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

**D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet, and Audit & Standards Committee or summaries of actions of recent meetings for which minutes have not yet been prepared held through the to the most recent meeting on the following date: 15 September 2017.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed the financial statements all guarantees that we have given to third parties.

#### **F. Subsequent Events**

1. Other than described in Note 6 to the Group and Council's financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Accounting Estimates**

1. We believe that the significant assumptions we have used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we have used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - We confirm that the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - We confirm that the assumptions we have used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - We confirm that no subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **H. Group audits**

1. We confirm that there are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. We confirm that the necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.
3. We confirm that entities excluded from the consolidated financial statements are immaterial on a quantitative and qualitative basis.

**I. Expenditure Funding Analysis**

1. We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.
2. We confirm that the financial statements reflect the operating segments reported internally to the Council.

**J. Going Concern**

1. We have made you aware of any issues that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

**K. Ownership of Assets**

1. We confirm that except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

**L. Reserves**

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

**M. Valuation of Property, Plant and Equipment Assets**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the valuation of assets appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.
5. We confirm that we have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations and that each asset category is not materially misstated.
6. We confirm that for assets carried at historic cost, that no impairment is required.

**N. Retirement benefits**

1. We confirm that on the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are

consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

**O. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate the Property, Plant and Equipment, Investment Properties, Pension Liabilities and business rate appeals and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

**P. Valuation of Pension Liabilities**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

**Q. Other information**

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report included in the Statement of Accounts 2016-2017.
2. We confirm that the content contained within the other information is consistent with the financial statements.

**R. Specific Representations**

You do not require any specific representations in addition to those above.

*Yours Sincerely,*

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Head of Finance

## **APPENDIX 1**

I confirm that this letter has been discussed and agreed at the Audit and Standards Committee on 6 September 2017

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Chair of Audit and Standards Committee